

# Bringing service to



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## Front cover

The front cover depicts Serco staff, customers and users of our services.

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Serco is an international service company which combines commercial know-how with a deep public service ethos to transform services and improve lives for millions of people.

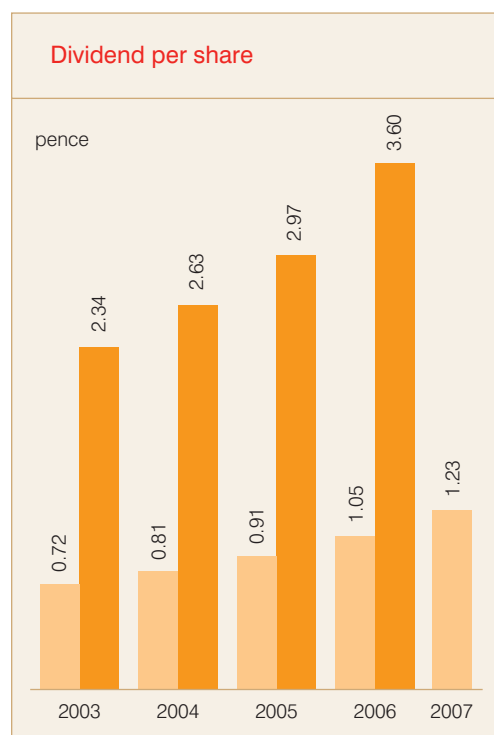
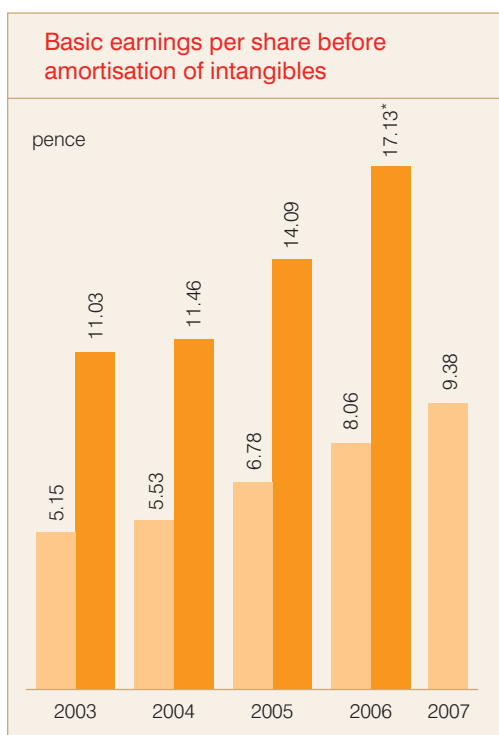
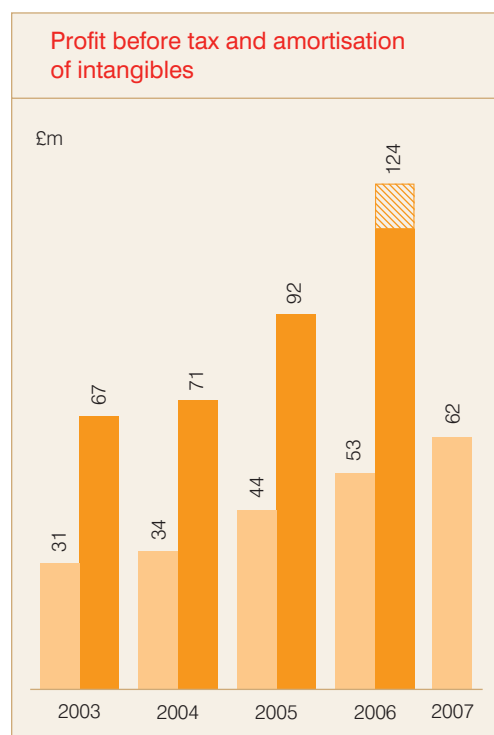
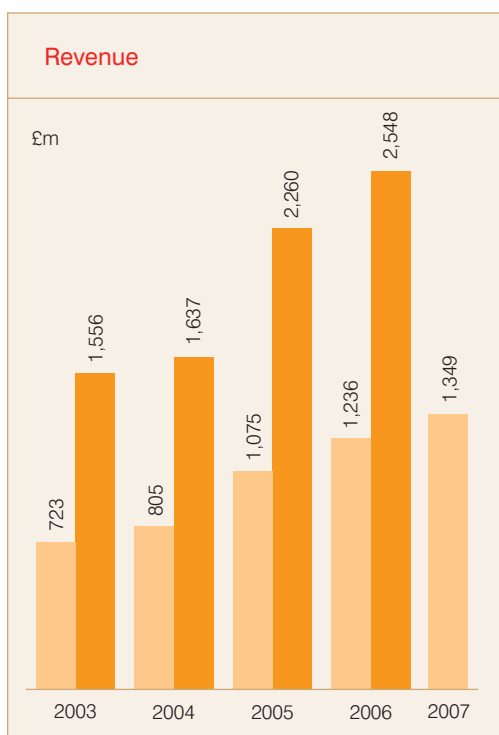
Since winning our first contract in 1964, we have built a robust and balanced portfolio spread across many sectors and markets, whose shared characteristics are excellent service, strong relationships and change management expertise in terms of people, processes and technology.

Governments and companies around the world face challenges such as improving quality and efficiency simultaneously and managing change with minimal disruption.

Serco is ideally positioned to help resolve these challenges; we can provide strategic advice, design new approaches, integrate systems and deliver services.

Serco's breadth of operation, depth of experience and authenticity of culture make us a unique organisation, equipped to continue to grow substantially as the market for our services expands.

# Highlights



\*2006 full year excludes gain on sale of PFI investments

Half year

Full year

2006 Profit before tax and amortisation of intangibles includes £11m gain on sale of PFI investments

# On course for another successful year

## Serco Group plc – 2007 Interim Results

Six months ended 30 June	2007	2006	
Revenue	£1,349m	£1,236m	up 9.1%
Profit before tax	£52.0m	£44.8m	up 16.1%
Earnings per share (EPS)	7.71p	6.69p	up 15.2%
Profit before tax and amortisation of intangibles	£61.6m	£52.5m	up 17.3%
EPS before amortisation of intangibles	9.38p	8.06p	up 16.4%
Dividend per share	1.23p	1.05p	up 17.1%
Group free cash flow	£28.8m	£25.8m	up 11.6%

“2007 has started well and we are confident of a strong full year, with profit ahead of previous expectations.”

### Strong first half

- Won £2.0bn of contracts including Forth Valley (£450m), Yarl's Wood (£85m), US Postal Service (\$260m), Sea Enterprise (\$200m) and LOGCAP (\$225m)
- Appointed preferred bidder for £0.6bn of contracts, including Dubai Metro (£400m) and Naval Air Command (£70m)
- Continued to win one in two new bids and maintained rebid win rate at more than 90%
- PBTA margin of 4.6%, up from 4.2% in 2006, and PBT margin of 3.9%, up from 3.6% in 2006
- Group EBITDA to cash conversion of 73%, resulting in 12% increase in Group free cash flow

### High visibility of future revenue

- Record order book of £14.6bn at 30 June 2007
- Contracts valued at an additional £1.8bn at preferred bidder
- Visibility of 99% of planned revenue for 2007, 84% for 2008 and 73% for 2009
- £24bn of further opportunities identified

### Strong market dynamics – continuing positive outlook

- UK market remains strong with broad spread of growth opportunities
- International markets show increasing potential
- Confident of double-digit revenue growth for 2007 and the foreseeable future
- Increased PBTA margin guidance to 4.8% for 2007, representing a 40 basis point uplift for the year and following a similar uplift in 2006, with further margin expansion in 2008 and beyond

Christopher Hyman, Chief Executive of Serco Group plc, said: “2007 has started well and we are confident of a strong full year, with profit ahead of previous expectations. We have built a firm platform for growth by developing our people, investing in new capabilities and systems and expanding our international footprint. This positions us to bid for large and complex opportunities, and to embrace new business models. By continuing to deliver outstanding customer service, we will ensure an exciting future for Serco.”

Note: PBTA is profit before tax and intangible amortisation. Group EBITDA is earnings from subsidiaries (excluding joint ventures) before interest, tax, depreciation, intangible amortisation and other non cash items. 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 3 of the Finance Review.

# Overview

## On course for another successful year

Serco has had a strong start to 2007. Revenue in the first half grew by 9.1% to £1,349m, profit before tax increased 16.1% to £52.0m and earnings per share grew 15.2% to 7.71p.

Profit before tax and amortisation of intangibles (PBTA) rose by 17.3% to £61.6m and earnings per share before amortisation of intangibles grew 16.4% to 9.38p. The PBTA margin increased from 4.2% to 4.6%, benefiting from our approach to portfolio management and continued efficiency improvements.

Our focus on cash generation again delivered good results, with Group EBITDA to cash conversion of 73% (2006: 80%). Group free cash flow increased 11.6% to £28.8m.

Serco's policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has declared an interim dividend of 1.23p per share, representing an increase on the 2006 interim dividend of 17.1%. The dividend will be paid on 17 October to shareholders on the register on 7 September.

Serco had significant success in winning contracts in the first half, maintaining win rates of more than 90% on rebids and one in two on new bids. During the period, we won £2.0bn of new contracts and were appointed preferred bidder for contracts valued at around £0.6bn.

In the UK, for example, we signed a contract to provide services to the new NHS Forth Valley Acute Hospital, for which we were appointed preferred bidder in 2006. The contract will begin in 2010 and is valued at around £450m over 30 years. We commenced an eight-year, £85m contract to operate Yarl's Wood Immigration Removal Centre on behalf of the UK Home Office. And the Ministry of Defence (MoD) awarded us a £50m, five-year contract to deliver services to its estate facilities in Gibraltar.

We continued to build our presence in the US federal market, the largest outsourcing market in the world. We renewed, and significantly increased, our contract with the US Postal Service to provide engineering, technical, project management and IT services.

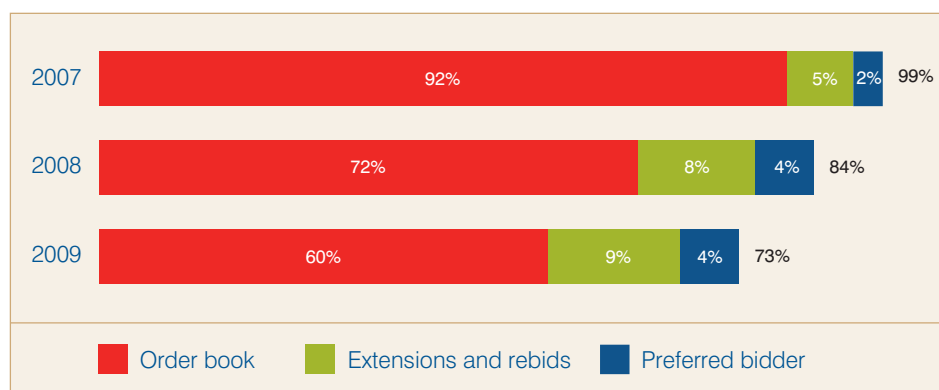
Over ten years it has a potential value of \$260m. We also built upon our long-standing work for the US Navy's Space and Naval Warfare Systems Center, with the Sea Enterprise engineering and installation service contract potentially valued at \$200m over five years.

In addition, the US Army selected Serco for the \$225m LOGCAP contract to provide cost analysis, logistics planning and supply chain consulting services worldwide.

“Serco had significant success in winning contracts in the first half, maintaining win rates of more than 90% on rebids and one in two on new bids.”

## Visibility of planned revenue

At 30 June 2007



Other key developments included being appointed preferred bidder to operate and maintain the Dubai Metro. The contract is valued at more than £400m over 12.5 years, with operations due to commence in September 2009. And the Royal Navy appointed Serco as preferred bidder for a ten-year, £70m contract with the Naval Air Command to provide aviation, engineering and aircraft support services. We were, however, disappointed by the cancellation of the Leicester Pathway PFI project, for which we had been appointed preferred bidder in 2004.

Over the last two years we have worked hard to increase our margins, managing our portfolio of existing contracts, improving our internal systems and structures and expanding our skills and capabilities to enable us to bid for higher-value services. The benefits of this work are coming through more quickly than anticipated.

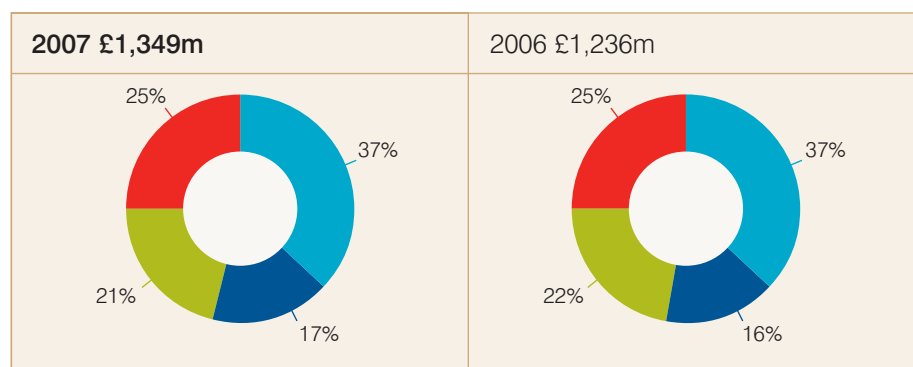
We now expect increased PBTA margins of 4.8% for 2007, a 40 basis point uplift, following a similar increase in 2006, with further margin expansion from 2008 onwards.

The visibility of our future revenue remains outstanding. As at 30 June 2007, we had identified 99% of planned revenue for 2007, 84% for 2008 and 73% for 2009. Our order book stood at a record £14.6bn and we were preferred bidder on contracts valued at £1.8bn, excluding Leicester Pathway. We also had bids valued at £1.1bn for which we had been shortlisted to the final two or three bidders. In addition, we have identified a pipeline of further opportunities across our markets estimated at £24bn.

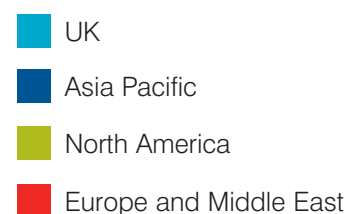
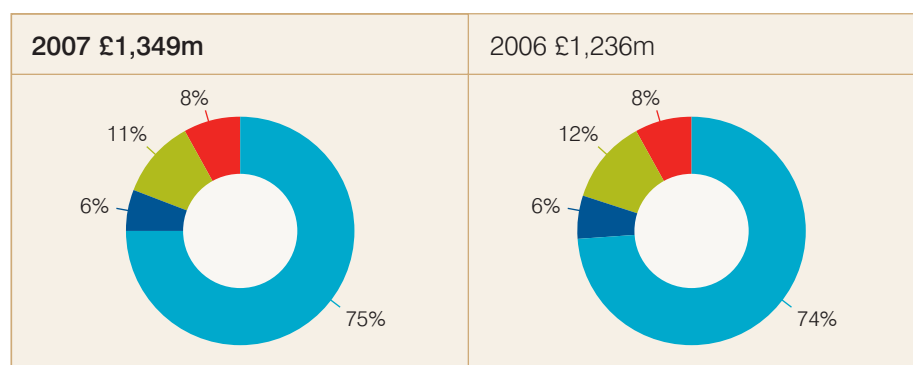
“The visibility of our future revenue remains outstanding. As at 30 June 2007, we had identified 99% of planned revenue for 2007, 84% for 2008 and 73% for 2009.”

## Market segment and geographical analysis

### Revenue by segment



### Revenue by geography



# Operating review

## Civil Government

Civil Government is our largest segment and includes home affairs, local government, health, education, consulting, and much of our work in the private sector. Segmental revenue increased by 8.2% to £496m, representing 37% of Group revenue (2006: 37%).

In home affairs – which encompasses offender management, law enforcement, civil resilience and immigration control – we signed a contract to manage and operate Yarl’s Wood Immigration Removal Centre on behalf of the UK Home Office. The contract began in April 2007 for an initial period of three years, with optional extensions to up to eight years. Over the full eight years, the contract is valued at around £85m.

In local government, we secured a £30m, ten-year partnership with Ealing Council, to provide information and communications technology (ICT) support. Ealing Council and Serco will jointly develop business cases for a wide range of initiatives to improve business effectiveness. Southwark Council selected Serco to provide and support its ICT infrastructure, in a five-year deal valued at £26m. Serco will further modernise the council’s desktops, servers and software applications and will manage the ICT estate remotely, enabling the council to scale up resources and deliver frontline services more flexibly.

Severn Trent – the world’s fourth largest privately-owned water company – awarded Serco a five-year IT infrastructure framework contract, valued at around £40m. We will provide programme and project management, consulting, technical delivery, IT engineering and technology refresh services.

Serco continued to build its position as the leader in the UK business support market, winning a contract with the South West Regional Development Agency to provide the business link service for Cornwall, Devon and Somerset. The contract is for 28 months, and is valued at around £15m.

The strength of Serco’s consulting business was reflected in our selection for two significant framework contracts. We were chosen as a supplier on the prestigious Multi-Disciplinary Consultancy Catalyst framework, to provide consulting services to UK Government departments looking to undertake transformational projects. Only ten firms have been selected, giving them the opportunity to compete for a share of around £1.5bn of work over four years. Serco was also one of only two suppliers to be included in all five categories of the Metropolitan Police’s Department Services Framework. The total potential value of the framework to all the qualified suppliers is around £200m over four years.



We enhanced our consulting capabilities with the acquisition of Cornwell Management Consultants plc. Cornwell adds new skills and capabilities in information and knowledge management, and increases our capacity in project and programme management and enterprise architecture. It also widens our customer base in key government spending departments and agencies such as the Department of Health and the Identity and Passport Services Agency.

Our integrated services business signed a contract to provide support to the new NHS Forth Valley Acute Hospital, for which we were appointed preferred bidder in 2006. The contract, which will begin in 2010, is valued at around £450m over 30 years. We also signed contracts to provide operational management to the new United Arab Emirates University in Al Ain, valued at around £70m over ten years, and to deliver property management and support services to State Street Bank, valued at around £50m over five years. Mid Sussex District Council appointed Serco to provide refuse, recycling and street cleaning services. The contract is for seven years, with an option to extend to 21 years. Over this longer period, its value is around £74m.

The US Postal Service Engineering Organization (USPS) appointed Serco to provide engineering, technical, project management and IT services. The contract is for two years with four two-year options. Over the full ten years, it has a potential value of \$260m, a sizeable increase over our previous contract with USPS. Serco has provided a range of engineering services to USPS for more than 20 years. The latest contract broadens that role to include management services focused on reducing costs and enhancing efficiencies in mail handling operations. Serco will also offer quality assurance services and testing of mail processing equipment.

The US Office of Personnel Management awarded Serco two indefinite-delivery, indefinite-quantity (IDIQ) contracts under the Training Management Assistance program. These programs assist government agencies in developing workforce planning and management strategies, e-learning and other training solutions. The contracts give Serco the opportunity to compete for a share of \$500m of work over the next five years.



## Defence

Revenue in Defence increased by 9.7% to £337m, representing 25% of Group revenue (2006: 25%).

The UK Ministry of Defence (MoD) awarded Serco a five-year Gibraltar-based contract valued at around £50m. The contract has a further two option years and the potential for additional work. Serco, as prime contractor, will manage the maintenance, repair and operation of the UK Armed Forces estate facilities in Gibraltar, as well as operating and maintaining the MoD power station, electrical power and water distribution. Support will also be provided to the Naval base and airfield, including military logistics, workshops, fuel depot and marine services.

Serco was selected as preferred bidder for a ten-year partnering contract with the Naval Air Command. The contract, valued at around £70m over ten years, will see Serco providing aviation, engineering and aircraft support at two Royal Naval Air Stations, Yeovilton and Culdrose. Our work will improve the availability of aircraft and trained aircrew to the Fleet Air Arm at a time of considerable operational pressure, building on the operational support Serco already provides to the Royal Navy's aircraft.

In North America, we won important contracts against a continued backdrop of reduced expenditure on non-combat operations. The US Navy selected Serco for the Sea Enterprise contract, to provide engineering and installation services at ship, shore and submarine locations on the West Coast of the United States. The single award, IDIQ contract has a one-year base period with four annual options, for a maximum term of five years, and a potential value of around \$200m. A key objective is to reduce the costs of installations by improving productivity and achieving long-term efficiencies.

In addition, the US Navy appointed Serco to evaluate, integrate and install advanced anti-terrorism systems at its ports around the world. The IDIQ contract has a total potential value of \$64m over five years. The award expands Serco's work over the last three years to integrate surveillance, detection and information-sharing systems to improve anti-terrorism protection.

Serco won a contract with the US Army to provide cost analysis, logistics planning and supply chain consulting services worldwide. The contract with the Army Sustainment Command has a potential value of \$225m. The single award, IDIQ contract has a one-year base period, with four annual options, for a five year total period. Under this contract, Serco will oversee the performance of other contractors and provide programme management analysis, cost analysis and logistics planning for the Logistics Civil Augmentation Program (LOGCAP).



## Transport

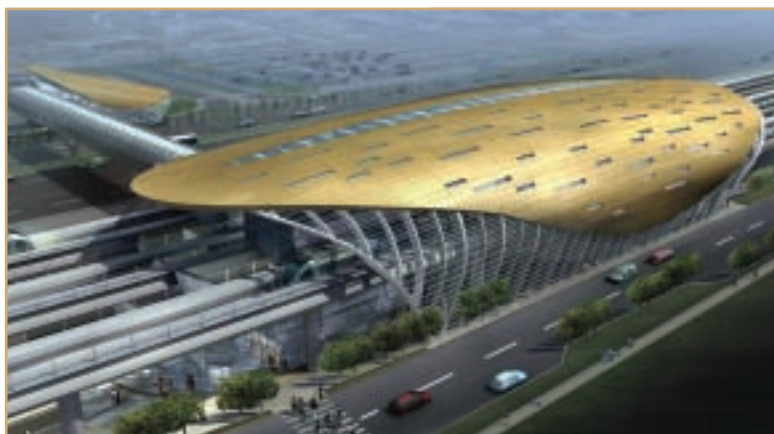
Transport revenues grew by 6.7% to £285m, representing 21% of Group revenue (2006: 22%).

The Dubai Government Roads and Transport Authority (RTA) selected Serco as preferred bidder to operate and maintain the first two lines of the new Dubai Metro. The lines will provide 76 kilometres of track and are predicted to carry 200m passengers per year. The first line opens in autumn 2009 and the second in spring 2010. The contract will include pre-launch consultancy and planning. The operations and maintenance period will then run for five years from autumn 2009, with the potential for a further five-year extension. The contract is valued at more than £400m over this 12.5 year period. Serco will run the operations control centre, provide train attendants and all staff at the stations and maintain rolling stock, track and station facilities. The Dubai Metro is the first in the region and is an important development for the city. Ultimately, it is the RTA's intention to extend the Dubai Metro to more than 300 kilometres, making it the world's largest driverless metro system.

In the US, the Georgia Department of Transportation appointed Serco to run the state's Traffic Management Center. This is one of Serco's first traffic management contracts in North America. The contract is for up to four years and is valued at \$12m.

Northern Rail, which we operate in a joint venture with NedRailways, continues to attract more passengers and to deliver strong operational performance, with punctuality and reliability again above our franchise targets. Northern Rail's success has led to it winning two prestigious national awards: Public Transport Operator of the Year at the National Transport Awards 2007, and the Example of Excellence in the Rural Action category at the 2007 Business in the Community awards. Our other joint venture with NedRailways – Merseyrail – continued to deliver the levels of service which have made it one of the UK's best performing franchises, with performance figures consistently above the franchise targets.

Serco operates the National Traffic Control Centre (NTCC) on behalf of the Highways Agency. We were pleased that the NTCC achieved final completion in May 2007, recognising the delivery of quality services at this world-first facility.



Artist's impression of the Dubai Metro

## Science

Science revenues grew by 13.6% to £232m, representing 17% of Group revenue (2006: 16%).

Growth in the first half was driven by further strong performance of our joint venture with Lockheed Martin and BNFL to operate the UK's Atomic Weapons Establishment (AWE). BNFL has announced its intention to dispose of its holding in the joint venture and Serco and Lockheed Martin are interested in exercising their pre-emption rights. Our primary objective is to ensure that the high-performance service, which has been delivering a highly-complex science-based programme to the MoD on time and on budget, continues throughout the remaining 17 years of the current contract.

A Serco-led consortium was awarded a £15m contract to provide specialist technical and engineering support to Magnox reactor sites over the next five years. A range of specialist nuclear technical services will be provided, including safety case management, systems engineering, analysis of safety-critical structures and systems and technical advice on waste management.

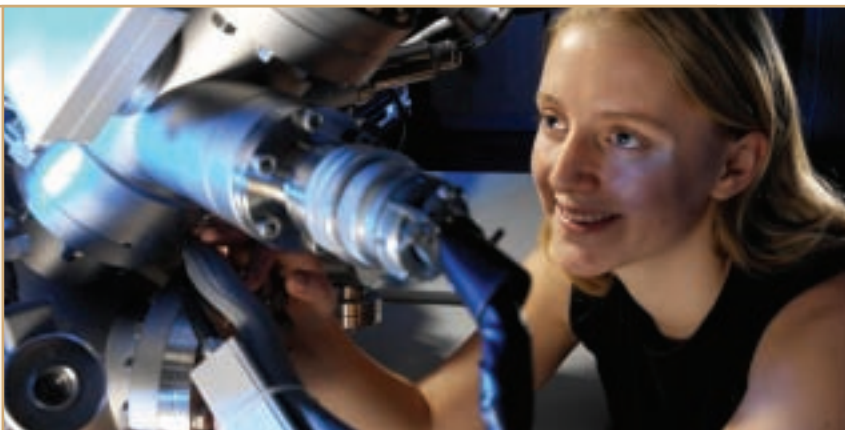
## Market Development

Our markets continue to deliver a wealth of opportunities for Serco. The UK remains as strong as ever, while international markets are increasingly opening up as we build on the strong positions we have created and leverage the capability we have developed in the UK over many years. The breadth of our portfolio and our proven ability to adapt to new business models mean that we can select the best opportunities, wherever they may arise.

We expect to see continued strong growth in the home affairs market. In the UK, we are well-established across all areas and we are expanding our footprint in the Australian market. Key drivers include the threat of global terrorism, concern about immigration, perceptions of rising crime and the continued increase in prisoner numbers. These will continue to increase governments' use of the private sector to provide more capacity and to develop new capabilities to meet new threats.

Health offers a major growth area for Serco for the future. The UK National Health Service is increasingly dependent upon delivering efficiency savings and meeting stretching targets and Serco can play a critical role in supporting this. We plan to offer better value-for-money clinical services into the primary sector and to provide fully-managed healthcare solutions that deliver the support needed by clinicians and patients.

“Our markets continue to deliver a wealth of opportunities. The UK remains as strong as ever, while international markets are increasingly opening up.”



UK local authorities are facing real challenges to deliver services against ever-tightening budgets. The Local Government and Public Involvement in Health Bill promises greater powers and responsibilities for local authorities in bringing together local service providers to create better communities. At the same time, councils must find local solutions to global issues, such as climate change, global competition, ageing populations and skills shortages. The service transformation agenda looks to review the use of people, processes, property and technology in local authorities, and to identify how these can be optimised. Serco's IT-enabled services and our capabilities in reducing crime, protecting the environment, promoting enterprise, improving health and promoting independence puts us in a primary position to help local authorities drive this change.

In UK defence, the armed forces continue to operate in a highly challenging environment, and we will look to grow our support to the front line by building on our track record of improving the availability and capability of people and equipment. The MoD is undertaking a refresh of the Defence Industrial Strategy, first published in December 2005. This is likely to enhance the focus on the role of service companies in supporting through-life capability management. Serco is well placed to deliver real benefits to the MoD in this area through our work on whole-life costing and optimisation, our operational support to front line commands and our relationships with original equipment manufacturers.

In addition, we will look to further strengthen our position as a service provider to the MoD in the defence nuclear arena. Our partnership at AWE continues to develop as we deliver a highly-complex science-based programme and upgrade skills and facilities. We also anticipate growth from our technical and assurance services business as it brings its advanced technical capabilities to bear in the fields of defence nuclear safety, propulsion and decommissioning.

We have a strong position in the US defence market and are increasingly proving our ability to win larger and more complex contracts. While pressure is likely to remain on non-combat related expenditure, we foresee good growth. For example, longer deployment periods for personnel are likely to result in increased demand for family support and other human resources services, playing to our strengths in this market.

In transport, we are continuing to track schemes to tackle congestion, maintaining a dialogue with new and existing customers around the world. And we see opportunities to expand our presence in the transport market in the United Arab Emirates, following our successful bid to operate and maintain the Dubai Metro. The growth in the region's cities is resulting in the need for sustainable transport solutions.

Through the National Physical Laboratory and AWE, we have unrivalled experience in the management and operation of government-owned, contractor-operated science facilities. This puts us in a good position to engage with government about emerging opportunities to manage and operate other scientific and technical laboratories and agencies.

The UK nuclear decommissioning market continues to develop, with the competition for the contract at Sellafield now under way. Serco's consortium with Bechtel and BWXT brings together a unique and highly effective team, with a proven track record of safely and securely delivering high performance at nuclear sites in the UK and US, through partnership with employees and local communities. We look forward to working with the Nuclear Decommissioning Authority and Sellafield's stakeholders throughout the competition process.

In addition to the markets we operate in today, we continue to monitor and shape our markets for the future. Countries such as South Africa and India have potential for the medium term. We also see scope to expand our presence in non-defence markets in the US.

## People

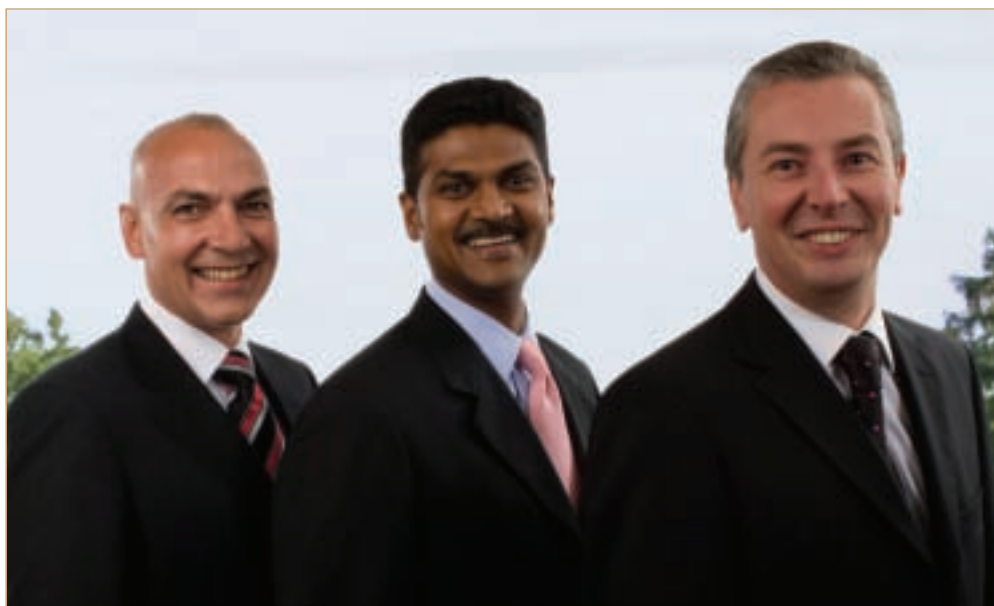
Serco employs more than 47,000 people around the world. Without their skills, dedication and enthusiasm, we would not be able to deliver the service quality our customers deserve and on which all of Serco's success is founded.

We continue to invest in our leadership, which we have long identified as a vital component of our future growth. Nearly 120 people have earned certificates under our ground-breaking programme with the Institute of Directors, with 90 achieving diplomas or chartered director status. A further 25 have completed our business managers' programme.

Our Skills for Life programme continues to help our people improve their literacy and numeracy skills. So far, we have assessed 3,000 employees, with 565 obtaining awards.

“We continue to invest in our leadership, which we have long identified as a vital component of our future growth.”





## Executive Directors

From left to right

**Grant Rumbles**  
Chief Operating Officer

**Christopher Hyman**  
Chief Executive

**Andrew Jenner**  
Finance Director

## Board

As announced on 31 August 2006, Kevin Beeston will move to Non-Executive Chairman from 1 September 2007.

Grant Rumbles was appointed an Executive Director of Serco Group plc on 3 July 2007. Grant has 25 years continuous service with the Group and joined the Executive Team in 2004 as Chief Operating Officer.

## Disclosure of pro forma profit measure

We regularly review our disclosure, to make sure it remains clear, simple and appropriate. Since the introduction of International Financial Reporting Standards in 2005, there has been an evolution of best practice regarding the disclosure of adjusted profit measures, with companies increasingly using measures that are closer to statutory measures. In light of this, we have decided to revise our pro forma disclosure by splitting the charge for amortisation of intangible assets. Further information can be found in section 7 of the Finance Review.

## Outlook

Serco's markets remain strong in the UK and internationally and we have identified a pipeline of opportunities valued at £24bn. The breadth of these opportunities underpins our confidence of delivering double-digit growth for the foreseeable future. At the same time, our focus on managing our contract portfolio, bidding selectively and enhancing our efficiency will allow us to further increase our margins.

# Finance review

## I. Financial performance

The first six months of 2007 was another period of strong revenue growth for Serco, coupled with a further increase in margins, rising free cash flow and the strengthening of our balance sheet.

Serco's income statement for the period is summarised in Figure 1 below. This includes the results of joint ventures, which are proportionately consolidated.

Figure 1: Income statement

Six months ended 30 June	2007 £m	2006 £m	Increase
Revenue	1,349.0	1,236.2	9.1%
Gross profit	195.1	178.4	9.4%
Administrative expenses	(124.0)	(116.6)	
Investment revenue and finance costs	(9.5)	(9.3)	
Profit before tax and amortisation of intangibles	61.6	52.5	17.3%
Amortisation of intangibles	(9.6)	(7.7)	
Profit before tax	52.0	44.8	16.1%
Tax	(14.6)	(13.0)	
Profit for the period	37.4	31.8	17.6%
Effective tax rate	28.1%	29.0%	
Earnings per share	7.71p	6.69p	15.2%
Earnings per share before amortisation of intangibles	9.38p	8.06p	16.4%
Dividend per share	1.23p	1.05p	17.1%

### I.1 Revenue

Total revenue grew by 9.1% to £1,349.0m, benefiting from expansion in the scale and scope of existing contracts and the contribution of new wins.

Joint venture revenue increased by 10.0% to £338.8m. This increase was primarily due to growth in our contract to operate AWE.

### I.2 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.5% in the period, a small increase on the first half of 2006.

### I.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £9.5m (2006: £9.3m). In December 2006, we sold a number of our PFI investments to Infrastructure Investors Limited. The loss of net interest income from these investments was largely offset by the increase in net interest income from our retirement benefit obligations.

### I.4 Profit before tax and amortisation of intangibles (PBTA)

PBTA was £61.6m, an increase of 17.3% from 2006. This represented a margin of 4.6%, up from 4.2% in the same period last year.

### I.5 Amortisation of intangible assets

The charge for amortisation of intangible assets was £9.6m (2006: £7.7m). The increase principally resulted from the amortisation of our new SAP accounting system, which commenced in the second half of last year.

## 1.6 Profit before tax

Profit before tax increased by 16.1% to £52.0m. This represented a margin of 3.9%, up from 3.6% in the first half of 2006.

## 1.7 Tax

The tax charge of £14.6m (2006: £13.0m) represents an effective rate of 28.1%, consistent with the effective rate of 29.0% in the first half of last year and the effective rate for the full year of 2006, excluding the impact of the gain on sale of the PFI investments, which was not taxable.

## 1.8 Earnings per share (EPS)

EPS grew by 15.2% to 7.71p. EPS before amortisation of intangibles rose by 16.4% to 9.38p.

EPS is calculated on an average share base of 479.9m during the period (2006: 467.8m). The increase resulted from the exercise of employees' share options.

## 2. Dividend

Serco's policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has declared an interim dividend of 1.23p per share, representing an increase on the 2006 interim dividend of 17.1%. The dividend will be paid on 17 October to shareholders on the register on 7 September.

## 3. Cash flow

The Group generated a free cash inflow of £28.8m (2006: £25.8m), an increase of 11.6%.

Figure 2 analyses the cash flow. As in previous periods, we have designed the analysis to show the true cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 23, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 2 reconciles the movement in Group cash to the consolidated cash flow.

Figure 2: Cash flow

Six months ended 30 June	2007 £m	2006 £m
Operating profit excluding joint ventures	41.4	34.2
Non cash items	25.6	22.3
Group EBITDA	67.0	56.5
Working capital movement	(18.2)	(11.2)
Group operating cash flow	48.8	45.3
Interest	(11.5)	(8.7)
Tax	(0.7)	(2.4)
Expenditure on tangible and intangible assets	(24.9)	(21.9)
Dividends from joint ventures	17.1	13.5
<b>Group free cash flow</b>	<b>28.8</b>	<b>25.8</b>
Disposal of joint ventures	1.4	-
Acquisitions	(7.9)	-
Other financing	(23.3)	(26.0)
Special pension contribution	(51.0)	-
Dividends paid	(12.0)	(9.6)
Group net decrease in cash and cash equivalents	(64.0)	(9.8)
Adjustment to include joint venture cash impacts	15.0	7.1
Net decrease in cash and cash equivalents	(49.0)	(2.7)

Note: Group EBITDA is earnings from subsidiaries (excluding joint ventures) before interest, tax, depreciation, intangible amortisation and other non cash items

### 3.1 Group operating cash flow

Group operating cash flow of £48.8m (2006: £45.3m) represents a conversion of Group EBITDA into cash of 73% (2006: 80%).

### 3.2 Interest

Net interest paid was £11.5m, compared to £8.7m in the first half of 2006. The increase reflects lower interest income after the disposal of PFI investments in December 2006.

### 3.3 Tax

Tax paid (excluding joint ventures) was £0.7m (2006: £2.4m). Cash tax is below the equivalent tax charge in the income statement. This reflects timing differences, principally the availability of tax relief on the special pension contribution paid in January 2007.

### 3.4 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets in the period was £24.9m (2006: £21.9m). This represents 2.5% of revenue excluding joint ventures (2006: 2.4%). Expenditure on completing the initial roll-out of our new SAP accounting system totalled around £8m in the first half.

### 3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £17.1m (2006: £13.5m), equivalent to 99% (2006: 78%) of joint ventures' profit after tax and minority interest excluding costs allocated by Group. The high level of conversion reflects payments of dividends from profits retained in previous years.

### 3.6 Other financing

The movement in other financing is primarily a result of repayments on our loan facility.

## 4. Net debt

Figure 3 analyses Serco's net debt at 30 June 2007 and 31 December 2006.

Figure 3: Net debt

	30 June 2007 £m	31 December 2006 £m
Group - cash and cash equivalents	114.2	177.8
Group - loans	(305.5)	(334.4)
Group - obligations under finance leases	(12.7)	(15.3)
Group recourse net debt	(204.0)	(171.9)
Joint venture recourse net cash	44.9	28.2
Total recourse net debt	(159.1)	(143.7)
Group non recourse debt	(60.6)	(62.2)
Total net debt	(219.7)	(205.9)

### 4.1 Group recourse net debt

Group recourse net debt increased from £171.9m at 31 December 2006 to £204.0m at 30 June 2007. The increase principally resulted from the payment of £51m into the Group's main defined benefit pension scheme in January 2007, partially offset by our cash generation in the first half.

Included within Group recourse net debt is £13.4m (31 December 2006: £10.6m) of encumbered cash. This is cash of PFI and other project companies securing credit obligations and customer advance payments.

## 4.2 Group non recourse debt

The Group's debt is non recourse if no Group company other than the relevant borrower – such as 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.

Group non recourse debt reduced by £1.6m to £60.6m during the first half, due to scheduled repayments. The non recourse debt relates to the Kilmarnock prison contract and our Driver Examination Services contract in Canada.

## 5. Pensions

At 30 June 2007, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £44.0m (2006: £120.0m). Figure 4 provides further analysis.

Figure 4: Defined benefit pension schemes

	30 June 2007 £m	31 December 2006 £m
Group schemes – non contract specific	(54.0)	(157.8)
Contract specific schemes		
– reimbursable	(36.3)	(67.6)
– not certain to be reimbursable	(19.4)	(23.9)
Net retirement benefit liabilities	(109.7)	(249.3)
Intangible assets arising from rights to operate franchises and contracts	19.1	20.6
Reimbursable rights debtors	36.3	67.6
Deferred tax assets	10.3	41.1
Net balance sheet liabilities	(44.0)	(120.0)

Serco has three main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under IFRS. These are:

- Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes, we charge the actuarial gain or loss for the period to the consolidated statement of recognised income and expense (the SORIE)
- Reimbursable – schemes where we have a right of full cost reimbursement and therefore include both the pension scheme deficit and offsetting reimbursable rights debtor in the balance sheet, and
- Not certain to be reimbursable – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the period to the SORIE, recognise a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortise the intangible asset to the income statement over the contract or franchise life.

The principal non contract specific scheme is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2007, SPLAS had a deficit of £20.8m (31 December 2006: £117.0m). The reduction in the deficit reflects the special pension payment of £51m in January, the movement in bond yields and strong investment performance in the first half.

## 6. Treasury

The Group's principal debt finance consists of a £400m bank credit facility comprising a term loan facility and a revolving credit facility. At 30 June 2007 we had £144.1m (31 December 2006: £163.0m) outstanding on the term loans and the revolving facility was undrawn. Interest is charged at a rate of 50 basis points over LIBOR on borrowings under the facility. The facility is unsecured and matures in December 2009.

Serco has also issued loan notes under two private placements. The first private placement, for £43.2m, matures in December 2007 and the second, for £117.0m, amortises evenly from 2011 to 2015.

At 30 June 2007, Serco also had £60.6m (31 December 2006: £62.2m) of non recourse debt, used to fund remaining PFI and similar activities. In all cases, no entity other than the relevant borrower has an obligation, as a result of a guarantee or other arrangement, to repay non recourse debt.

## 7. Disclosure of pro forma profit measure

Serco accounts for the amortisation of intangible assets in accordance with IFRS. This treatment will continue, as will our statutory reporting of intangible assets.

We regularly review our disclosure, to make sure it remains clear, simple and appropriate. Like many companies, we have disclosed a pro forma measure of profit (profit before tax and amortisation of intangibles) as well as our statutory profit before tax. Since the introduction of IFRS in 2005, there has been an evolution of best practice regarding the disclosure of pro forma profit measures, with companies increasingly using measures that are closer to statutory measures. In light of this, and the increased size of the charge for amortisation of intangible assets, we have decided to revise our pro forma disclosure by splitting the amortisation charge.

Figure 5 shows the amortisation charge for 2006 and the expected amortisation charge for 2007.

**Figure 5: Amortisation of intangible assets**

	Amortisation 2006 Actual £m	Amortisation 2007 Expected £m
Customer relationships	3	3
Licences and franchises	6	6
Software and development expenditure	4	9
Pension related intangibles	3	3
	16	21

For the full year 2007 onwards, for pro forma purposes we will split the amortisation charge into two – amortisation of intangibles arising on acquisition of businesses and franchises, which comprises the first two categories in Figure 5 (£9m) and amortisation of other intangibles (£12m). Our pro forma profit measure will be profit before tax and amortisation of intangibles arising on acquisition.

As this is a change to pro forma disclosure, there is no change to our statutory profit before tax. Cash flow is also unaffected as amortisation is a non cash item.

# 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 2007 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 10. 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

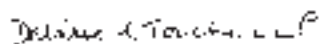
The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the 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.

## 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 2007.



**Deloitte & Touche LLP**  
Chartered Accountants  
London  
30 August 2007

# Consolidated income statement

For the six months ended 30 June 2007

	Note	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
<b>Continuing operations</b>				
Revenue	3	1,349.0	1,236.2	2,548.2
Cost of sales		(1,153.9)	(1,057.8)	(2,182.5)
<b>Gross profit</b>		<b>195.1</b>	<b>178.4</b>	<b>365.7</b>
Administrative expenses		(124.0)	(116.6)	(235.7)
Other operating expenses – amortisation of intangibles		(9.6)	(7.7)	(16.2)
Total administrative expenses		(133.6)	(124.3)	(251.9)
Gain on sale of PFI investments		–	–	11.4
<b>Operating profit</b>	3	<b>61.5</b>	<b>54.1</b>	<b>125.2</b>
Investment revenue	2	6.2	17.4	31.7
Finance costs	2	(15.7)	(26.7)	(49.5)
<b>Profit before tax</b>		<b>52.0</b>	<b>44.8</b>	<b>107.4</b>
Tax		(14.6)	(13.0)	(27.9)
<b>Profit for the period</b>		<b>37.4</b>	<b>31.8</b>	<b>79.5</b>
Attributable to:				
Equity holders of the parent		37.0	31.3	78.3
Minority interest		0.4	0.5	1.2
<b>Earnings per share (EPS)</b>				
Basic EPS	4	7.71p	6.69p	16.62p
Diluted EPS	4	7.62p	6.60p	16.43p

# Consolidated statement of recognised income and expense

For the six months ended 30 June 2007

	Note	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
Net actuarial gain on defined benefit pension schemes	9	135.0	83.3	78.9
Actuarial loss on reimbursable rights	9	(83.0)	(37.3)	(53.4)
Net exchange gain/(loss) on translation of foreign operations	9	0.2	(8.2)	(12.3)
Fair value gain on cash flow hedges during the period	9	1.7	2.6	2.2
Tax charge on items taken directly to equity	9	(10.6)	(12.2)	(7.0)
<b>Net income recognised directly in equity</b>		<b>43.3</b>	<b>28.2</b>	<b>8.4</b>
<b>Profit for the period</b>		<b>37.4</b>	<b>31.8</b>	<b>79.5</b>
<b>Total recognised income and expense for the period</b>		<b>80.7</b>	<b>60.0</b>	<b>87.9</b>
Attributable to:				
Equity holders of the parent		80.3	59.5	87.1
Minority interest		0.4	0.5	0.8

# Consolidated balance sheet

At 30 June 2007

Note	At 30 June 2007 £m (unaudited)	At 30 June 2006 £m (unaudited)	At 31 December 2006 £m (audited)
<b>Non-current assets</b>			
Goodwill	534.5	535.3	528.5
Other intangible assets	131.9	122.2	126.1
Property, plant and equipment	94.5	95.2	93.6
Trade and other receivables	79.8	443.8	110.5
Deferred tax assets	50.9	77.5	73.7
	<b>891.6</b>	<b>1,274.0</b>	<b>932.4</b>
<b>Current assets</b>			
Inventories	49.3	44.8	51.7
Trade and other receivables	504.2	514.2	463.3
Cash and cash equivalents	169.5	235.8	217.9
	<b>723.0</b>	<b>794.8</b>	<b>732.9</b>
<b>Total assets</b>	<b>1,614.6</b>	<b>2,068.8</b>	<b>1,665.3</b>
<b>Current liabilities</b>			
Trade and other payables	(591.5)	(560.6)	(541.9)
Current tax liabilities	(7.2)	(20.3)	(13.0)
Obligations under finance leases	(9.0)	(8.3)	(8.3)
Loans	(50.5)	(44.8)	(57.9)
Financial instruments	(10.4)	(3.0)	(10.6)
	<b>(668.6)</b>	<b>(637.0)</b>	<b>(631.7)</b>
<b>Non-current liabilities</b>			
Trade and other payables	(10.8)	(7.4)	(10.4)
Obligations under finance leases	(7.9)	(14.6)	(11.5)
Loans	(321.8)	(689.4)	(346.1)
Financial instruments	(12.2)	(31.2)	(14.2)
Retirement benefit obligations	(109.7)	(256.9)	(249.3)
Provisions	(18.3)	(20.9)	(22.3)
Deferred tax liabilities	(21.4)	(91.3)	(19.9)
	<b>(502.1)</b>	<b>(1,111.7)</b>	<b>(673.7)</b>
<b>Total liabilities</b>	<b>(1,170.7)</b>	<b>(1,748.7)</b>	<b>(1,305.4)</b>
<b>Net assets</b>	<b>443.9</b>	<b>320.1</b>	<b>359.9</b>
<b>Equity</b>			
Share capital	9	9.5	9.5
Share premium account	9	277.8	283.5
Capital redemption reserve	0.1	0.1	0.1
Retained earnings	9	154.5	196.6
Retirement benefit obligations reserve	9	(105.1)	(119.5)
Share-based payment reserve	9	19.7	25.5
Own shares reserve	9	(16.4)	(16.4)
Hedging and translation reserve	9	(21.4)	(21.3)
<b>Equity attributable to equity holders of the parent</b>	<b>442.1</b>	<b>318.7</b>	<b>358.0</b>
<b>Minority interest</b>	<b>1.8</b>	<b>1.4</b>	<b>1.9</b>
<b>Total equity</b>	<b>443.9</b>	<b>320.1</b>	<b>359.9</b>

# Consolidated cash flow statement

For the six months ended 30 June 2007

	Note	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
<b>Net cash inflow from operating activities</b>	7	<b>34.6</b>	73.2	159.5
<b>Investing activities</b>				
Interest received		4.2	18.2	32.4
Disposal of subsidiary and business undertakings	6	1.4	–	18.2
Proceeds from disposal of property, plant and equipment		–	1.7	1.4
Acquisition of subsidiaries and business undertakings net of cash acquired	5	(9.5)	–	–
Purchase of other intangible assets		(13.5)	(14.5)	(30.4)
Purchase of property, plant and equipment		(13.4)	(12.7)	(27.8)
<b>Net cash outflow from investing activities</b>		<b>(30.8)</b>	(7.3)	(6.2)
<b>Financing activities</b>				
Interest paid		(15.3)	(27.3)	(42.2)
Dividends paid		(12.0)	(9.6)	(14.5)
Dividend paid to minority interest		(0.5)	(1.0)	(1.0)
Repayment of borrowings		(28.6)	(22.2)	(103.4)
New loan advances		0.8	–	9.4
Capital element of finance lease repayments		(4.3)	(4.5)	(8.6)
Proceeds from issue of share capital		11.2	8.4	14.1
Decrease in non recourse loans		(4.1)	(12.4)	(25.3)
<b>Net cash outflow from financing activities</b>		<b>(52.8)</b>	(68.6)	(171.5)
<b>Net decrease in cash and cash equivalents</b>		<b>(49.0)</b>	(2.7)	(18.2)
<b>Cash and cash equivalents at beginning of period</b>		<b>217.9</b>	240.7	240.7
Net exchange gain/(loss)		0.6	(2.2)	(4.6)
<b>Cash and cash equivalents at end of period</b>		<b>169.5</b>	235.8	217.9

# Notes to the financial statements

## 1. General information

The Interim Report is unaudited and does not constitute statutory accounts within the meaning of s240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2006, which were prepared under International Financial Reporting Standards (IFRS), have been delivered to the Register of Companies. The auditors' opinion on those accounts was unqualified and did not contain a statement made under s237(2) or s237(3) of the Companies Act 1985.

The accounting policies used in the Interim Report are consistent with IFRS and those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006. The Interim Report includes the results of subsidiaries and joint ventures. Joint ventures have been proportionately consolidated.

## 2. Investment revenue and finance costs

	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
Interest receivable by PFI companies	1.6	13.9	25.6
Interest receivable on other loans and deposits	2.6	3.5	6.1
Net interest receivable on retirement benefit obligations	1.5	–	–
Fair value adjustment on fair value hedges and non IAS 39 designated hedges	0.5	–	–
<b>Investment revenue</b>	<b>6.2</b>	17.4	31.7
Interest payable on non recourse loans	(2.0)	(12.0)	(18.0)
Interest payable on other loans	(13.4)	(13.4)	(28.5)
Fair value adjustment on fair value hedges and non IAS 39 designated hedges	–	(0.1)	(0.5)
Net interest payable on retirement benefit obligations	–	(1.0)	(1.9)
Interest payable on obligations under finance leases	(0.3)	(0.2)	(0.6)
<b>Finance costs</b>	<b>(15.7)</b>	(26.7)	(49.5)

### 3. Segmental information

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

Market segments	Civil				Total
	Government	Defence	Transport	Science	
6 months to 30 June 2007 (unaudited)	£m	£m	£m	£m	£m
<b>Revenue</b>	<b>495.8</b>	<b>336.6</b>	<b>284.9</b>	<b>231.7</b>	<b>1,349.0</b>
Segment operating profit	24.0	23.1	10.8	22.0	79.9
Unallocated expenses					(18.4)
<b>Operating profit</b>					<b>61.5</b>
Investment revenue					6.2
Finance costs					(15.7)
<b>Profit before tax</b>					<b>52.0</b>
Tax					(14.6)
<b>Profit for the period</b>					<b>37.4</b>

6 months to 30 June 2006 (unaudited)	Civil				Total
	Government	Defence	Transport	Science	
	£m	£m	£m	£m	£m
<b>Revenue</b>	<b>458.3</b>	<b>306.9</b>	<b>267.0</b>	<b>204.0</b>	<b>1,236.2</b>
Segment operating profit	21.7	20.4	10.9	18.5	71.5
Unallocated expenses					(17.4)
<b>Operating profit</b>					<b>54.1</b>
Investment revenue					17.4
Finance costs					(26.7)
<b>Profit before tax</b>					<b>44.8</b>
Tax					(13.0)
<b>Profit for the period</b>					<b>31.8</b>

Geographical segments	United	North	Europe and	Asia	Total
	Kingdom	America	Middle East	Pacific	
Revenue	£m	£m	£m	£m	£m
<b>6 months to 30 June 2007 (unaudited)</b>	<b>1,015.0</b>	<b>143.2</b>	<b>109.5</b>	<b>81.3</b>	<b>1,349.0</b>
6 months to 30 June 2006 (unaudited)	910.3	149.3	104.8	71.8	1,236.2

#### 4. Earnings per share

Basic and diluted earnings per share (EPS) have been calculated in accordance with IAS 33 'Earnings Per Share'. EPS is shown both before and after amortisation of intangibles and the gain on sale of PFI investments to assist in the understanding of the impact of the underlying performance of the business.

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

##### Number of shares

	6 months to 30 June 2007 Millions	6 months to 30 June 2006 Millions	Year to 31 December 2006 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	479.9	467.8	471.2
Effect of dilutive potential ordinary shares: share options	5.5	6.4	5.5
Weighted average number of ordinary shares for the purpose of diluted EPS	485.4	474.2	476.7

##### Earnings

	6 months to 30 June 2007		6 months to 30 June 2006		Year to 31 December 2006	
	Earnings £m (unaudited)	Per share amount Pence (unaudited)	Earnings £m (unaudited)	Per share amount Pence (unaudited)	Earnings £m (audited)	Per share amount Pence (audited)
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	37.0	7.71	31.3	6.69	78.3	16.62
Less:						
Gain on sale of PFI investments	–	–	–	–	(11.4)	(2.42)
Add back:						
Amortisation of intangibles, net of tax	8.0	1.67	6.4	1.37	13.8	2.93
Basic earnings before amortisation of intangibles and gain on sale of PFI investments	45.0	9.38	37.7	8.06	80.7	17.13
Earnings for the purpose of basic EPS	37.0	7.71	31.3	6.69	78.3	16.62
Effect of dilutive potential ordinary shares	–	(0.09)	–	(0.09)	–	(0.19)
Diluted EPS	37.0	7.62	31.3	6.60	78.3	16.43

## 5. Acquisitions

On 16 May 2007, the Group acquired Cornwell Management Consultants plc for consideration of £7.8m in cash. During the first half of the year, Equity Aviation Holdings (Pty) Limited, a 50% joint venture company, acquired several small companies. Serco's share of the consideration was £1.8m in cash. Both transactions have been accounted for in accordance with IFRS 3 'Business Combinations'.

Net assets acquired were:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	0.2	0.2
Property, plant and equipment	0.6	(0.2)	0.4
Debtors	5.6	(0.2)	5.4
Cash	0.1	–	0.1
Bank overdraft	(0.1)	–	(0.1)
Creditors	(4.3)	(0.1)	(4.4)
Net assets acquired	1.9	(0.3)	1.6
Goodwill			8.0
Total consideration			9.6

Satisfied by:

Deferred consideration	0.1
Cash	8.8
Purchase consideration	8.9
Directly attributable costs	0.7
Total consideration	9.6

Net cash outflow arising on acquisitions:

Cash consideration paid in 2007	9.5
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## 6. Disposals

On 31 May 2007, the Group disposed of its interest in Serco Gulf LLC, a 49% joint venture in the Middle East. On 22 June 2007, the Group disposed of its interest in Serco Guthrie Pte Limited, a 50% Australian joint venture.

## 7. Reconciliation of operating profit to net cash inflow from operating activities

	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
<b>Operating profit for the period</b>	<b>61.5</b>	54.1	125.2
Adjustments for:			
Share-based payment expense	2.6	2.5	4.8
Depreciation of property, plant and equipment	15.5	15.3	30.0
Amortisation of intangible assets	9.6	7.7	16.2
Loss/(profit) on disposal of property, plant and equipment	1.4	(0.3)	1.1
Profit on disposal of business undertakings	(0.6)	–	–
Gain on sale of PFI investments	–	–	(11.4)
<b>Operating cash inflow before movements in working capital</b>	<b>90.0</b>	79.3	165.9
Decrease/(increase) in inventories	3.1	(8.9)	(13.9)
(Increase)/decrease in receivables	(34.6)	(10.3)	10.7
Increase in payables	36.8	18.2	21.8
Decrease in provisions	(4.4)	(5.2)	(4.5)
Special contribution to defined benefit pension scheme	(51.0)	–	(19.0)
<b>Cash generated by operations before movement on PFI debtor</b>	<b>39.9</b>	73.1	161.0
Decrease in PFI debtor	0.7	9.4	17.4
<b>Cash generated by operations after movement on PFI debtor</b>	<b>40.6</b>	82.5	178.4
Tax paid	(6.0)	(9.3)	(18.9)
<b>Net cash inflow from operating activities</b>	<b>34.6</b>	73.2	159.5

## 8. Analysis of net debt

	At 30 June 2007 £m (unaudited)	At 30 June 2006 £m (unaudited)	At 31 December 2006 £m (audited)
Cash and cash equivalents	169.5	235.8	217.9
Non recourse loans (related to PFI assets)	(23.5)	(266.5)	(24.8)
Other non recourse loans	(37.1)	(44.7)	(37.4)
Other loans	(311.7)	(423.0)	(341.8)
Obligations under finance leases	(16.9)	(22.9)	(19.8)
<b>Total net debt</b>	<b>(219.7)</b>	(521.3)	(205.9)

## 9. Reserves

	Share capital	Share premium account	Retained earnings	Retirement benefit obligations reserve	Share-based payment reserve	Own shares reserve	Hedging and translation reserve
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007 (audited)	9.5	283.5	196.6	(119.5)	25.5	(16.4)	(21.3)
Shares issued	0.2	–	–	–	–	–	–
Premium on shares issued	–	12.8	–	–	–	–	–
Shares transferred to option holders on exercise of share options	–	–	–	–	(0.1)	0.3	–
Profit for the period attributable to equity holders of the parent	–	–	37.0	–	–	–	–
Dividends paid	–	–	(12.0)	–	–	–	–
Net actuarial gain on defined benefit pension schemes	–	–	–	135.0	–	–	–
Actuarial loss on reimbursable rights	–	–	–	(83.0)	–	–	–
Expense in relation to share-based payment	–	–	–	–	2.6	–	–
Fair value gain on cash flow hedges during the period	–	–	–	–	–	–	1.7
Net exchange gain on translation of foreign operations	–	–	–	–	–	–	0.2
Tax charge on cash flow hedges	–	–	–	–	–	–	(0.4)
Tax (charge)/credit on items taken directly to equity	–	–	–	(15.5)	5.3	–	–
<b>At 30 June 2007 (unaudited)</b>	<b>9.7</b>	<b>296.3</b>	<b>221.6</b>	<b>(83.0)</b>	<b>33.3</b>	<b>(16.1)</b>	<b>(19.8)</b>

## 10. 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:

	6 months to 30 June 2007 £m (unaudited)	6 months to 30 June 2006 £m (unaudited)	Year to 31 December 2006 £m (audited)
Revenue	338.8	308.0	643.3
Operating profit*	20.1	19.9	37.3
Profit before tax	22.1	20.5	39.3
Tax	(6.1)	(6.0)	(8.6)
Profit for the period	16.0	14.5	30.7
Minority interest	(0.2)	(0.3)	(0.6)
<b>Share of post-tax results of joint ventures</b>	<b>15.8</b>	<b>14.2</b>	<b>30.1</b>

\* Operating profit is after allocating £1.5m of costs incurred by Group (30 June 2006: £3.0m, 31 December 2006: £4.0m).

# Shareholder information

## Company website

Go to [www.serco.com](http://www.serco.com) to catch up on the current share price and latest news in the investors' section, and read the Annual Review and Accounts.

## Registrars

Administrative enquiries about the holding of Serco Group plc shares and enquiries in relation to the Serco Dividend Re-investment Plan (DRIP) should be directed to:

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
Shareholder helpline: +44 (0)870 873 5839  
[www.computershare.com](http://www.computershare.com)

## Dividend Re-Investment Plan

You can elect to receive future dividends as shares rather than cash by participating in the DRIP. For further information or to register, please contact Computershare on the number provided above for a copy of the terms and conditions booklet and a mandate form.

## Dividends paid directly to your bank

You can elect to have future dividends paid directly into your bank account.

- Avoids the risk of cheques being lost in the post
- No need to present cheques for payment
- Dividend credited to your account on the payment date.

To set up a dividend mandate or change your existing mandated details, please register with the Investor Centre via the Computershare website or contact Computershare on the number provided above.

## Global payment services

For overseas shareholders in certain countries, Computershare offers a global payment service. This offers shareholders the ability to have their dividend converted into their local currency and sent electronically to their local bank account, for a fixed fee of £5 sterling. To sign up for this service, you need to register with Computershare's Investor Centre service at [www.uk.computershare.com/investor](http://www.uk.computershare.com/investor).

## Electronic communication

Serco is proud to participate in eTree. eTree allows you to register to receive communications about Serco electronically. After signing up, you will receive emails alerting you to communications as they become available. As part of the programme, Serco will also donate one UK native sapling to the Woodland Trust per participating shareholder. To participate in eTree, you will need your shareholder reference number and to register at [www.ETree.uk.com/serco](http://www.ETree.uk.com/serco).

## Share scam warning

Serco Group plc does not authorise third parties to contact shareholders by any method regarding the sale or purchase of its shares, or to give unsolicited personal investment advice. It has come to our attention that some Serco shareholders have been contacted by 'brokers' giving unsolicited investment advice. Serco has not authorised these 'brokers'. If any Serco shareholder is contacted by a third party, we would advise you to check with the Financial Services Authority (FSA) [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) before getting involved. Any shareholding facilities endorsed by Serco are found on [www.serco.com](http://www.serco.com) or included in mailings.

# Financial calendar

2007

5	September	Ex-dividend date
7	September	Record date for interim dividend
26	September	Last date for receipt / revocation of DRIP dividend mandates
27	September	Interim Report mailed to shareholders
17	October	Interim dividend payment date
31	December	Financial year end

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