

## Press Release

27 August 2008

### Strong performance and attractive markets

#### Serco Group plc – 2008 Interim Results

	2008	2007	
Revenue	£1,491m	£1,349m	up 10.5%
Adjusted profit before tax	£67.3m	£56.2m	up 19.8%
Profit before tax	£62.8m	£52.0m	up 20.8%
Adjusted earnings per share	10.18p	8.48p	up 20.0%
Earnings per share	9.35p	7.71p	up 21.3%
Dividend per share	1.48p	1.23p	up 20.3%
Group free cash flow	£33.0m	£28.8m	up 14.6%

#### Continuing progress in existing and new markets

- Signed £2.0bn of contracts in the period
- Strong international performance – overseas contracts of more than £700m signed
- Win rates of one in two for new bids and 90% of rebids
- Significant new market wins - Dubai Metro (£500m); Glasgow City Council partnership (£265m)
- Increased presence in existing markets: environmental services - London Borough of Hammersmith & Fulham (£140m); light rail - Al Safouh (preferred bidder, £120m); defence support - UK Naval Air Command (£76m); US defence - Aviation Technical Maintenance and Support Services (US\$167m); Australia Garrison Support (AUS\$175m)

#### Strong financial performance

- Revenue growth of 10.5%
- Adjusted profit before tax (Adjusted PBT) margin increase of 30 basis points to 4.5%
- Group free cash flow increase of 14.6% to £33.0m

#### Agreement to acquire SI International positions Serco in substantial US government services market

- Agreement (subject to shareholder and regulatory approvals) to acquire SI International, a US government services provider, for approximately US\$423m, creates a strong platform across the US armed forces and civil federal government agencies
- Further details are given in a separate press release issued today

#### Substantial contract base underpins excellent revenue visibility

- Order book of £15.1bn at 30 June 2008
- Preferred bidder on £0.8bn of contracts
- Visibility of 99% of planned revenue for 2008, 83% for 2009 and 73% for 2010
- £26bn of further opportunities identified

#### Growing markets support confident outlook

- Increasing demand for our skills in UK and international markets
- Drivers include government efficiency programmes, demand for better public services and global challenges including migration, climate change, security and congestion
- Remain confident of double-digit revenue growth for 2008 and the foreseeable future
- Guidance reiterated for current business for 30 basis point increase in Adjusted PBT margin in 2008 and 2009

Christopher Hyman, Chief Executive of Serco Group plc, said: “Our growth strategy is founded on our ability to deliver excellent service, build relationships, enhance our capabilities and select the right opportunities. We have made a strong start to 2008 and we see excellent growth opportunities ahead as our customers experience increasing global economic and social pressures. In the US market, the proposed acquisition of SI International will enhance our scale, capabilities, relationships and market access in the world’s largest contracting market.”

Note: Adjusted profit before tax and Adjusted earnings per share shown above are before amortisation of acquired intangibles as shown on the face of the Group’s income statement and the accompanying notes. Group free cash flow is from subsidiaries and joint venture dividends and is reconciled in Section 3 of the Finance Review.

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

Charles King, Head of Investor Relations

Dominic Cheetham, Corporate Communications Director

[www.serco.com](http://www.serco.com)

### **Presentation**

A presentation for investors and analysts will be held at JP Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 10.00 am today.

## Overview

### Strong performance as markets continue to develop

Serco performed strongly in the first half of 2008. We grew revenue by 10.5% to £1,491m, Adjusted profit before tax (Adjusted PBT) rose by 19.8% to £67.3m and Adjusted earnings per share grew 20.0% to 10.18p. The Adjusted PBT margin increased by 30 basis points to 4.5%. Profit before tax rose by 20.8% to £62.8m and earnings per share were 21.3% higher at 9.35p.

Group free cash flow increased by 14.6% to £33.0m. Our balance sheet remains strong, with Group recourse net debt at £140.2m (2007: £137.9m).

In accordance with our policy of increasing the total dividend each year broadly in line with the increase in underlying earnings, the Board has declared an interim dividend of 1.48p per share, representing an increase on the 2007 interim dividend of 20.3%. The interim dividend will be paid on 17 October 2008 to shareholders on the register on 5 September 2008.

The strength of our business model, including our ability to deepen our presence in existing markets and enter new markets, was again demonstrated by our contract wins in the first half. We signed significant new business, and our delivery of excellent service was reflected in our success in expanding the scope and scale of existing services, both on rebids and during the contract term. Overall, we maintained our win rates of more than 90% on rebids and one in two new bids, and in total we won £2.0bn of new work during the first six months of 2008.

In the UK, we began work on our first local authority strategic partnership. The £265m contract with Glasgow City Council will help us build our presence in this new market. We also renewed and enlarged our contract with Walsall Council to provide education and children's services. The new agreement is valued at around £345m and is for a longer term of 12 years reflecting our previous success in improving pupils' exam performance.

We were pleased to be selected for a £140m, maximum 14 years, contract to deliver a range of innovative environmental services to the London Borough of Hammersmith & Fulham. Since the half year end, we have been appointed preferred bidder by Milton Keynes Council for a £160m environmental services contract over a maximum of 14 years, which uses similar technological and environmental innovations.

In our UK defence business, we expanded our aircraft operational support operations with a contract, valued at £76m over its maximum ten year term, to provide the Naval Air Command with engineering and aircraft support services at Yeovilton and Culdrose air stations.

The Australian Defence Organisation has renewed a contract with Serco Sodexho Defence Services, a Serco joint venture, to provide garrison support services at six defence bases in the Northern Territory.

The contract's value to Serco is up to AUS\$175m over nine years.

In the US, we won a rebid to deliver Aviation Technical Maintenance and Support Services to the US Navy. The contract has a total potential value of US\$167m over five years and significantly increases the support we provide to the Space and Naval Warfare Systems Center.

In the nuclear market, while we were disappointed that our consortium did not win the Sellafield nuclear decommissioning contract, we see good growth potential for our assurance business and we will consider the remaining decommissioning opportunities as they arise.

We have also announced today a significant development in our strategy to increase our capabilities and reach in the US market, in agreeing to acquire SI International, a provider of services to US military and civil federal government agencies, for approximately US\$423m. Full details are given in a separate announcement released this morning.

In the United Arab Emirates, we opened a new market by leveraging the transport capabilities we have developed in the UK. The £500m, 12.5 year contract is to operate and maintain the new Dubai Metro, which is due to start service in September 2009. Serco is also part of a consortium which was selected as preferred bidder for the Al Safouh tramway in Dubai, which is due to come into operation in 2011. We will be responsible for the operation of the contract, valued at £120m over 18 years.

Our visibility of future revenues remains excellent. As at 30 June 2008, we had identified 99% of planned revenue for 2008, 83% for 2009 and 73% for 2010. Our order book rose to £15.1bn, and we were preferred bidder on contracts valued at £0.8bn.

We continue to benefit from our actions to improve margins, which include managing our contract portfolio and enhancing our operating efficiency through initiatives such as the roll-out of our SAP system and strategic procurement of goods and services. In the future, we expect that winning higher margin work will increasingly contribute to this improvement.

We continue to see strong opportunities for further growth. With growing markets and new opportunities identified, our pipeline now stands at a substantial £26bn.

## **Operating Review**

### **Civil Government**

Civil Government is our largest segment and includes home affairs, information technology and business process outsourcing, health, education and children's services, integrated facilities management, consulting and much of our work in the private sector. Segmental revenue increased by 9.5% to £543m, representing

36% of Group revenue (2007: 37%). As well as expanding the scope and scale of existing contracts, we were awarded contracts by a number of new private sector and consulting clients.

In the home affairs market, rising prisoner numbers are driving the need for more places. We began construction on extensions to two prisons we manage, HMP Dovegate and HMP Lowdham Grange, which will add 260 places to each site and more than £100m to the contracts' combined operating value over their remaining terms. We also began an extension to the Hassockfield Secure Training Centre.

Serco now provides health services to 16 prisons and immigration removal centres across both the public and private sectors. The latest contract win by our health business is with Doncaster Primary Care Trust, valued at over £4m over three years and involves providing nursing and related services in Doncaster for HMP Lindholme, Lindholme Immigration Removal Centre and HMP Moorlands.

In May, we acquired the UK's leading independent occupational health service company, the Grosvenor Health Group, for £19m. Grosvenor provides us with greater access to the fast growing occupational health sector, and also adds new capabilities in managed health services so that we are well placed to address further outsourcing of private, public and voluntary sector health services. In 2007, Grosvenor had revenue of approximately £13m.

In UK local government, we began our £265m partnership with Glasgow City Council to transform the Council's land, property and information and communications technology (ICT) services. We completed the transition phase in just eight weeks, transferring 270 employees with minimal disruption to business. Customer service levels are already improving and we have met all our service targets to date. We were also pleased to expand our existing contract, signed last year with Ealing Council, which widened our portfolio by the addition of HR Service Centre expertise.

In order to devolve our capability closer to the contract level, improve efficiency and simplify structures, at the end of July we reorganised the central IT services team within our technology business.

We were pleased to be selected for a £140m, maximum 14 years, contract to deliver a range of innovative environmental services to the London Borough of Hammersmith & Fulham. Since the half year end, we have been appointed preferred bidder by Milton Keynes Council for a £160m environmental services contract over a maximum of 14 years, which uses similar technological and environmental innovations.

In addition to signing our significant new contract with Walsall Council, our Education business won a number of other contracts, collectively valued at more than £12m over the next three years. These contracts are to support carers of disabled children, provide training programmes for Children's Centre leaders and to train school bursars and business school managers. The Serco-led "Together for Children" was successful in achieving the roll-out of 2,500 Children's Centres ahead of its 1 April 2008 target.

In the UK business support market, two of our existing contracts expanded. Additional funding of £14m per annum was confirmed for the businesslink.gov programme to develop its online business support services. We have been responsible for developing and delivering this programme since 2005, and have received a positive independent review of the programme from the National Audit Office. Our contract to provide support to rural enterprise in Cornwall, Devon and Somerset also grew with additional funding of around £9m per annum.

In our private sector business, we were awarded a contract by Volkswagen, valued at around £16m per annum, to provide learning, technical, audit and a range of other support services. We also won a five year contract valued at over €20m to provide facilities support services to Wyeth Medica at their biotech campus in Dublin, Ireland, and were awarded a contract for the delivery of support services to Coca-Cola's UK headquarters in Hammersmith, London with a value of up to £10m over five years.

Our integrated facilities management business was appointed preferred bidder for a contract as part of a consortium led by Macquarie Bank to provide services to the Office of Public Works Decentralisation PPP project in the Republic of Ireland. The project involves the design, construction, financing and maintenance of three large new government office buildings. Serco will manage the maintenance and support service delivery of the new offices in a contract valued at approximately £20m over 15 years.

Our consulting business won a number of contracts with new customers particularly with Central Government clients. The acquisition of ER Consultants and Cornwell Management Consultants in 2007 has enhanced our capability and expertise in the growing areas of HR consultancy and organisational development. Consulting has won approximately £3m of new work, with new customers including: the Home Office, Fidelity International, the Metropolitan Police Service, Atomic Weapons Establishment and the Ministry of Defence (MoD).

## **Defence**

Revenue in Defence increased by 11.3% to £375m, representing 25% of Group revenue (2007: 25%).

### United Kingdom

We won good levels of new business in the UK defence market, primarily in support of the Royal Navy and Royal Air Force.

The UK MoD's Defence Equipment and Support organisation selected Serco for a ten year contract to provide "surface finish" services for the RAF across 16 sites, including the Falkland Islands. The contract, worth around £64m, involves the provision of painting and finishing services for a range of aircraft, ground-based vehicles and support equipment.

In aircraft operational support, we were awarded a contract with BAE Systems to support the VC-10 aircraft fleet based at Brize Norton, where Serco already supports the Royal Air Force Tristar Fleet. The contract, which aims to improve efficiency and aircraft availability and includes depth maintenance and supply services, is valued at around £8m over five years. We have also been appointed preferred bidder for a maintenance contract for the RAF glider fleet valued at around £6m over its maximum term of seven years.

We were also appointed preferred bidder for an Air Surveillance and Control Systems contract, valued at around £24m over eight years, to deliver multi-activity support services at a variety of sites across the United Kingdom.

### North America

In the US, we continued to develop our business in supporting military personnel and their families through a number of contract wins. We won our first contract with US Army Medical Command Europe to place 25 licensed clinical social workers at US Army Medical Treatment Facilities at installations in Germany, Italy and Belgium. As well as extending our military personnel and family support services to the US Army internationally, this broadens our scope to include higher level clinical services. The contract is valued at approximately US\$19m over five years.

Other wins include contracts with the US Army under its Freedom Team Salute (FTS) program to support a number of commendation, awareness and recognition programs, and operate and maintain the FTS website. These contracts were bid with our partner, Summit Marketing, and are valued at over US\$21m to Serco for a base year plus one option year.

The US Army also awarded a team, including Serco, contracts under the PMSS-2 (Project Management Support Services) programme. Of the programme's nine functional areas, Serco has the lead for Integrated Logistics Support, Human Resource Information Systems, Information Assurance and support for Business Process Re-engineering, Information System Security and IT Related Systems (including Biometrics). The value to us is estimated at US\$25m over five years.

With Akima Infrastructure, we won the Fort Gordon Georgia Adjutant General Military Personnel Division contract. The contract value is approximately US\$30m over five years.

### Middle East and Asia Pacific

In the Middle East, as previously reported, we were disappointed to be informed in February that the Oman Ministry of Defence no longer wished to proceed with its project to develop a military training college.

In Australia, the Australian Defence Organisation has renewed a contract with Serco Sodexho Defence Services, a Serco joint venture, to provide garrison support services at six defence bases in the Northern Territory. The contract's value to Serco is up to AUS\$175m over nine years.

## Transport

Transport revenue grew by 7.3% to £306m, representing 21% of Group revenue (2007: 21%). Using skills developed in the UK, we won new business in the Middle East and the US and delivered strong performance in our existing services.

### United Kingdom

Northern Rail and Merseyrail, which we operate in joint ventures with NedRailways, continued to perform well, with good passenger volume growth. Northern Rail won further awards in recognition of its success, including 'Train Operator of the Year' and 'Rail Business of the Year'. Merseyrail's increased passenger volumes were underpinned by excellent operational performance.

Serco has been awarded a multi-million pound contract, signed in February this year, by Transport for London (TfL), to maintain traffic control equipment in central London and the City. The five year contract, which could be extended for a further two years, makes Serco responsible for maintaining traffic signals, pedestrian crossings, traffic information signs and safety cameras and includes important transport link points for the 2012 Olympics.

### North America

In the US, our transportation management business was awarded a US\$23m two year contract by the City and County of San Francisco to procure, install and manage an integrated smart parking system. The advanced technology will improve traffic flow, reduce pollution and optimise parking availability. This win followed the award of a separate US\$8m, two year extension of our parking meter counting and collection services contract with the San Francisco Municipal Transportation Agency.

### Middle East

Following the signing in April of our £500m, 12.5 year contract with the Dubai Government Roads and Transport Authority (RTA) to operate and maintain the first two lines of the new Dubai Metro, we began the recruitment and training of staff, and to undertake pre-launch consultancy and planning ahead of the service's start in September 2009. Construction of the Metro is on schedule and the testing of a number of trains on completed sections of the track has attracted significant local interest.

Also in Dubai, at the end of April, the ABS consortium, consisting of Serco, Alstom and Besix, was appointed preferred bidder by the RTA for the delivery of the first phase of the Al Safouh tramway transit system. We will be responsible for the operation of the contract, which is valued at £120m over 18 years, starting in 2011. Pre-launch consultancy and planning is underway.

Our strong relationship with the RTA also enabled us to win additional contracts to support the implementation of their Bus Master plan for Dubai and to provide a real-time journey planner for Dubai which will be available online, on mobile technology and through a customer service centre. Each contract is valued at around £2m.

### Asia Pacific

Having shown good growth in 2007, Great Southern Rail, our Australian rail operation, maintained its passenger numbers despite a softer tourism market. The deluxe Platinum service cabins on the Ghan have been successfully launched with strong forward sales from their introduction into service in September 2008.

In Hong Kong, we were pleased to renew our contract to operate the Aberdeen Tunnel which we were first awarded in 1998. The new agreement runs for six years and is valued at around £14m.

### **Science**

Science revenue grew by 15.4% to £267m, representing 18% of Group revenue (2007: 17%).

Our joint venture with BNFL and Lockheed Martin to manage and operate the UK's Atomic Weapons Establishment (AWE) is performing strongly. The facility to house the Orion research project opened on schedule in March 2008, and the project is due for completion in 2010. AWE's excellent health, safety and environmental performance was recognised again in the annual RoSPA awards, including the Astor Trophy for excellence in occupational health, the International Dilmun Environmental Award and the sectoral award for outstanding performance in health and safety. As previously reported, BNFL is in the process of disposing of its shareholding in AWE and we hope this will be completed by the end of the year.

Serco won a number of rebids and new business, valued around £30m, to provide technical and assurance services. These contracts include a one year, £4m renewal with the UK MoD to provide nuclear submarine assurance support and a £4m contract with TfL to operate its rail test track.

In the civil nuclear market, Serco is one of four partners which will provide British Energy with engineering and technical support at its nuclear power stations valued up to £30m over five years.

### **Market Development**

Governments and commercial organisations around the world are increasingly dealing with similar challenges: climate change, declining energy reserves, migration, ageing populations, transport congestion, economic growth and the threat of terrorism. These significant issues are heightened by increasing costs, consumers' demands for better public services and unwillingness to pay higher taxes and the impact of technology and globalisation.

We have proven skills and capabilities in delivering people-led change and excellent service delivery, and are consequently well positioned to help our customers address these challenges. Our broad capabilities across a number of markets also mean that we are well positioned to select the best opportunities and reduce our exposure to any fluctuations in individual markets. While many international markets are at an early stage of development, India, the Emirates and other countries in the Middle East look likely to present opportunities in the medium term.

The significant scale, impact and potential for growth for the UK's public services market has been assessed for the first time. The independent review for the UK Government was led by Dr DeAnne Julius and concluded that the UK is the world leader in outsourced public services.

The Julius review also calculated that the contribution of outsourced public services to the UK economy has grown 130% since 1995 and that the UK now has the most developed public service industry in the world, second in size only to the US. With revenue of £79bn, generating £45bn of value added per year, the industry contributes more to the UK economy than key industries such as communications, electricity, gas and water supply. The report concluded that companies and the third sector are making major contributions to deliver better value for money services and the industry could grow substantially in the UK and become an export success story, confirming the opportunities we see in our home markets and internationally.

In the UK, the Government is further encouraging private sector involvement. The Operational Efficiency Review, announced in July and due to report in 2009, is seeking to draw on the best private and public sector experience to save billions of pounds from public spending, following the £23bn saved through the Gershon review.

In addition, a Green Paper on welfare reform published in July 2008 highlighted the need to develop new solutions to help more people get back to work, including through private sector and voluntary providers.

In individual markets, we see strong opportunities in UK home affairs, principally through the Government's drive to increase capacity to meet the growth in prisoner numbers and immigration removal targets.

In health, the Grosvenor acquisition has broadened our capabilities into the fast-growing occupational health services market to both public, not-for-profit and private sector organisations. We have identified opportunities in the NHS to deliver better value-for-money clinical services to the primary sector and to provide fully-managed healthcare solutions that deliver the information and support needed by clinicians and patients.

UK local authorities provide strong opportunities for Serco. Our innovative approach to improving environmental services is resulting in significant new business. In addition, strategic partnerships are seen as an attractive way to deliver innovation and achieve a 3% annual efficiency gain as required by the 2007 Comprehensive Spending Review. As a result, our partnership with Glasgow City Council is receiving significant attention and we have identified a strong pipeline of opportunities for further local authority strategic partnerships.

In UK defence, we are working with the MoD as it refreshes its Defence Industrial Strategy to provide battle-winning capability to the front line and good value for the taxpayer. We have a strong position given our track record in the provision of operational support services to the front line commands and our

independence from equipment manufacturers. We also expect our skills as an integrator of people, infrastructure, training and technology to help the MoD deliver through-life capability management.

In the UK nuclear decommissioning market, following the decision on Sellafield, the Nuclear Decommissioning Authority indicated that it expects to announce a plan for the remaining sites before the end of the year. These include the decommissioning of the Magnox reactors, Dounreay and other smaller sites. We will review the attraction of these opportunities as the market develops.

In transport, our skills and capabilities in rail and traffic management, developed in the UK, are opening up opportunities in international markets. We have established a substantial foothold in the United Arab Emirates through our contracts with the Dubai RTA, and expect further opportunities from the rapid expansion of the metro and other transport systems in Dubai and from schemes in other Emirates, notably in Abu Dhabi. Our ability to deliver high service levels and to work closely with our customers is delivering a substantial range of opportunities across this division.

In the US, the acquisition of SI International will provide a strong foundation for growth and delivery of higher value services into the substantial US government services market. SI International will make us a top 30 provider in this market, and enhance the depth of our capabilities in professional, administrative and management support and information and communications technology. It will provide access to higher growth areas within Department of Defense and Federal civil agency spending, and broaden and deepen our customer relationships by extending our presence into all of the Armed Services, as well as US intelligence and other security agencies, and the numerous Federal civil government agencies.

## **People**

The commitment, skills and enthusiasm of our 40,000 people are key in delivering the high quality services our customers have come to expect from Serco, and therefore to sustaining our long-term relationships with them.

We were therefore delighted to recognise in May the achievement of some of the extraordinary individuals and teams within our organisation who have excelled in delivering the standards we set in dealing with colleagues, customers, suppliers or shareholders. The Pulse Awards, recognised excellence in five categories: innovation, leadership, commitment, impact, and the “heart” award recognising bravery and courage. Profiles of the award winners can be found on [www.serco.com](http://www.serco.com).

In the first half, we launched a new employee Sharesave scheme, and were pleased that over 8,000 of our employees participated.

## **Outlook**

Our continued strong performance and the growth and wide range of high-quality opportunities in our markets, both in the UK and internationally, underpins our confidence in delivering double-digit growth for

the foreseeable future. At the same time, our focus on managing our contract portfolio, enhancing our efficiency and bidding selectively for higher value work supports our guidance for the current business of a 30 basis point increase in Adjusted PBT margin for both this year and next. We remain confident for the rest of 2008 and beyond.

## Risk Management

Our business, results and financial condition could be affected by a broad range of risks and uncertainties. For a full understanding of these risks, see pages 38 to 42 of the Serco Group plc 2007 Annual Review and Accounts.

The Group risk register identifies the principal risks facing the business, including those that are managed directly at a Group level. The Group risk register is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly Board meetings. Active risks are ranked by importance and grouped under the following six headings:

- **Strategic** – covering threats to the long term deliverability of the Group’s strategy
- **Financial/commercial** – covering threats to short to medium term performance
- **Compliance** – covering compliance with all relevant legislation and regulations
- **Safety and security** – covering threats to the safety of staff, sub-contractors, members of the public and the environment and the security of the Group’s assets and staff
- **Operational** – covering threats to the continuity of business operations
- **Management** – covering possible internal failures of managers or management systems.

For the Group, the most significant risks relate to the strategy and safety areas. Social, environmental and ethical issues, while recognised within a number of the Group’s risks, do not represent significant threats to the Group’s strategy at present.

The principal risks and uncertainties for the remaining six months of the financial year are unchanged from those stated in the Serco Group plc 2007 Annual Review and Accounts.

## Finance Review

### 1. Financial performance

The first six months of 2008 was another strong period of revenue growth for Serco, coupled with a further increase in margins and rising free cash flow contributing to ongoing balance sheet strength.

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	2008 £m	2007 £m	Increase
Revenue	<b>1,490.5</b>	1,349.0	10.5%
Gross profit	<b>217.6</b>	195.1	11.5%
Administrative expenses	<b>(140.8)</b>	(129.4)	
Adjusted operating profit	<b>76.8</b>	65.7	16.9%
Investment revenue and finance costs	<b>(9.5)</b>	(9.5)	
Adjusted profit before tax	<b>67.3</b>	56.2	19.8%
Amortisation of acquired intangibles	<b>(4.5)</b>	(4.2)	
Profit before tax	<b>62.8</b>	52.0	20.8%
Tax	<b>(16.9)</b>	(14.6)	
Profit for the period	<b>45.9</b>	37.4	22.7%
Effective tax rate	<b>26.9%</b>	28.1%	
Adjusted earnings per share	<b>10.18p</b>	8.48p	20.0%
Earnings per share	<b>9.35p</b>	7.71p	21.3%
Dividend per share	<b>1.48p</b>	1.23p	20.3%

#### 1.1 Revenue

Revenue grew by 10.5% to £1,490.5m, benefiting from the growth of existing contracts and the contribution of new wins.

#### 1.2 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.6%, a small increase on the first half of 2007.

#### 1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £9.5m (2007: £9.5m). The effect of a reduction in the Group's underlying borrowing costs was offset by an increase in the net pension funding cost charged to the income statement.

#### 1.4 Profit before tax

Adjusted profit before tax was £67.3m, an increase of 19.8%. This represented a margin of 4.5%, up from 4.2% in the first half of last year. Profit before tax increased by 20.8% to £62.8m.

### **1.5 Tax**

The tax charge of £16.9m (2007: £14.6m) represents an effective rate of 26.9%, compared with 28.1% in the first half of 2007. The reduction reflects principally the fall in the UK corporation tax rate from 30% to 28% effective April 2008.

### **1.6 Earnings per share (EPS)**

Adjusted EPS rose by 20.0% to 10.18p. EPS grew by 21.3% to 9.35p.

EPS and Adjusted EPS are calculated on an average share base of 487.1m during the period (2007: 479.9m). The increase in the average share base resulted principally 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 1.48p per share, representing an increase on the 2007 interim dividend of 20.3%. The interim dividend will be paid on 17 October 2008 to shareholders on the register on 5 September 2008.

## **3. Cash flow**

The Group generated a free cash inflow of £33.0m (2007: £28.8m), an increase of 14.6%.

Figure 2 analyses the cash flow. As in previous years, 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 26, 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**

<b>Six months ended 30 June</b>	<b>2008 £m</b>	<b>2007 £m</b>
Operating profit excluding joint ventures	<b>48.8</b>	41.4
Non cash items	<b>23.6</b>	25.6
Group EBITDA	<b>72.4</b>	67.0
Working capital movement	<b>(24.6)</b>	(18.2)
Group operating cash flow	<b>47.8</b>	48.8
Interest	<b>(12.4)</b>	(11.5)
Tax	<b>(3.1)</b>	(0.7)
Expenditure on tangible and intangible assets	<b>(19.1)</b>	(24.9)
Dividends from joint ventures	<b>19.8</b>	17.1
<b>Group free cash flow</b>	<b>33.0</b>	28.8
Disposal of subsidiaries	<b>1.6</b>	1.4
Acquisition of subsidiaries	<b>(21.3)</b>	(7.9)
Other financing	<b>12.5</b>	(23.3)
Special pension contribution	<b>-</b>	(51.0)
Dividends paid	<b>(14.5)</b>	(12.0)
Group net increase/(decrease) in cash and cash equivalents	<b>11.3</b>	(64.0)
Adjustment to include joint venture cash impacts	<b>15.1</b>	15.0
Net increase/(decrease) in cash and cash equivalents	<b>26.4</b>	(49.0)

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 £47.8m (2007: £48.8m) reflects a conversion of Group EBITDA into cash of 66% (2007: 73%). The working capital movement of £24.6m reflects the strong level of organic growth in the period.

### 3.2 Interest

Net interest paid was £12.4m, compared to £11.5m in 2007.

### 3.3 Tax

Tax paid was £3.1m (2007: £0.7m). Cash tax is below the equivalent charge in the income statement as a result of accelerated capital allowances, other timing differences and tax relief on the special pension contribution made in 2007.

### 3.4 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets in the period was £19.1m (2007: £24.9m). This represents 1.7% of revenue excluding joint ventures (2007: 2.5%). Expenditure in 2007 included the cost of the roll-out of our SAP system in the UK.

### 3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £19.8m (2007: £17.1m), a conversion rate of 93% (2007: 99%) of joint ventures' profit after tax and minority interest, excluding costs allocated by Group.

### 3.6 Acquisition of subsidiaries

Acquisition of subsidiaries comprises principally the acquisition of the Grosvenor Health Group, an occupational health service provider, for £19.2m, in May 2008.

### 3.7 Other financing

The movement in other financing resulted primarily from a drawdown on our committed facility to finance the Grosvenor Health Group acquisition.

## 4. Net debt

Figure 3 analyses Serco's net debt.

**Figure 3: Net debt**

At	30 June 2008 £m	31 December 2007 £m
Group - cash and cash equivalents	153.3	138.1
Group - loans	(280.4)	(263.3)
Group - obligations under finance leases	(13.1)	(12.7)
<b>Group recourse net debt</b>	<b>(140.2)</b>	<b>(137.9)</b>
Joint venture recourse net cash	52.8	34.9
<b>Total recourse net debt</b>	<b>(87.4)</b>	<b>(103.0)</b>
Group non recourse debt	(32.9)	(59.3)
<b>Total net debt</b>	<b>(120.3)</b>	<b>(162.3)</b>

### 4.1 Group recourse net debt

Group recourse net debt remained broadly stable at £140.2m. Included within Group recourse net debt is £12.8m (31 December 2007: £11.9m) of encumbered cash. This is cash 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 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 £26.4m to £32.9m during the first half, due to the disposal of our equity stake in Kilmarnock Prison Services Ltd. We retain the operating contract for Kilmarnock Prison. The remaining non recourse debt relates to our Driver Examination Services contract in Canada.

## 5. Pensions

At 30 June 2008, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £101.9m (31 December 2007: £52.2m), on an asset base of £1.3bn. The net liability has risen principally as a result of lower than expected equity returns in the period and a change to the RPI assumption used to value the schemes. Figure 4 provides further analysis.

**Figure 4: Defined benefit pension schemes**

At	30 June 2008 £m	31 December 2007 £m
Group schemes – non contract specific	(122.7)	(67.9)
Contract specific schemes		
– reimbursable	(96.5)	(60.7)
– not certain to be reimbursable	(24.2)	(14.0)
Net retirement benefit liabilities	(243.4)	(142.6)
Intangible assets arising from rights to operate franchises and contracts	15.9	17.4
Reimbursable rights debtor	96.5	60.7
Deferred tax assets	29.1	12.3
Net balance sheet liabilities	(101.9)	(52.2)

Serco has three main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under International Financial Reporting Standards. 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.

Serco has limited commercial risk in relation to the contract specific schemes, due to either the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2008, SPLAS had a deficit of £68.4m (31 December 2007: £28.7m). The increase in the deficit reflects lower than expected equity market returns in the period and an increase in RPI since the year end of 0.5%.

Figure 5 shows the sensitivity of the liabilities of our pension schemes to changes in discount rates and to adjustments in the actuarial assumptions for the rate of inflation, members' salary increases and life expectancies.

**Figure 5: Pension assumption sensitivities**

	Change in assumption	Change in liability
Discount rate	+0.5%	(9)%
	(0.5)%	+10%
Price inflation	+0.5%	+7%
	(0.5)%	(7)%
Salary	+0.5%	+3%
	(0.5)%	(3)%
Longevity	Increase by one year	+3%

## 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 2008 we had £141m (31 December 2007: £141m) outstanding on the term loans and £20m drawn down on the revolving facility. Interest is charged at a rate of 40 basis points over the relevant LIBOR on borrowings under the facility. The facility is unsecured and matures in December 2009.

Serco has also issued loan notes under a private placement of £118m, which will be repaid evenly from 2011 to 2015.

## Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Signature

Christopher Hyman

Chief Executive

27 August 2008

Signature

Andrew Jenner

Finance Director

27 August 2008

## **Independent review report to Serco Group plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated income statement, the condensed consolidated statement of recognised income and expense, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Deloitte & Touche LLP**  
Chartered Accountants  
London  
27 August 2008

## Condensed consolidated income statement

For the six months ended 30 June 2008

	Note	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
<b>Continuing operations</b>				
Revenue	3	1,490.5	1,349.0	2,810.7
Cost of sales		(1,272.9)	(1,153.9)	(2,404.5)
<b>Gross profit</b>		<b>217.6</b>	195.1	406.2
Administrative expenses		(140.8)	(129.4)	(264.2)
Other expenses – amortisation of intangibles arising on acquisition		(4.5)	(4.2)	(8.6)
Total administrative expenses		(145.3)	(133.6)	(272.8)
<b>Operating profit</b>	3	<b>72.3</b>	61.5	133.4
Investment revenue	2	4.6	6.2	12.2
Finance costs	2	(14.1)	(15.7)	(31.0)
<b>Profit before tax</b>		<b>62.8</b>	52.0	114.6
Tax		(16.9)	(14.6)	(32.2)
<b>Profit for the period</b>		<b>45.9</b>	37.4	82.4
Attributable to:				
Equity holders of the parent		45.5	37.0	81.9
Minority interest		0.4	0.4	0.5
<b>Earnings per share (EPS)</b>				
Basic EPS	5	9.35p	7.71p	16.98p
Diluted EPS	5	9.23p	7.62p	16.74p

## Condensed consolidated statement of recognised income and expense

For the six months ended 30 June 2008

	Note	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
Net actuarial (loss)/gain on defined benefit pension schemes	10	(153.7)	135.0	62.2
Actuarial gain/(loss) on reimbursable rights	10	86.8	(83.0)	(19.4)
Net exchange gain on translation of foreign operations	10	9.7	0.2	12.8
Fair value gain on cash flow hedges during the period	10	10.5	1.7	9.0
Tax credit/(charge) on items taken directly to equity	10	14.1	(10.6)	(11.5)
<b>Net (expense)/income recognised directly in equity</b>		<b>(32.6)</b>	43.3	53.1
<b>Profit for the period</b>		<b>45.9</b>	37.4	82.4
<b>Total recognised income and expense for the period</b>		<b>13.3</b>	80.7	135.5
Attributable to:				
Equity holders of the parent		12.9	80.3	134.9
Minority interest		0.4	0.4	0.6

## Condensed consolidated balance sheet

At 30 June 2008

		At 30 June 2008 £m (unaudited)	At 30 June 2007 £m (unaudited)	At 31 December 2007 £m (audited)
	Note			
<b>Non-current assets</b>				
Goodwill		566.6	534.5	542.1
Other intangible assets		135.4	131.9	139.4
Property, plant and equipment		100.5	94.5	95.1
Trade and other receivables		118.0	79.8	104.6
Deferred tax assets		65.7	50.9	51.6
Derivative financial instruments		6.2	-	1.2
		<b>992.4</b>	<b>891.6</b>	<b>934.0</b>
<b>Current assets</b>				
Inventories		50.2	49.3	46.3
Trade and other receivables		571.1	504.2	573.6
Cash and cash equivalents		215.6	169.5	185.0
Derivative financial instruments		4.3	-	1.5
		<b>841.2</b>	<b>723.0</b>	<b>806.4</b>
<b>Total assets</b>		<b>1,833.6</b>	<b>1,614.6</b>	<b>1,740.4</b>
<b>Current liabilities</b>				
Trade and other payables		(682.8)	(591.5)	(670.0)
Current tax liabilities		(19.3)	(7.2)	(14.8)
Obligations under finance leases		(4.2)	(9.0)	(7.7)
Loans		(7.8)	(50.5)	(13.5)
Derivative financial instruments		(1.6)	(10.4)	(2.1)
		<b>(715.7)</b>	<b>(668.6)</b>	<b>(708.1)</b>
<b>Non-current liabilities</b>				
Trade and other payables		(12.3)	(10.8)	(13.3)
Obligations under finance leases		(10.5)	(7.9)	(8.7)
Loans		(313.4)	(321.8)	(317.4)
Derivative financial instruments		(8.1)	(12.2)	(11.2)
Retirement benefit obligations		(243.4)	(109.7)	(142.6)
Provisions		(12.7)	(18.3)	(18.6)
Deferred tax liabilities		(15.0)	(21.4)	(22.0)
		<b>(615.4)</b>	<b>(502.1)</b>	<b>(533.8)</b>
<b>Total liabilities</b>		<b>(1,331.1)</b>	<b>(1,170.7)</b>	<b>(1,241.9)</b>
<b>Net assets</b>		<b>502.5</b>	<b>443.9</b>	<b>498.5</b>
<b>Equity</b>				
Share capital	10	9.7	9.7	9.7
Share premium account	10	300.0	296.3	299.3
Capital redemption reserve		0.1	0.1	0.1
Retained earnings	10	291.6	221.6	260.6
Retirement benefit obligations reserve	10	(140.3)	(83.0)	(90.2)
Share-based payment reserve	10	37.6	33.3	34.6
Own shares reserve	10	(12.5)	(16.1)	(15.1)
Hedging and translation reserve	10	14.8	(19.8)	(1.8)
<b>Equity attributable to equity holders of the parent</b>		<b>501.0</b>	<b>442.1</b>	<b>497.2</b>
<b>Minority interest</b>		<b>1.5</b>	<b>1.8</b>	<b>1.3</b>
<b>Total equity</b>		<b>502.5</b>	<b>443.9</b>	<b>498.5</b>

## Condensed consolidated cash flow statement

For the six months ended 30 June 2008

	Note	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
<b>Net cash inflow from operating activities</b>	8	<b>84.5</b>	34.6	134.1
<b>Investing activities</b>				
Interest received		4.4	4.2	10.3
Proceeds from disposal of subsidiary and business undertakings	7	1.6	1.4	2.5
Proceeds from disposal of intangible assets		-	-	1.7
Proceeds from disposal of property, plant and equipment		3.0	-	2.9
Acquisition of subsidiaries and business undertakings, net of cash acquired	6	(21.3)	(9.5)	(9.1)
Purchase of other intangible assets		(10.1)	(13.5)	(30.6)
Purchase of property, plant and equipment		(14.3)	(13.4)	(26.2)
<b>Net cash outflow from investing activities</b>		<b>(36.7)</b>	(30.8)	(48.5)
<b>Financing activities</b>				
Interest paid		(15.4)	(15.3)	(34.2)
Dividends paid		(14.5)	(12.0)	(17.9)
Dividend paid to minority interest		-	(0.5)	(1.2)
Repayment of borrowings		(6.5)	(28.6)	(74.6)
New loan advances		22.7	0.8	2.2
Capital element of finance lease repayments		(6.3)	(4.3)	(8.4)
Proceeds from issue of share capital		3.1	11.2	17.1
Repayment of non recourse loans		(4.5)	(4.1)	(8.3)
<b>Net cash outflow from financing activities</b>		<b>(21.4)</b>	(52.8)	(125.3)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>26.4</b>	(49.0)	(39.7)
<b>Cash and cash equivalents at beginning of period</b>		<b>185.0</b>	217.9	217.9
Net exchange gain		4.2	0.6	6.8
<b>Cash and cash equivalents at end of period</b>		<b>215.6</b>	169.5	185.0

**Notes to the condensed set of financial statements  
For the six months ended 30 June 2008**

**1. General information and accounting policies**

The information for the year ended 31 December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Register of Companies. The auditors' report on those accounts was not qualified and did not contain statements made under s237(2) or s237(3) of the Companies Act 1985.

The annual financial statements of Serco Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The condensed set of financial statements includes the results of subsidiaries and joint ventures. Joint ventures have been proportionately consolidated.

IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective from 1 January 2008 and is expected to be endorsed by the EU by the end of the year. The Group has considered IFRIC 14 when determining the value of all pension assets and liabilities.

**2. Investment revenue and finance costs**

	<b>6 months to 30 June 2008 £m (unaudited)</b>	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
Interest receivable by PFI companies	1.0	1.6	3.2
Interest receivable on other loans and deposits	3.2	2.6	5.5
Net interest receivable on retirement benefit obligations	0.1	1.5	3.2
Fair value adjustment on fair value hedges and non IAS 39 designated hedges	0.3	0.5	0.3
<b>Investment revenue</b>	<b>4.6</b>	<b>6.2</b>	<b>12.2</b>
Interest payable on non recourse loans	(1.8)	(2.0)	(3.7)
Interest payable on other loans	(11.8)	(13.4)	(26.3)
Interest payable on obligations under finance leases	(0.5)	(0.3)	(1.0)
<b>Finance costs</b>	<b>(14.1)</b>	<b>(15.7)</b>	<b>(31.0)</b>

### 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.

<b>Market segments</b>	<b>Civil Government</b>	<b>Defence</b>	<b>Transport</b>	<b>Science</b>	<b>Total</b>
<b>6 months to 30 June 2008 (unaudited)</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Revenue</b>	<b>542.7</b>	<b>374.8</b>	<b>305.7</b>	<b>267.3</b>	<b>1,490.5</b>
Segment operating profit	25.9	27.0	13.0	25.3	91.2
Unallocated expenses					(18.9)
<b>Operating profit</b>					<b>72.3</b>
Investment revenue					4.6
Finance costs					(14.1)
<b>Profit before tax</b>					<b>62.8</b>
Tax					(16.9)
<b>Profit for the period</b>					<b>45.9</b>

<b>6 months to 30 June 2007 (unaudited)</b>	<b>Civil Government</b>	<b>Defence</b>	<b>Transport</b>	<b>Science</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<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>

<b>Year ended 31 December 2007 (audited)</b>	<b>Civil Government</b>	<b>Defence</b>	<b>Transport</b>	<b>Science</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Revenue</b>	<b>952.2</b>	<b>720.5</b>	<b>655.0</b>	<b>483.0</b>	<b>2,810.7</b>
Segment operating profit	46.8	49.8	26.7	45.7	169.0
Unallocated expenses					(35.6)
<b>Operating profit</b>					<b>133.4</b>
Investment revenue					12.2
Finance costs					(31.0)
<b>Profit before tax</b>					<b>114.6</b>
Tax					(32.2)
<b>Profit for the year</b>					<b>82.4</b>

<b>Geographical segments</b>	<b>United Kingdom</b>	<b>North America</b>	<b>Europe and Middle East</b>	<b>Asia Pacific</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>6 months to 30 June 2008 (unaudited)</b>	<b>1,121.2</b>	<b>170.8</b>	<b>111.0</b>	<b>87.5</b>	<b>1,490.5</b>
6 months to 30 June 2007 (unaudited)	1,015.0	143.2	109.5	81.3	1,349.0
6 months to 31 December 2007 (audited)	2,125.6	300.9	222.1	162.1	2,810.7

#### 4. Dividends

	<b>6 months to 30 June 2008</b>	6 months to 30 June 2007	Year to 31 December 2007
	<b>£m</b>	£m	£m
	<b>(unaudited)</b>	(unaudited)	(audited)
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2007 of 3.02p per share on 480.2 million ordinary shares	<b>14.5</b>		
Final dividend for the year ended 31 December 2006 of 2.55p per share on 471.1 million ordinary shares		12.0	12.0
Interim dividend for the year ended 31 December 2007 of 1.23p per share on 478.9 million ordinary shares			5.9
	<b>14.5</b>	12.0	17.9

The proposed interim dividend for the year ended 31 December 2008 is 1.48p per ordinary share on 485.7 million shares (£7.2m) (30 June 2007: 1.23p (£5.9m)).

The proposed interim dividend was approved by the Board on 22 August 2008 and has not been included as a liability as at 30 June 2008.

#### 5. 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 intangible assets arising on acquisition to assist in the understanding of the underlying performance of the business.

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

##### Number of shares

	<b>6 months to 30 June 2008</b>	6 months to 30 June 2007	Year to 31 December 2007
	<b>Millions</b>	Millions	Millions
	<b>(unaudited)</b>	(unaudited)	(audited)
Weighted average number of ordinary shares for the purpose of basic EPS	<b>487.1</b>	479.9	482.4
Effect of dilutive potential ordinary shares: share options	<b>6.4</b>	5.5	6.8
Weighted average number of ordinary shares for the purpose of diluted EPS	<b>493.5</b>	485.4	489.2

Earnings	6 months to 30 June 2008		6 months to 30 June 2007		Year to 31 December 2007	
	Earnings £m (unaudited)	Per share amount Pence (unaudited)	Earnings £m (unaudited)	Per share amount Pence (unaudited)	Earnings £m (unaudited)	Per share amount Pence (unaudited)
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	45.5	9.35	37.0	7.71	81.9	16.98
Add back:						
Amortisation of intangible assets arising on acquisition, net of tax £0.4m (30 June 2007: £0.5m, 31 December 2007: £0.9m)	4.1	0.83	3.7	0.77	7.7	1.59
Adjusted earnings before amortisation of intangible assets arising on acquisition, net of tax	49.6	10.18	40.7	8.48	89.6	18.57
Earnings for the purpose of basic EPS	45.5	9.35	37.0	7.71	81.9	16.98
Effect of dilutive potential ordinary shares	-	(0.12)	-	(0.09)	-	(0.24)
Diluted EPS	45.5	9.23	37.0	7.62	81.9	16.74

## 6. Acquisitions

On 30 May 2008, the Group acquired Grosvenor Health Limited for consideration of £19.2m in cash. Grosvenor Health is a leading independent provider of occupational health in the UK. The transaction has been accounted for in accordance with IFRS 3 'Business Combinations'.

Net liabilities acquired were:	Book value	Provisional fair value adjustments	Fair value
	£m	£m	£m
Intangible assets	5.8	(5.8)	-
Property, plant and equipment	0.4	-	0.4
Receivables	2.9	-	2.9
Cash and cash equivalents	0.9	-	0.9
Payables	(6.1)	-	(6.1)
Net liabilities acquired			(1.9)
Goodwill			21.1
Total consideration			19.2
Satisfied by:			
Cash			19.0
Purchase consideration			19.0
Directly attributable costs			0.2
Total consideration			19.2
Net cash outflow arising on acquisition:			
Purchase consideration paid			19.0
Directly attributable costs			0.2
Cash and cash equivalents acquired			(0.9)
Cash consideration paid			18.3

The acquisition contributed £1.3m to revenue and £0.1m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition had taken place at the start of the year, the Group's revenue and profit before tax would have been approximately £7.9m and £0.4m higher respectively.

As disclosed in the Annual Review and Accounts for 2007, on 31 December 2007, the Group acquired ER Consultants Limited. The consideration in relation to this acquisition of £2.9m was paid in January 2008, together with £0.1m of related directly attributable costs. This has been reflected in the net cash outflow arising on acquisition in the cash flow statement for the six months ended 30 June 2008.

## 7. Disposals

On 23 June 2008, the Group disposed of its interest in Kilmarnock Prison Services Ltd, a 100% subsidiary of Serco Limited. As a result of the disposal, the non recourse debt associated with this PFI has been extinguished (30 June 2007: £23.5m, 31 December 2007: £22.5m). We retain the operating contract for Kilmarnock Prison.

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

	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
<b>Operating profit for the period</b>	<b>72.3</b>	61.5	133.4
Adjustments for:			
Share-based payment expense	3.0	2.6	5.0
Depreciation of property, plant and equipment	12.7	15.5	30.2
Amortisation of intangible assets	13.8	9.6	23.2
(Profit)/loss on disposal of property, plant and equipment	(0.9)	1.4	1.3
Profit on disposal of business undertakings	(2.7)	(0.6)	(0.7)
Loss/(gain) on derivatives	0.4	-	(1.1)
<b>Operating cash inflow before movements in working capital</b>	<b>98.6</b>	90.0	191.3
(Increase)/decrease in inventories	(2.3)	3.1	5.9
Decrease/(increase) in receivables	1.8	(34.6)	(101.4)
Increase in payables	2.5	36.8	108.6
Movement in provisions	(6.2)	(4.4)	(4.3)
Special contribution to defined benefit pension scheme	-	(51.0)	(51.0)
<b>Cash generated by operations before movement on PFI debtor</b>	<b>94.4</b>	39.9	149.1
Decrease in PFI debtor	0.8	0.7	1.5
<b>Cash generated by operations after movement on PFI debtor</b>	<b>95.2</b>	40.6	150.6
Tax paid	(10.7)	(6.0)	(16.5)
<b>Net cash inflow from operating activities</b>	<b>84.5</b>	34.6	134.1

## 9. Analysis of net debt

	At 30 June 2008 £m (unaudited)	At 30 June 2007 £m (unaudited)	At 31 December 2007 £m (audited)
Cash and cash equivalents	215.6	169.5	185.0
Non recourse loans (related to PFI assets)	-	(23.5)	(22.5)
Other non recourse loans	(32.9)	(37.1)	(36.8)
Other loans	(288.3)	(311.7)	(271.6)
Obligations under finance leases	(14.7)	(16.9)	(16.4)
<b>Total net debt</b>	<b>(120.3)</b>	(219.7)	(162.3)

## 10. 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 2008 (audited)	9.7	299.3	260.6	(90.2)	34.6	(15.1)	(1.8)
Shares transferred to option holders on exercise of share options	-	0.7	-	-	(0.2)	2.6	-
Profit for the period attributable to equity holders of the parent	-	-	45.5	-	-	-	-
Dividends paid	-	-	(14.5)	-	-	-	-
Pension deficit recognised on the adoption of IFRIC 14	-	-	-	(4.7)	-	-	-
Net actuarial loss on defined benefit pension schemes	-	-	-	(153.7)	-	-	-
Actuarial gain on reimbursable rights	-	-	-	91.5	-	-	-
Expense in relation to share-based payment	-	-	-	-	3.0	-	-
Fair value gain on cash flow hedges during the period	-	-	-	-	-	-	10.5
Net exchange gain on translation of foreign operations	-	-	-	-	-	-	9.7
Loss on disposal of hedging instrument	-	-	-	-	-	-	(0.7)
Tax charge on cash flow hedges	-	-	-	-	-	-	(2.9)
Tax credit on items taken directly to equity	-	-	-	16.8	0.2	-	-
<b>At 30 June 2008 (unaudited)</b>	<b>9.7</b>	<b>300.0</b>	<b>291.6</b>	<b>(140.3)</b>	<b>37.6</b>	<b>(12.5)</b>	<b>14.8</b>

## 11. Joint ventures

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

	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
Revenue	354.1	338.8	680.1
Operating profit*	23.5	20.1	41.2
Profit before tax	25.8	22.1	45.2
Tax	(6.8)	(6.1)	(12.1)
Profit for the period	19.0	16.0	33.1
Minority interest	(0.4)	(0.2)	(0.3)
<b>Share of post-tax results of joint ventures</b>	<b>18.6</b>	<b>15.8</b>	<b>32.8</b>

\* Operating profit is after allocating £2.7m of costs incurred by Group (30 June 2007: £1.5m, 31 December 2007: £4.0m).

## 12. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings are disclosed below, with the relevant portion being eliminated on consolidation.

	6 months to 30 June 2008 £m (unaudited)	6 months to 30 June 2007 £m (unaudited)	Year to 31 December 2007 £m (audited)
Royalties and management fees receivable	0.7	0.6	1.2
Dividends receivable	19.8	17.1	36.9
	<b>20.5</b>	<b>17.7</b>	<b>38.1</b>

The following receivable balances relating to the joint ventures were included in the condensed consolidated balance sheet:

	At 30 June 2008 £m (unaudited)	At 30 June 2007 £m (unaudited)	At 31 December 2007 £m (audited)
<b>Current:</b>			
Loans	1.0	1.8	1.7
	<b>1.0</b>	<b>1.8</b>	<b>1.7</b>
<b>Non-current:</b>			
Loans	0.5	0.7	0.6
	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>

## 13. Share-based payments

In accordance with IFRS 2, a charge of £3.0m (30 June 2007: £2.6m, 31 December 2007: £5.0m) relating to the fair value of share-based schemes granted since 2 November 2002, has been charged to the income statement.

#### 14. Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. In addition, the Group has interests in joint ventures, which operate defined benefit schemes for qualifying employees.

The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent actuaries annually using the projected unit credit method. An analysis of the Group's net pension liability and related assets together with the amounts included within the SORIE are presented in the tables below.

	At 30 June 2008 £m (unaudited)	At 30 June 2007 £m (unaudited)	At 31 December 2007 £m (audited)
<b>Net retirement benefit liabilities</b>			
Group scheme – non contract specific	(122.7)	(54.0)	(67.9)
Contract schemes specific			
- reimbursable	(96.5)	(36.3)	(60.7)
- not certain to be reimbursable	(24.2)	(19.4)	(14.0)
	<b>(243.4)</b>	<b>(109.7)</b>	<b>(142.6)</b>
<b>Related assets</b>			
Intangible assets arising from rights to operate franchises and contract	15.9	19.1	17.4
Reimbursable rights debtor	96.5	36.3	60.7
	<b>112.4</b>	<b>55.4</b>	<b>78.1</b>

	At 30 June 2008 £m (unaudited)	At 30 June 2007 £m (unaudited)	At 31 December 2007 £m (audited)
Actual return on scheme assets	(72.5)	30.9	82.6
Less: expected return on scheme assets	(44.7)	(40.5)	(81.2)
	<b>(117.2)</b>	<b>(9.6)</b>	<b>1.4</b>
Other actuarial gains and losses	(36.5)	144.6	60.8
<b>Actuarial (losses)/gains recognised in the SORIE</b>	<b>(153.7)</b>	<b>135.0</b>	<b>62.2</b>
Pension deficit recognised on adoption of IFRIC 14	(4.7)	-	-
Change in paragraph 58(b) limit	(1.5)	-	-
Change in franchise adjustment	31.9	(35.2)	(6.6)
Change in members' share	25.3	(17.1)	(7.6)
Movement in reimbursable rights	35.8	(30.7)	(5.2)
<b>Actuarial gains/(losses) on reimbursable rights</b>	<b>86.8</b>	<b>(83.0)</b>	<b>(19.4)</b>
<b>Total pension (cost)/credit recognised in the SORIE</b>	<b>(66.9)</b>	<b>52.0</b>	<b>42.8</b>

The net pension liability at 30 June 2008 has been calculated on a year-to-date basis. The main assumptions adopted in valuing the schemes are as follows.

	At 30 June 2008 % (unaudited)	At 30 June 2007 % (unaudited)	At 31 December 2007 % (audited)
Rate of salary increases	3.00-4.70	3.00-4.60	3.00-4.70
Rate of increase in pensions	3.70	3.10	3.20
Rate of increase in deferred pensions	3.70	3.10	3.20
Inflation assumption	3.70	3.10	3.20
Discount rate	6.00	5.90	5.70