

Issued: 1 September 2004
 Release: 1 September 2004
 Contact: Please see below



www.serco.com

SERCO GROUP PLC
Interim results for the six months ended 30 June 2004

	6 months to 30.6.04	6 months to 30.6.03	
Turnover	£804.5m	£722.6m	Up 11.3%
Profit before tax – pre-goodwill	£36.5m	£31.3m	Up 16.5%
Earnings per share – pre-goodwill	6.09p	5.15p	Up 18.2%
Profit before tax	£28.1m	£27.0m	Up 4.1%
Earnings per share	4.14p	4.14p	Unchanged
Dividend per share	0.81p	0.72p	Up 12.5%

Strong increases in sales and profits

- Turnover up 11.3% to £804.5m
- Profit before tax – pre-goodwill up 16.5% to £36.5m
- Earnings per share – pre-goodwill up 18.2% to 6.09p

Further improved cash performance

- First half-year free cash generation of £23.5m (2003: £14.2m)
- Group EBITDA to cash conversion of 70% (2003: 58%)

High visibility of future earnings

- Forward order book £10.3bn at 30 June 2004, plus a further £2.6bn at preferred bidder stage
- Planned 2004 turnover 99% already secured, plus 87% of 2005 and 75% of 2006

Strong organic growth

- 66% of the increase in turnover came from growing the base of existing contracts
- 90% success rate on rebids maintained, including a radar maintenance contract at RAF Fylingdales and an aeronautical services contract in Abu Dhabi
- New contracts signed valued at £0.7bn in the period

Substantial range of future opportunities

- Bids worth £5.3bn submitted and under evaluation
- Over £16bn of further potential opportunities identified

Note: EBITDA is earnings before interest, tax, depreciation and goodwill amortisation. Free cash flow is reconciled in Section 3 of the finance review.

Kevin Beeston, Executive Chairman, said:

“Our commitment to high quality services coupled with increasing opportunities worldwide ensures that Serco is well placed to continue growing successfully. Our organic growth is strong and we are winning important new business. Global trends are in our favour. Governments are spending more on public services, while also seeking efficiency gains, and they are increasingly likely to outsource the provision of these services. They are also looking for more sophisticated solutions where value for money is greater and quality counts – and it is here that Serco excels.”

– Ends –

Serco Group plc
 Serco House, 16 Bartley Wood Business Park
 Bartley Way, Hook, Hampshire
 RG27 9UY, United Kingdom

T +44 (0)1256 745900
 F +44 (0)1256 744111

Serco Group Pty Limited
 Level 10, 90 Arthur Street
 North Sydney, NSW 2060
 Australia

T +61 (0)2 9964 9733
 F +61 (0)2 9964 9924

Serco Group, Inc.
 20 E Clementon Road, Suite 102 South
 Gibbsboro, New Jersey 08026
 United States

T +1 856 346 8800
 F +1 856 346 8463



WEBCAST

A webcast of the results presentation will also be available on www.serco.com from 1800hrs (BST) on the day of announcement. To pre-register for viewing please visit: www.axisto.com/webcast/media/serco/010904

For further information please contact Serco Group plc: T: +44 (0)1256 745900

Dominic Cheetham – Corporate Communications Director
Richard Hollins – Head of Investor Relations



Chairman's statement

This has been another strong first half for Serco. We increased profit before tax and goodwill amortisation by 16.5%, on sales up 11.3%. Our cash performance also continues to strengthen: first half-year free cash generation was £23.5m, up from £14.2m last year.

Our ability to achieve this growth consistently is rooted in a number of factors that are fundamental to Serco. These include our broad range of markets and services, our good reputation and the commitment and professionalism of our staff. We work in partnership with clients and stakeholders to deliver value for money and real service improvements.

These features help us deliver high levels of organic growth, through renewing contracts, gaining additional business when customers extend the scope and scale of existing services, and winning new contracts. While large new wins attract attention, it is the steady expansion of existing services with satisfied customers that fuels our growth and provides at least half our increase in turnover each year.

This year is no exception. Expanding the scale and scope of our existing contracts provided 66% of the increase in turnover in the first half. In the UK, for example, we were awarded an extended court escort contract worth £300m over seven years, double the previous value. We maintained our 90% success rate in rebids, including two contracts which are part of Serco's heritage: our RAF Fylingdales radar maintenance contract and our Abu Dhabi aeronautical services contract. These contracts have grown significantly in scope since their inception over 40 and almost 50 years ago respectively.

Major new business wins included the Northern rail franchise to operate rail services across the north of England, for which we were named as preferred bidder in July with our partner NedRailways. Worth around £2bn to us over an initial period of eight years and nine months, this is the largest contract in our history and builds on our existing rail activities, including the Merseyrail, Docklands Light Railway and Great Southern Railway services. We were also named, with our local partners Bahwan Group, as preferred bidder for a Private Finance Initiative (PFI) contract to build and operate a joint technical college in Oman: our success in the UK with the Joint Services Command & Staff College – a pioneering PFI – provided convincing evidence of our expertise.

We have maintained our outstanding earnings visibility. At 30 June our forward order book stood at £10.3bn. There are a further £2.6bn of contracts where we have preferred bidder status. We have now secured 99% of our planned revenues for 2004, 87% for 2005 and 75% for 2006.

We have refocused our activities in Australia and New Zealand, disposing of a number of contracts to enable us to focus on and invest in higher growth opportunities in the region.

In summary, this has been another period of solid performance across virtually all areas of our business.

Financial performance

Results

In the six months to 30 June 2004, pre-tax profit (before goodwill amortisation) grew 16.5% to £36.5m. Earnings per share (before goodwill amortisation) grew 18.2% to 6.09p.

Pre-tax profit (post-goodwill) grew 4.1% to £28.1m and earnings per share (post-goodwill) was maintained at 4.14p.

Total turnover in the period increased by 11.3% to £804.5m. After adjusting for the effect of disposals and contracts exited, turnover grew by 17.7%.

Our cash performance continues to be robust: free cash generation totalled £23.5m, compared with last year's £14.2m. The Group EBITDA to cash conversion of 70% exceeded last year's first half conversion rate of 58%.

We maintained a prudent approach to the funding of our pension scheme and continued the increased rates of long term contribution first paid in 2003, which added approximately £9m to the contributions each year. It is estimated that the net deficit of £69.7m at 31 December 2003 had marginally reduced as at 30 June 2004.



Dividend

We have increased the interim dividend by 12.5% to 0.81p per ordinary share, from 0.72p in 2003. It will be paid on 11 October 2004 to shareholders on the register at close of business on 10 September 2004.

Market development

The breadth of Serco's international range of activities underpins the resilience of the business: any short term slowdown in a specific activity or geographic market is more than offset by growth in others. But more important than the short term factors in any single segment is Serco's active presence in rapidly developing markets, both in the UK and overseas, which provide ample opportunity for profitable growth.

Governments are spending more on public services, while also seeking efficiency gains, and they are increasingly likely to outsource the provision of these services.

In the UK, for example, health and education have benefited from a rapid rise in funding. The UK government's Comprehensive Spending Review in July outlined plans to give above-average 5.7% increases to education each year until 2007/08, while at the same time targeting a 30% efficiency improvement in schools, colleges and higher education, through investment in technology and reducing administration. As part of the government's Building Schools for the Future initiative, £2.2bn will be available for school improvement for 2005/06. Spending on the National Health Service is to increase by an average of 7.1% a year over the next three years, and the government recently announced a programme to spend £4bn on 15 new hospitals.

Another focus for investment is offender management, where there is particular commitment to the use of new technology for crime fighting and case management. Again the UK government plans increased funding, with spending on crime prevention, justice and communities rising by £3.5bn by 2007/08 compared with 2004/05. The creation of the Serious Organised Crime Agency and the National Offender Management Service will provide further scope to grow our presence in the justice market.

The UK government's transport strategy aims both to increase capacity for road, rail and other public transport and to make better use of existing capacity, for example through the use of new technologies. By 2010 the government's annual spend will be £1.2bn a year more than was anticipated in the Department of Transport's original 10-year plan. This could generate additional opportunities for Serco, for example by allowing wider application of road traffic technology to increase efficiency.

UK defence spending remains tight, with real growth of 1.4% over the next three years. However, the drive to deliver efficiency targets is expected to translate into more prospects for outsourcing and the provision of support services, as well as raising demand for technological solutions.

The UK government has published a 10-year framework for science and innovation, with a long term objective of expanding research and development expenditure as a proportion of GDP from 1.9% to 2.5%. Funding for science has also been increased in the current Department for Education and Skills and Department of Trade and Industry spending allocations. The proposed formation of the Nuclear Decommissioning Authority will also create more possibilities for our science business.

Governments worldwide recognise that extra investment in any area needs to be accompanied by efficiency gains so that they can be seen to deliver improving services at an acceptable cost. That is why they are increasingly likely to consider outsourcing these services. At Serco we have shown time and again that we can deliver the innovative, value for money outsourcing solutions that are needed.

Outsourcing is relatively new in civil government fields such as justice, education and healthcare. But major opportunities are now emerging as governments advance the outsourcing model. In the UK the Gershon Review of public spending efficiency, published in July 2004, has identified over £20bn of efficiencies which could be delivered by 2007/08, either increasing the output of services or releasing resources to be spent on high-priority front-line services. Outsourcing will play a key role in achieving these efficiencies.

The UK is not alone in this approach. The US federal government has introduced new guidelines to encourage competitive sourcing of public services – and we have already placed a stake in the ground with our new fleet maintenance contract for the Forest Service in California. In Germany opportunities are emerging in defence, education and justice – we have already won good business in defence and are bidding for more in other sectors.



In mainland Europe and the Middle East we continue to build our presence across a range of sectors and are working to foster the development of new opportunities in outsourced public services. We are building on our traditional strengths in facilities management, IT desktop support, technical services and engineering. At the same time we are also beginning to leverage our sector expertise from other markets – for example in defence support services and training. Defence is an attractive market for us and we hope to build on our UK-based expertise and experience in emerging markets such as Germany and the Middle East. Our technical support services contract with the German Army's Combat Training Centre (GÜZ) is one of the German Defence Authority's first total service outsourcing contracts. Over time we anticipate further exploiting our skills in PFI projects in the region. Indeed, our status as preferred bidder for the joint technical college PFI in Oman gives us a high-profile platform for further broadening our presence in the Middle East.

North America is an expanding market for us. There are increasing opportunities with the US federal government and some state governments. We are becoming a major supplier to the US Federal Aviation Administration. And we are also extending our presence in the utilities sector, winning additional fleet maintenance contracts and building on existing relationships to provide an expanded range of services. In Canada the concept of public private partnership is well established and the success of our Driver Examination Services contract in Ontario provides a sound platform for growth.

We keep our contract portfolio under constant review to ensure that we are focusing on areas with the greatest potential for growth and profitability. In April this year, after reviewing our Asia Pacific business, we announced the disposal of a number of contracts in Australia and New Zealand, largely comprising smaller asset management contracts which involved disproportionate central support costs and offered low growth potential. Following these disposals, we are concentrating on the transport and defence sectors in Australia. The success of our Great Southern Railway business in Australia has raised our profile in the region and we see a favourable market emerging for outsourced public services in Singapore and Hong Kong.

Around the world, an important trend is governments' increasing emphasis on effective prevention of, and response to, terrorist incidents. In the UK, for example, government spending on counter-terrorism and civil resilience is set to grow by around 12% per annum over the next few years. Serco is well positioned to deliver programmes which help improve resilience and preparedness. This is another significant area of emerging opportunity where we can capitalise on our existing expertise – for example in strategic consulting, intelligence and evidence management systems, command and control systems, defence support services and training.

People

Across all our activities, the common theme is delivering improved service. We help people to give of their best by empowering them through appropriate training, processes and leadership, and by helping them to share ideas and best practice. Ultimately we depend on each individual's commitment and enthusiasm. We thank everyone in Serco for their personal contribution to our continued success. To recognise exceptional achievement by individuals and teams we have launched the annual Chairman's Recognition Awards: the inaugural winners were announced in February.

Corporate responsibility

For Serco, corporate responsibility combines not just people, environment and the community – the traditional elements of corporate social responsibility – but also health and safety. We are passionate about delivering high quality services with a public service ethos, and corporate responsibility is at the heart of that. In March we published our first corporate responsibility report, which explains more about our values and objectives while detailing many of the individual initiatives going on around Serco.

During the first half of the year we have continued to embed our approach to corporate responsibility. Our total community investment of £373,000 compares with £215,000 for the first six months of 2003.

At the start of the year we launched a new corporate responsibility strategy focused on the theme of 'employability'. An integral part of this is to ensure that all staff have the essential skills for both work and life. We are supporting the UK Government Skills for Life initiative and have appointed the Association of Learning Providers to help us implement it, as appropriate, across our UK business base.



Outlook

Serco's long record of growth is built on solid foundations and we have an increasingly strong track record and reputation on which to build further. Market conditions remain encouraging and our ability to address a number of geographies and sectors means we have a broad range of new opportunities to select from.

At 30 June 2004 our order book stood at £10.3bn, more than 6.5 times last year's turnover. In addition we currently have a further £2.6bn of contracts at preferred bidder stage, £5.3bn of bids submitted and under evaluation, and have identified more than £16bn of potential future opportunities.

We will continue to focus on contracts where we can deliver value for money, service quality and increasing margins, rather than on commodity contracts where price is the primary consideration. In this way we can add value for both customers and shareholders – and continue winning high levels of business from satisfied customers.

We look forward to continued strong and profitable growth in the second half and over the longer term.



Financial review

1. Financial performance

The first half of 2004 has been another period of strong performance. Further analysis is provided in Figure 1.

Figure 1 Profit and loss account

Six months to 30 June	2004 £m	2003 £m	Increase
Total turnover	804.5	722.6	11.3%
Group turnover	684.1	608.6	
Joint venture turnover	120.4	114.0	
Gross profit	94.6	83.2	13.8%
Administrative expenses	(68.9)	(61.8)	11.7%
Exceptional items (net)	-	(0.5)	
Joint venture profit	11.8	11.8	
Net Group interest	(1.0)	(1.4)	
Profit before goodwill and tax	36.5	31.3	16.5%
Goodwill amortisation	(8.4)	(4.3)	
Profit before tax	28.1	27.0	4.1%
Tax	(10.1)	(9.2)	
Profit after tax	18.0	17.8	
Effective tax rate	36.1%	34%	
Average number of shares	429.9m	429.6m	
Earnings per share before goodwill	6.09p	5.15p	18.2%
Earnings per share after goodwill	4.14p	4.14p	-
Dividend per share	0.81p	0.72p	12.5%

1.1 Turnover

Total turnover in the six months to 30 June 2004 increased by 11.3% to £804.5m. After adjusting for the effect of disposals and contracts handed back (see 5. Disposals), turnover grew by 17.7%.

Turnover for the first six months includes an incremental contribution of £35m from Premier Custodial Group (PCG) following the acquisition of the remaining 50% in July 2003. From this date the results of PCG have been included in Group turnover.

Gross margin on Group turnover, representing the average contract margin across the portfolio, has increased from 13.7% to 13.8%.

1.2 Administrative expenses

Administrative expenses for the six months to 30 June 2004 increased by 11.7% to £68.9m. Administrative expenses in both 2003 and 2004 include the effect of increased long term employer contributions to our UK defined benefit scheme of approximately £9m per annum first made in 2003 (see 6. Pensions).

1.3 Exceptional items

There were no exceptional items for the six months to 30 June 2004. For the corresponding period in 2003 there were two exceptional items resulting in a net charge of £0.5m.

1.4 Profit before tax

Profit before tax and goodwill amortisation increased by 16.5% to £36.5m, representing a net margin on turnover of 4.5% (2003: 4.3%).

Profit before tax and after goodwill amortisation increased by 4.1%.

1.5 Goodwill

Amortisation of goodwill for the six months to 30 June 2004 was £8.4m (2003: £4.3m). The increase results largely from the acquisitions of the Ontario Driver Examination Services franchise and the remaining 50% of PCG.



1.6 Tax

The tax charge of £10.1m (2003: £9.2m) represents an effective rate of 36.1% (2003: 34%), which is consistent with the 2003 full year tax rate. The increase in the tax rate is largely due to the increased non-deductible goodwill amortisation discussed above.

1.7 Earnings per share

As a result of the above, earnings per share before goodwill amortisation grew by 18.2% to 6.09p. Earnings per share after goodwill is maintained at 4.14p.

2. Dividends

The proposed interim dividend of 0.81p per share is a 12.5% increase on 2003.

3. Cash performance

Free cash flow for the first six months of 2004 was £23.5m (2003: £14.2m). Further analysis is shown in Figure 2.

Figure 2 Cash flow

Six months to 30 June	2004 £m	2003 £m
Operating profit	17.3	12.6
Non cash items	19.8	14.1
Group EBITDA	37.1	26.7
Working capital movement	(11.1)	(11.3)
Operating cash flow	26.0	15.4
Dividends from joint ventures	6.2	4.6
Interest and taxation	3.0	(5.1)
Capital expenditure	(8.0)	(12.5)
Disposal of assets	-	4.9
Exceptional item: GSR sale and leaseback	-	5.8
Other items	(3.7)	1.1
Free cash flow	23.5	14.2
Acquisitions/disposals	3.6	(5.3)
Other financing	(10.0)	(1.5)
Dividends paid	(7.0)	(6.2)
Non-recourse debt financed assets	(12.7)	-
Net cash flow	(2.6)	1.2

3.1 Operating cash flow

There was an operating cash inflow for the period of £26.0m (2003: £15.4m), an increase of 69.1%. This represents a conversion of 150% (2003: 122%) of our operating profit and 70% (2003: 58%) of Group EBITDA into cash.

The improvement in conversion rates is particularly notable given that our strong level of organic growth brings an accompanying demand for working capital, typically equivalent to a month's incremental turnover each year.

3.2 Joint venture dividends

Dividends received from joint ventures during the first half of 2004 of £6.2m (2003: £4.6m) represents a 76% (2003: 56%) conversion of profit after tax of joint ventures into cash.

3.3 Interest and taxation

There was a net cash inflow of £3.0m (2003: £5.1m net cash payment). This arose as a result of the Group being able to relieve tax losses of subsidiaries that were previously joint venture companies.

3.4 Non-recourse debt financed assets

The £12.7m outflow relates to a net movement on expenditure on PFI assets under construction, non-recourse loans, and other PFI balance movements.

4. Net debt

At the end of June 2004 net recourse debt was £17.6m (31 December 2003: £22.3m). Further analysis is provided in Figure 3.



Figure 3 Net debt

As at	30 June 2004 £m	31 December 2003 £m
Closing cash	168.3	170.9
Long term loans	(164.1)	(165.3)
Other loans and finance leases	(21.8)	(27.9)
Recourse net debt	(17.6)	(22.3)
Non-recourse debt	(346.5)	(357.0)
Total net debt	(364.1)	(379.3)

Non-recourse debt represents long term loans secured on the contracts of PFI (see section 7. PFIs) and other concessions and not on any other assets of the Group. The loans are excluded from all of our credit agreement and other covenant calculations, and therefore have no impact on the Group's ability to borrow.

In addition to the above, as at 30 June 2004 joint venture liabilities included £53.1m (31 December 2003: £55.2m) of non-recourse debt.

5. Disposals

In line with our intention to focus the business on areas with the greatest potential for growth and profitability we announced in April this year the agreed disposal of a number of small and medium sized contracts in Australia and New Zealand. The annual value of the contract turnover is approximately £38m. The disposal of the majority of the contracts was completed in June with the remainder due to be completed in the second half of 2004.

The above disposals together with last year's disposal of a number of our Swedish contracts and handing back of our rail maintenance contract to Network Rail in January this year, have reduced annualised turnover by £140m.

6. Pensions

We continue to apply the transitional rules and disclosures for the implementation of FRS 17 Retirement Benefits. This requires the market value of the assets and liabilities for defined benefit schemes to be calculated and disclosed in a note. At 31 December 2003 we identified a net deficit of £69.7m in relation to the defined benefit scheme and an asset base of approximately £350.4m. While we are not required to undertake a full actuarial valuation of the scheme at 30 June 2004, it is estimated that the net deficit has marginally reduced.

From 2003 long term employer contributions into the scheme have been increased by approximately £9m per annum to address the level of deficit in the scheme.

7. PFIs

7.1 Profile

The current portfolio of PFI contracts is consistent with that at the end of 2003: 12 PFI projects, incorporating 11 equity investments (with eight being 100% owned) and 12 operating contracts.

At the end of 2003 we had invested £15.3m of equity and subordinated debt into our Special Purpose Companies (SPCs). During the first six months we injected £8.7m of equity and subordinated debt into Traffic Information Services (TIS), our first fully owned PFI. Cumulatively, as at 30 June 2004 and excluding the operating contracts, we have received back £25.9m of cash from these investments, representing a cumulative net cash inflow to the Group of £1.9m.

7.2 SPC funding

SPC funding is via long term loans which are non-recourse to Serco.

At 30 June 2004 non-recourse loans totalled £346.5m. The two remaining PFIs in the construction phase at 30 June 2004, Laser and TIS, are largely complete with no significant further investment required.



8. Treasury

8.1 Treasury management

The Group's Treasury function is responsible for managing the Group's exposure to treasury risk and operates within a set of policies and procedures approved by the Board.

8.2 Liquidity management

The Group is funded by two types of debt: corporate debt and project-specific non-recourse debt. Two private placements and a £140m revolving credit facility (RCF) are the main sources of corporate debt. The RCF was unused at 30 June 2004 and expires in 2007. The facility is floating rate and has unsecured obligations with covenants and obligations typical of this type of arrangement. The first private placement (£43.2m) was issued in 1997 and matures in 2007. The other private placement (£117m) was issued in 2003 with a maturity profile of eight to 12 years.

8.3 Foreign exchange risk

The Group is not exposed to material foreign currency transaction risk, as the currencies of revenues and costs are largely matched within overseas operations.

The Group does not hedge the sterling equivalent value of the net assets of its overseas operations on the grounds that foreign exchange differences are unlikely to have a material effect on the value of the Group.

An element of the private placements was issued in US dollars and was swapped into sterling on issue consistent with the risk profile set out above.

8.4 Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is selectively managed using interest rate swaps. All short-term debt is maintained at floating rates of interest. All project-specific debt is maintained at, or swapped to, fixed rates of interest.

9. International Financial Reporting Standards

The Council of the European Union announced in June 2002 that listed companies in Europe would adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the half-year ending 30 June 2005 and the year ending 31 December 2005.

A project team, which is working in conjunction with Deloitte & Touche LLP, has been working for 18 months to ensure the necessary compliance within the required timetable.

A number of areas of difference between IFRS and UK GAAP accounting have been identified including goodwill and intangible assets, financial instruments, share-based payments, employee benefits including pensions, joint ventures and taxation. In addition, areas requiring fuller disclosure include segmental reporting, service concessions and joint ventures. Progress is being made in establishing the changes that will be required to the Group's existing accounting policies, systems and procedures. Although the adoption of IFRS will impact the reported results and net assets, the underlying performance of the business will be unaffected.

The Group is party to a number of service concession arrangements including PFI projects. The International Financial Reporting Interpretations Committee (IFRIC) is proposing to issue an interpretation on service concession arrangements. Until further clarification is provided by IFRIC, there remains uncertainty around this area.



Business review

The UK continues to lead the world in outsourcing public services and remained our primary source of new business in the first half of 2004. However, we have also benefited from opportunities emerging in other countries – notably Canada, the US and Germany – where Serco is increasingly seen as a leading service company. We are gaining recognition for improving service standards and value for money by designing innovative and sophisticated solutions for our customers.

The rapidly evolving civil government sector has become our largest market, accounting for 35% of sales during the period. Major opportunities have been emerging in fields such as justice, education and healthcare, where outsourcing is relatively new. In the UK the Gershon Review has focused attention on devolving funds to local public bodies, offering new opportunities for them to achieve better value for money through partnerships. We have been working with prospective clients to develop innovative ideas and opportunities in this area. With public perceptions of safety high on the agenda, Serco is also well positioned to deliver programmes which help governments prevent and respond effectively to criminal and terrorist incidents.

The transport sector has been a strong source of growth for us in recent years. It accounted for 21% of first-half turnover. In recent years, to improve our risk/margin profile, we have switched our focus from infrastructure management to passenger service delivery. For example, while exiting rail infrastructure maintenance, we have secured a significant position as a UK train operating company.

The defence sector accounted for 30% of sales. In the UK we have a balanced portfolio of over 100 defence sector contracts both large and small, across 110 locations. By building appropriate capabilities and relationships we are growing our base of existing contracts and we see opportunities for us in the provision of services ranging from equipment support and training to technology related contracts.

We have established a leading position in the science sector, which accounted for 8% of first-half sales. We intend to build on our experience to grow in the management of scientific organisations, provision of technical services and technical programme management in the UK and overseas.

The private sector, where we address new business opportunities selectively and opportunistically, accounted for 6% of Group sales in the first-half.

UK highlights

The UK accounted for 73% of our first-half turnover.

Civil government

Justice and national security

Our work in this sector ranges from managing prisons and court escort services to operating electronic tagging services, developing intelligence systems for the police and criminal intelligence agencies and providing road safety equipment. This year we have expanded our activity both in the fight against crime and terrorism and in the custodial field.

Our Premier Custodial Group (PCG) business has made excellent progress since we acquired the remaining 50% of it last year – progress that has been acknowledged in public commendations from senior officials and ministers, new contracts and a succession of industry awards.

In May PCG won a seven-year contract valued at £300m that significantly expands the prisoner escorting and custody services we provide. We are now responsible for some 25% of the market for escort and custody services in England and Wales.

Supporting this contract renewal, in June the Prisoner Escorts and Custody Service commended our contract team in Area 2 – South and East England – for completing two years' service without an escape, greatly exceeding the key performance indicator for punctuality and, importantly, treating the people in our care with decency and respect.

The Chief Inspector of Prisons has commended our turnaround of Ashfield prison and young offenders' institution – now under our sole management – after a critical assessment in 2002. The Chief Inspector



also praised our management of Lowdham Grange prison after an unannounced inspection in March this year.

In August we opened the 326-bed Colbrook Immigration Removal Centre and Short Term Holding Facility near Heathrow Airport, as planned and on budget. The Short Term Holding Facility has been designed to replace police cells for the purpose of interviewing people on immigration matters.

This year we began work on a new secure communications and information infrastructure for the UK's Immigration and Nationality Directorate, as part of the Mycroft programme. We will develop and operate the system under a five-year contract with scope for extensions to 12 years. The contract is valued at £40m.

There is a heightened need to combat the threat of terrorism and to be able to respond effectively to terrorist incidents. This is a field in which Serco has much to contribute, in both management skills and technology. We also have relevant strategic expertise. Serco has recently been commissioned to help deliver the Office of the Deputy Prime Minister's New Dimension programme. This is developing the capability for the fire and rescue service to respond appropriately to major emergencies including terrorist incidents.

Education

Our contract to provide education services in Walsall continues to deliver much improved services for schools. No school in Walsall remains in the Special Measures category and over the past school year all Ofsted school inspections have been successful.

Education Bradford met almost half its incentive targets last year – a significant increase on the previous year. The improvement in examination results was greater than the national average. Overall attendance in Bradford schools is the best ever and truancy rates are significantly lower than when the contract was let. Fewer children are being permanently excluded from school and those who are excluded are being offered better alternative educational provision.

The process of intervention, and the delivery of a transformed service, is a long journey. But the foundations are now well set for further sustained improvement through the life of the contract.

Last December we acquired Teknical, a leading UK supplier of e-learning solutions to education, government and industry. This acquisition enabled us to integrate Teknical's Virtual Learning Environment with our school performance management products to create the first managed learning environment for UK schools. This investment is already generating significant returns – as well as selling to schools, we have won a major contract to supply the system to support e-learning for up to 75,000 National Health Service (NHS) staff in the north of England, and it has also been integrated into the Royal Navy's new Waterfront Training and Education Centre Technology Demonstrator at HMNB Devonport.

Healthcare

We continue to operate hospital facilities management contracts at Wishaw, Leicester Royal Infirmary and Norfolk & Norwich. NHS audits have confirmed the quality of our existing provision and the contracts are beginning to achieve organic growth. This success positions us well to benefit from the recently launched new hospitals building programme.

SDC Consulting – our healthcare planning and consultancy business – now ranks among the market leaders in healthcare planning. It is currently advising two consortia engaged in hospital PFI contracts and three others involved in some of the country's largest PFI bids.

With the government's announcement of a major extension to its hospital-building programme, SDC is well placed to win further work in this area. Other important areas for SDC include healthcare advice for organisations involved with the National Programme for IT and support for private and NHS organisations in developing strategy and modernised services.

Local government and leisure services

The year has seen sustained growth in our local government business: we have developed and extended existing relationships as well as securing new contract wins across our service portfolio. Continued focus on waste and recycling, housing and streetscene – a holistic approach to all street-related services with the objective of creating more attractive public spaces – has ensured strong demand for our services. New



funding streams are also now available to help councils meet the government's decent homes standard for social housing.

In April we completed the implementation of our housing maintenance partnership with Canterbury City Council, cementing over a decade of partnership with a new seven-year contract worth an estimated £20m. In July we were awarded a £0.5m contract with Ashford Borough Council for repairs and maintenance to the borough's 5,000-strong housing stock, with future opportunities to secure capital and improvement works.

We have also reached bidder shortlists for a number of strategic partnership opportunities representing some £400m of potential new business and are confident that these will yield further contract wins.

We have signed contracts for the management of two leisure facilities for Eastbourne Leisure Trust on behalf of Eastbourne Borough Council and are completing final negotiations for the management of three facilities on behalf of Swale Borough Council. Serco now runs more than 50 leisure centres for UK local authorities.

Transport

Rail

We began operating our first UK heavy rail franchise, Merseyrail, in July last year with our partner, NedRailways. The challenge was to achieve performance improvement on what was already Britain's best performing railway. We achieved this, and in 2004 have set new standards for performance and customer service. Merseyrail's Public Performance Measure, covering punctuality and reliability, was 91.5% in 2002/03 before we took over the franchise. In 2003/04 we raised the figure to 93.8%. This year, for the first time, we achieved monthly figures above 95% for two months running, and in June we set a new record of 96%. The national average is 81.2%.

Our achievement at Merseyrail, and our award winning performance on the Docklands Light Railway (DLR), were undoubtedly factors in the Strategic Rail Authority (SRA) decision to award the Serco/NedRailways joint venture the new Northern rail franchise, which will provide inter-urban commuter and rural services throughout the north of England. It involves managing 475 stations and maintaining a large fleet of diesel and electric multiple trains.

We have begun working closely with the SRA, the Passenger Transport Executives, passengers themselves and the 4,300 employees to ensure a smooth handover towards the end of the year.

Serco is the UK's largest operator of light railways. The DLR continues to expand its record breaking service, while our Manchester Metrolink operation has continued to deliver performance improvements since we bought-out our joint venture partners last year.

Road

Our National Traffic Control Centre PFI with the Highways Agency in the West Midlands has started initial operations. The centre collects information from a range of sources, gives drivers route advice through on-road variable message signs in partnership with the police, and provides traffic information to the broadcast media. The public can now get real-time information about traffic conditions on England's entire trunk road network online at www.highways.gov.uk/trafficinfo.

We have been awarded another contract by the Highways Agency for the design, supply and operation of the Electronic Service Delivery for Abnormal Loads portal (ESDAL). The contract will be delivered in four concurrent phases with the first being operational by April 2005. The objective of ESDAL is to supply an internet portal for the request, planning and notification of Abnormal Indivisible Load (AIL) movements by road. This will provide, for the first time, a common link between hauliers, police, structure owners and the Highway's Agency AIL team. It will significantly streamline the process for requesting and assessing an AIL movement.

Defence

In this period we have been focused on organic growth of our existing contract base to position ourselves for future opportunities.



We successfully rebid our RAF Northolt and Uxbridge contracts, which have been combined into a single multi-activity contract running for almost six years and valued at £55m. Northolt includes responsibility for maintenance and support to No 32 (The Royal) Squadron whose tasks cover Royal VVIP and VIP flying, including senior military and government officials. It complements our Naval Air Command (NAC) multi-activity contract (MAC), which includes operating Heron Flight for senior officers and VIPs.

The phase-in of the £39m NAC MAC, awarded earlier this year has been successfully completed. The contract now includes the Fleet Requirements Air Direction Unit (FRADU), operating the Hawk aircraft, where we provide realistic threat simulations to enhance training for operational Royal Navy ships and aircraft. The success of the NAC MAC has prompted Serco and Westland Helicopters to offer a joint approach to future rotary wing support for the UK Ministry of Defence with an integrated operational support capability – a step-change way to enhance the availability of military helicopters.

July saw the passing-out ceremony for the first pilots trained under our multi-activity contract at RAF Cranwell, the RAF's premier officer training station. This was a significant achievement: the contract, worth about £60m, was signed last autumn and in the six months to April 2004 we procured and delivered seven King Air B200 training aircraft through an innovative availability contract. This made possible the seamless introduction – in months rather than years – of a new, modern aircraft for multi-engine RAF pilot training.

The Second Sea Lord opened the Navy's first Waterfront Training and Education Centre at Devonport, demonstrating our technology for reconfigurable 'smart' classrooms that can be used for a range of maritime warfare operator and maintainer skills training and simulation at the quayside in any port area. We are bidding in competition for two more WTECs.

We are selective in our approach to very large bids – hence our decision in May not to pursue the training systems integrator role in the UK Military Flying Training System bid, while continuing with other bids where we see greater potential to deliver results. Despite this specific decision we see flying training as a growth area for us: we will continue to build on our existing capability and bid for future opportunities as they arise.

Science

Having successfully rebid our contract to manage the UK's National Physical Laboratory (NPL) we are now implementing the new strategy we put forward, focused on applying scientific excellence for positive economic and social impact. We are reorganising the team of scientists working from the NPL's new world-leading science facilities. Important new research and development projects – particularly in micro and nanotechnology – promise improvements in the quality of life as well as benefits for the UK economy.

Serco Assurance is leading the development of our technical services offering. Despite a downturn in the civil nuclear market, Serco Assurance has continued to make good progress in 2004. It recently renewed a contract, expected to be worth around £50m over the next five years, to support the Royal Navy's nuclear submarine fleet. Under the contract, engineers will provide independent nuclear safety advice and assessments on the Navy's submarine propulsion reactors and associated plant. In addition, we have created exciting opportunities with BNFL, British Energy, Rolls-Royce, the Atomic Weapons Establishment and the MOD. By combining Assurance's technology with the capabilities of other Serco divisions, we are creating and converting a growing number of high margin opportunities in the science, security, defence and transport markets.

Many UK Regional Development Agencies (RDAs) are developing new science facilities. In partnership with QinetiQ we are preferred bidder to manage a National Microsystems Packaging Centre in Liverpool for the North West RDA.

International highlights

Mainland Europe and the Middle East

Mainland Europe and the Middle East accounted for 11% of our first-half turnover.

Our contract at the German Army's Combat Training Centre (GÜZ) began in January with an exercise involving almost 800 soldiers and 280 vehicles. With our partners we are providing technical support services for simulated battle training. The contract is one of the German Defence Authority's first total service outsourcing contracts. Very positive feedback from the German Ministry of Defence shows that our



approach works beyond the UK. Defence contracts in Germany are a major element in our strong mainland European bid pipeline.

Germany is also beginning to outsource non-custodial prison services, and we have submitted a bid for the first private operation of support services at the Hünfeld Prison in Hessen.

In Italy we won a contract for our SafeCity concept covering the EUR district in Rome, which targets measures to improve safety and the public perception of safety in the city. This builds on our contracts to manage the extensive parks and external areas of this 5km² district housing government ministries, cultural and sporting facilities, commercial retail and residential properties. We were also awarded an 18-month extension to our Italian IT support services contract with the European Space Agency.

We have been awarded a new contract to provide desktop support services to the European Organisation for Nuclear Research (CERN). In directly supporting its 4,400 users we are contributing to CERN's ambitious goal to build the world's largest scientific instrument and its computing infrastructure.

We renewed our facilities management contract with Oracle France, which we have held since 1998. This covers a range of services in support of Oracle's headquarters in Paris and its seven other sites across France.

We built on our existing facilities management relationship with Microsoft in Ireland by winning an initial one-year contract, with an option to extend for three years, to provide a Shared Services Centre for subsidiaries in 11 European countries. In June we added a further contract to provide document administration for licensing agreements in Europe, the Middle East and Africa – a critical service previously run from the US. We also successfully rebid our contract to maintain some 79 properties for The Boots Company across Ireland for a further three years. The scope of services ranges from management of subcontractors to provision of helpdesk and mobile technicians.

Our Copenhagen Metro operation has continued to deliver performance improvements since we bought-out our joint venture partners in the business last year.

In February we were appointed preferred bidder – with our local partner, the Bahwan Group – for Oman's first PFI. The 30-year contract is to build and operate a joint technical college for the Oman Ministry of Defence. The college will train some 1,400 students a year to international standards. Contract completion negotiations are continuing.

We remain the Middle East's leading provider of air traffic control services and were pleased to renew our contract to provide aeronautical services at Abu Dhabi and Al Ain international airports, employing over 190 staff. Extensive airport developments are expected during the next five-year contract period, with traffic movements increasing significantly. Construction of an additional terminal building and a second runway are just two of the proposed projects at Abu Dhabi.

Serco Gulf, our joint venture in Dubai, substantially expanded its facilities management contracts during the first half and we expect the business to continue rapid expansion in line with the many large new infrastructure projects in Dubai.

North America

The US and Canada accounted for 6% of our first-half turnover.

In the US the federal government has introduced new guidelines to encourage competitive sourcing of public services to the private sector. Under one of the first contracts placed since the revised guidelines were introduced, we have been appointed by the US Department of Agriculture to provide vehicle maintenance services for its Forest Service at 27 locations across California, covering some 4,200 vehicles. The contract is worth \$5.9m per annum over five years. It gives us valuable experience and credibility for future competitive sourcing opportunities with the US federal government, including the Department of Defense and the Federal Aviation Administration.

We further strengthened our position in the US utilities market, winning additional fleet maintenance contracts and building on existing relationships with utilities to provide an expanded range of services such as electrical distribution line maintenance, third-party vehicle work and facilities management. PECO Energy, a natural gas and electric utility in Pennsylvania, awarded Serco a fleet management contract to support over 10 sites involving some 1,500 vehicles. This is the first contract arising from our appointment



as preferred supplier of fleet management services to Exelon, PECO's parent group and one of the largest US electricity generators and energy distributors.

We also expanded the range of services provided to other utility customers, including Dayton Power and Light, where we provide electrical distribution and third party vehicle maintenance services.

In Canada we completed the phase-in of our Driver Examination Services concession in Ontario, which has already delivered the promised improvements in customer satisfaction and service availability.

Asia Pacific

Asia Pacific – primarily Australia, Hong Kong and Singapore – accounted for 10% of our first-half turnover. The full-year figure will marginally reduce following the contract disposals announced in April, but we remain committed to further growth in the region.

In Australia our Great Southern Railway business is enjoying record bookings and profits following the successful extension of The Ghan service along the new Alice Springs-Darwin link which gives Australia its first north-south rail crossing. The 42-carriage inaugural train was the country's longest ever, measuring over 1km and carrying 400 guests. We are now running even longer trains of up to 48 carriages to meet demand, and forward bookings are over AUS\$24m.

Our Defence Maritime Services joint venture with P&O Maritime is managing the construction of a new generation of patrol boats for the Royal Australian Navy. The first 56-metre vessel is due for delivery next year and all 12 will be delivered by 2007. We will provide through-life support for the boats, including crew training, for 15 years at AUS\$15.7m a year.

In Hong Kong we are developing technology we have already applied in Scotland and Australia to provide the traffic control and surveillance system for a massive new road and bridge project. The Hong Kong-Shenzen Western Corridor, Deep Bay Link and Yuen Long Highway will form a strategic route linking Hong Kong and mainland China, including a 5km bridge across Deep Bay. We already have a strong presence in Hong Kong and this high technology project will raise our profile at a time when the government is keen to outsource more services.



Consolidated profit and loss account

For the six months ended 30 June 2004

	6 months to 30 June 2004 £'000 (unaudited)	6 months to 30 June 2003 £'000 (unaudited)	Year to 31 December 2003 £'000 (audited)
Turnover: Group and share of joint ventures – continuing operations	804,499	722,551	1,555,526
Less: Share of joint ventures	(120,419)	(113,997)	(231,255)
Group turnover	684,080	608,554	1,324,271
Cost of sales	(589,444)	(525,376)	(1,143,418)
Gross profit	94,636	83,178	180,853
Administrative expenses	(77,305)	(70,556)	(157,144)
Amortisation of intangible assets	(8,368)	(4,330)	(14,131)
Other administrative expenses	(68,937)	(61,737)	(138,516)
Exceptional item: reorganisation costs	-	(4,489)	(4,497)
Operating profit – continuing operations	17,331	12,622	23,709
Exceptional Item: GSR sale and leaseback	-	3,977	3,977
Share of operating profit in joint ventures	11,760	10,384	22,700
Net interest and similar income	(1,026)	(27)	2,468
Group	(1,036)	(1,421)	(2,918)
Exceptional Item: Norfolk & Norwich refinancing	-	-	4,069
Share of joint ventures	10	1,394	1,317
Profit on ordinary activities before taxation	28,065	26,956	52,854
Taxation on profit on ordinary activities	(10,131)	(9,165)	(19,103)
Profit on ordinary activities after taxation	17,934	17,791	33,751
Share of joint venture minority interest	(91)	-	(198)
Minority interest	(52)	-	(255)
Profit for the financial period	17,791	17,791	33,298
Equity dividends	(3,480)	(3,092)	(10,050)
Retained profit	14,311	14,699	23,248
Earnings per ordinary share (EPS) of 2p each:			
Basic EPS, after amortisation of goodwill	4.14p	4.14p	7.75p
Basic EPS, before amortisation of goodwill	6.09p	5.15p	11.03p
Diluted EPS, after amortisation of goodwill	4.09p	4.14p	7.74p
Diluted EPS, before amortisation of goodwill	6.02p	5.15p	11.02p
Dividend per share	0.81p	0.72p	2.34p

The basis of preparation of this statement is set out in Note 1.



Consolidated balance sheet

As at 30 June 2004

	As at 30 June 2004 £'000 (unaudited)	Restated As at 30 June 2003 £'000 (unaudited)	As at 31 December 2003 £'000 (audited)
Fixed assets			
Intangible assets	215,059	141,130	222,950
Tangible assets	71,986	71,002	77,398
Investments in joint ventures	27,528	41,074	24,886
Share of gross assets	146,509	267,846	151,460
Share of gross liabilities	(118,981)	(226,772)	(126,574)
	314,573	253,206	325,234
Current assets			
Stocks	40,941	37,264	39,543
Debtors: amounts due within one year	276,235	256,597	278,931
Debtors: amounts due after more than one year	410,444	190,358	419,589
Cash at bank and in hand	168,255	72,815	170,888
	895,875	557,034	908,951
Creditors: amounts falling due within one year			
Bank loans and overdrafts	-	2,190	-
Trade creditors	70,680	77,755	81,335
Other creditors including taxation and social security	86,077	94,707	90,892
Accruals and deferred income	174,509	141,976	177,866
Proposed dividend	3,480	3,093	6,958
	334,746	319,721	357,051
Net current assets	561,129	237,313	551,900
Total assets less current liabilities	875,702	490,519	877,134
Creditors: amounts falling due after more than one year	526,006	182,915	539,798
Provisions for liabilities and charges	56,225	36,987	56,526
Net assets	293,471	270,617	280,810
Capital and reserves			
Called up share capital	8,700	8,697	8,697
Share premium account	190,893	190,791	190,791
Capital redemption reserve	143	143	143
ESOP reserve	(16,279)	(17,766)	(16,949)
Profit and loss account	110,014	88,752	98,128
Equity shareholders' funds	293,471	270,617	280,810



Consolidated cash flow statement

For the six months ended 30 June 2004

	6 months to 30 June 2004 £'000 (unaudited)	Restated 6 months to 30 June 2003 £'000 (unaudited)	Year to 31 December 2003 £'000 (audited)
Operating profit before exceptional item	17,331	17,111	28,206
Exceptional item: reorganisation costs	-	(4,489)	(4,497)
Operating profit	17,331	12,622	23,709
Depreciation and amortisation of goodwill and intangible assets	19,070	13,671	32,532
Movement in ESOP investment	670	441	1,258
Net increase in working capital	(11,059)	(11,352)	(11,111)
Net cash inflow from operating activities before PFI asset movements	26,012	15,382	46,388
Cash inflow in respect of PFI debtor	5,981	-	3,680
Expenditure on PFI assets under construction	(9,167)	(13,327)	(33,001)
Net cash inflow from operating activities after PFI asset movements	22,826	2,055	17,067
Dividends received from joint ventures	6,157	4,602	12,630
Returns on investment and servicing of finance			
Interest received	4,600	448	5,652
Interest paid	(5,631)	(1,869)	(6,054)
Exceptional Item: Norfolk & Norwich refinancing	-	-	4,069
Net cash (outflow)/inflow from returns on investments and servicing of finance	(1,031)	(1,421)	3,667
Taxation			
Tax received/(paid)	3,987	(3,658)	(7,354)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets	(8,025)	(12,499)	(21,835)
Sale of tangible fixed assets	51	4,895	8,878
Exceptional item: GSR sale and leaseback	-	5,761	5,761
Net cashflows with joint ventures	(3,710)	780	2,969
Net cash outflow from capital expenditure and financial investment	(11,684)	(1,063)	(4,227)
Acquisitions and disposals			
Acquisitions	-	(829)	(107,463)
Net cash acquired with acquisitions	-	66	12,843
Net cash redeemed upon disposal	(272)	-	(3,141)
Subscription for shares in joint ventures	-	(4,552)	(3,354)
Proceeds on disposal of subsidiary and business undertakings	3,911	-	4,471
Net cash inflow/(outflow) from acquisitions and disposals	3,639	(5,315)	(96,644)
Equity dividends paid			
Dividends paid	(6,958)	(6,183)	(9,529)
Net cash outflow from equity dividends paid	(6,958)	(6,183)	(9,529)
Net cash inflow/(outflow) before financing	16,936	(10,983)	(84,390)
Financing			
Issue of Ordinary Share Capital	105	-	-
Debt due within one year: (decrease) in other loans	(3,906)	(32)	(1,709)
Debt due beyond one year: (decrease)/increase in	(10,391)	14,384	193,787
Other loans	(825)	734	117,502
Non-recourse debt financing	(9,566)	13,650	76,285
Capital element of finance lease repayments	(5,377)	(2,132)	(6,188)
Net cash (outflow)/inflow from financing	(19,569)	12,220	185,890
(Decrease)/increase in cash	(2,633)	1,237	101,500
Opening balance	170,888	69,388	69,388
Closing balance	168,255	70,625	170,888



Notes

For the six months ended 30 June 2004.

1. Basis of preparation

The interim financial statements as contained within the 2004 Interim Report have been prepared in accordance with the accounting policies detailed in the Annual Review and Accounts for the year ended 31 December 2003 and were approved by the directors on 1 September 2004.

The 2003 interim financial statements have been restated to reflect the early adoption of the Urgent Issues Task Force Abstract 38 (UITF 38) – Accounting for ESOP trusts. Investment in own shares which was previously disclosed in Fixed Assets is now classified as an ESOP reserve and is shown as a reduction in the shareholders' funds.

The interim financial statements contained in the Interim Report 2004 do not comprise a full set of accounts within the meaning of Section 240 of the Companies Act 1985 and no full accounts have been filed with the Registrar of Companies. The interim financial statements for both 2003 and 2004 are unaudited, but have been reviewed by the auditors and their report to the company is set out in the Interim Report 2004. The financial statements for the full year 2003 are an abridged version of the financial statements for that year, on which Deloitte & Touche LLP gave an unqualified report and which did not contain statements under section 237(2) or (3) of the Companies Act 1985. The 2003 full year accounts have been delivered to the Registrar of Companies.

2. Earnings per share

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £17,791,000 for the six months ended 30 June 2004 (2003: £17,791,000) and the weighted average number of 429,860,490 (2003: 429,640,399) Ordinary Shares of 2p each in issue during the period.

The calculation of basic earnings per Ordinary Share before goodwill is based on profits of £26,159,000 for the six months ended 30 June 2004 (2003: £22,121,000) and the weighted average number of 429,860,490 (2003: 429,640,399) Ordinary Shares of 2p each in issue during the period.

The calculation of diluted earnings per Ordinary Share after goodwill is based on profits of £17,791,000 for the six months ended 30 June 2004 (2003: £17,791,000) and the weighted average number of 434,722,893 (2003: 429,640,399) Ordinary Shares of 2p each in issue during the period.

The calculation of diluted earnings per Ordinary Share before goodwill is based on profits of £26,159,000 for the six months ended 30 June 2004 (2003: £22,121,000) and the weighted average number of 434,722,893 (2003: 429,640,399) Ordinary Shares of 2p each in issue during the period.



3. Reconciliation of operating profit to net cash inflow from operating activities

	6 months to 30 June 2004 £'000 (unaudited)	Restated 6 months to 30 June 2003 £'000 (unaudited)	Year to 31 December 2003 £'000 (audited)
Operating profit before exceptional item	17,331	17,111	28,206
Exceptional item: reorganisation costs	-	(4,489)	(4,497)
Operating profit	17,331	12,622	23,709
Depreciation	10,702	9,341	18,401
Amortisation of goodwill and intangible assets	8,368	4,330	14,131
Profit on sale of tangible fixed assets	(16)	(1,249)	(1,965)
Loss/(profit) on sale of subsidiary and business undertakings	443	-	(267)
(Increase)/decrease in stocks	(2,326)	1,480	1,875
Decrease/(Increase) in debtors	6,961	(9,221)	(4,401)
Decrease in creditors	(16,140)	(3,341)	(19,263)
Increase in provisions	19	979	12,910
Decrease ESOP investment	670	441	1,258
Net cash inflow from operating activities before PFI asset movements	26,012	15,382	46,388
Cash inflow in respect of PFI debtor	5,981	-	3,680
Expenditure on PFI assets under construction	(9,167)	(13,327)	(33,001)
Net cash inflow from operating activities after PFI asset movements	22,826	2,055	17,067

4. Analysis of total net debt

	As at 30 June 2004 £'000 (unaudited)	As at 30 June 2003 £'000 (unaudited)	As at 31 December 2003 £'000 (audited)
Cash at bank and in hand	168,255	72,815	170,888
Overdrafts	-	(2,190)	-
Cash net of overdrafts	168,255	70,625	170,888
Other loans due after more than one year	(164,057)	(48,167)	(165,256)
Other loans due within one year	(567)	(340)	(4,473)
Finance leases	(21,223)	(21,888)	(23,461)
Recourse net (debt)/cash	(17,592)	230	(22,302)
Non-recourse debt	(346,453)	(117,828)	(356,979)
Net debt	(364,045)	(117,598)	(379,281)