Serco Group plc

Interim Report 2001

serco

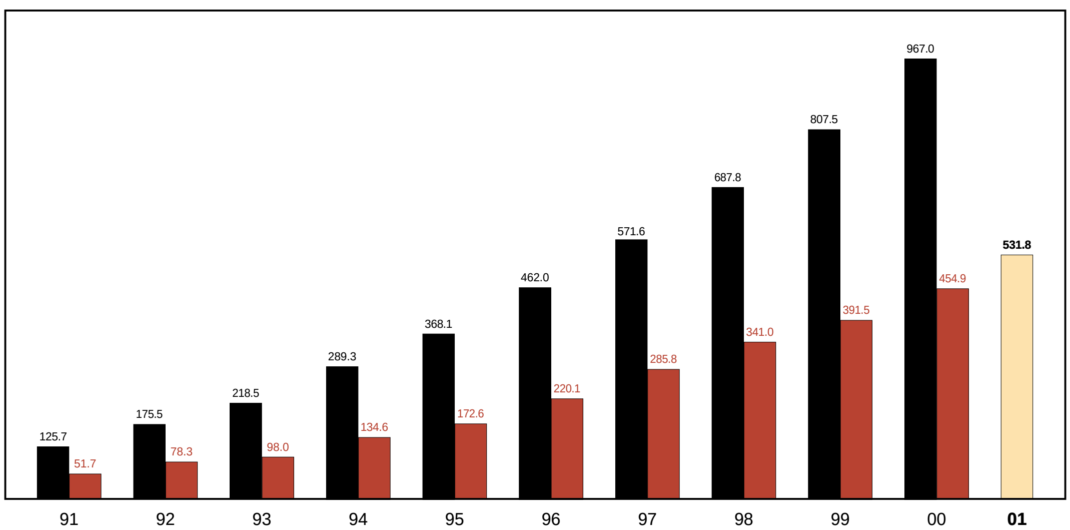
Company highlights

interim report 2001

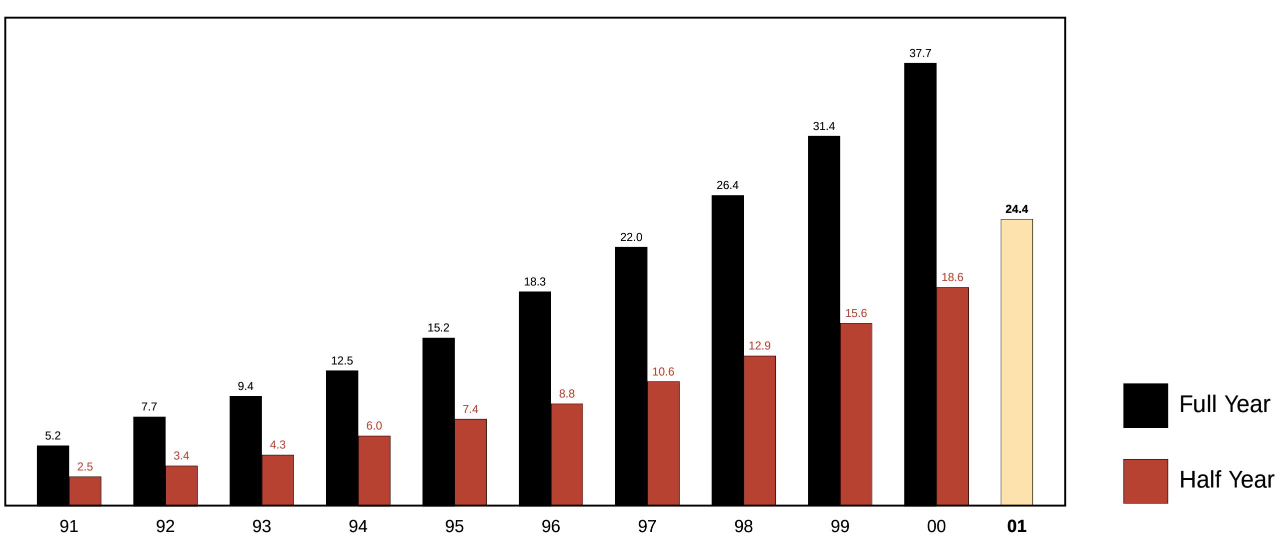
- Business fundamentals remain strong:
  - Strong organic growth continues
  - Strong cash performance
  - Contract renewal rate over 90%
  - Bid win rate over 70%
  - Market growing and large enough to be addressed selectively
- £650 million of new awards, including £160 million contract for England's Traffic Control Centre
- Forward order book up to £6.2 billion
- Major contracts extended include the National Physical Laboratory and Docklands Light Railway
- New education business established with £35 million annual turnover including contracts in Bradford and Walsall
- Acquisition of AEA Technology's Consulting business extends customer base and strengthens our position in science
- Global presence provides significant growth opportunities

Financial highlights

	6 Months to 30.6.01	6 Months to 30.6.00	
Turnover+	**£531.8m**	£454.9m	up 16.9%
Profit before tax – pre FRS 10	**£24.4m**	£18.6m	up 31.1%
Earnings per share – pre FRS 10	**4.36p**	3.34p	up 30.5%
Dividend per share	**0.57p**	0.50p	up 14.0%



Turnover+ £'m



Profit before tax (pre FRS 10) £'m

+ including joint ventures

A message from the Board

Strong increases in both sales and profits reflect our position in an expanding range of international growth markets. We have continued to extend our reach into public service activities such as transport, education, justice and science, which offer substantial potential for further growth.

In the six months to 30 June 2001, turnover was £531.8 million – an increase of 16.9% on the first half of 2000. Pre-tax profits grew 31.1% to £24.4 million before goodwill amortisation and by 33.1% to £22.4 million after goodwill. This raises earnings per share by 30.5% to 4.36p before goodwill and by 33.1% after goodwill. The tax rate remained at 32.5%.

Underlying pre-tax profits grew 18.2% to £22.7 million before goodwill, after adjusting for the following one-off items. These are the unsuccessful National Air Traffic Services (NATS) acquisition, the Great Southern Railway refinancing and our investment in the People and Technology programme. As planned, to cover the costs of the NATS acquisition – an exceptional item in this year's Accounts – we took the opportunity to release cash and profit from our Australian subsidiary, Great Southern Railway, by refinancing its rolling stock. This also enables us to complete our current investment programme, People and Technology.

The interim dividend of 0.57p per ordinary share – an increase of 14.0% – will be paid on 12 October 2001 to shareholders on the register at close of business on 14 September 2001.

During the period we won an excellent flow of new business, totalling some £950 million of which £650 million are new awards. The forward order book grew to over £6.2 billion. Contract renewals accounted for a quarter of our new business as we maintained our retention rate above 90%. Major successes included extensions to our contracts at the UK's National Physical Laboratory (NPL) and Docklands Light Railway (DLR), our range support contracts with QinetiQ and our manpower and personnel services contract for the Royal Australian Air Force.

We further improved our traditionally high success rate in bidding for new business. UK awards included two important education contracts, the management of a new Immigration Detention Centre and the provision and operation of the Traffic Control Centre for England; overseas awards included our ninth US fleet management contract, the first private-sector contract for our joint venture in Bermuda and our third contract from BHP Billiton in Australia.

Public private partnerships

In June, the influential Institute for Public Policy Research (IPPR) published a report by its Commission on Public Private Partnerships (PPPs). The Commission, which was supported by the Serco Institute, took evidence from a broad cross-section of the public, private and independent sectors. It called on the UK government to encourage diversity in the provision of public services and embrace innovative models of partnership between the public and private sectors. In the same month, the government renewed its commitment to transform public services and indicated its willingness to involve the private sector in the delivery of core public services in areas such as health and education.

Serco has already built a strong position in public services, primarily in defence, science, transport and justice. Our proven public service ethos and sound relations with staff and unions in these areas will stand us in good stead as we bid for projects with a higher public profile, for example in education, arising from the government's new policy direction.

These developments in the UK are likely to have a substantial influence on our international markets. Other nations have shown great interest in the UK's innovative approach to delivering public services. The spread of these ideas has already created new markets for us in Asia Pacific, North America and mainland Europe. Private Finance Initiatives (PFIs) based on the UK experience and focused on social infrastructure are developing in all these regions. We believe the development of PPP models will not be far behind.

There has been considerable public debate on PFI accounting and in particular the treatment of windfall gains arising from the refinancing of PFI projects. These are discussed in a Serco publication entitled *Approach to PFIs*, which is available on our website, www.serco.com. As a matter of principle, we fully support the sharing of windfall gains with our customers.

Acquisitions

Last year's acquisition of Quality Assurance Associates (QAA) helped us to win our first two major education contracts. We have now agreed the acquisition of AEA Technology's Consulting business to enlarge our customer base and strengthen our position in science. The £69.8 million offer is subject only to the approval of AEA Technology's shareholders. The business provides science and safety based services to customers such as the UK Ministry of Defence, British Nuclear Fuels, British Energy and the UK Atomic Energy Authority.

Our strategy remains to expand the business by organic growth and tactical acquisitions.

Social and environmental responsibility

For a business that seeks a growing role in public service provision, it is not enough to pay lip service to social responsibility. Our responsible conduct and public service ethos have been crucial in maintaining our high rates of contract wins and renewals. We will continue to earn the trust of governments and public alike, and to make this a key differentiator for Serco.

After reviewing our UK operating contracts, we are currently consulting with our businesses to create a more comprehensive, global approach to social responsibility, clearly linked to our culture and values. By the end of the year we will have defined realistic social responsibility commitments. This will enable the Serco Best Practice Centre to develop processes for meeting these commitments, training and encouraging staff to apply them, reporting on our performance and disseminating best practice. We will begin reporting on these initiatives in 2002.

Outlook

Serco will continue to increase the diversity of its contract portfolio, primarily through organic growth – underpinned by an exceptionally high renewal rate for existing contracts, a substantial order book and a continuing strong performance in winning new business in growth markets.

The trend towards private sector involvement in public services is gathering impetus internationally – and the recent elections of reforming governments in the US, UK and Asia have added further momentum. The diversity of our experience provides an increasingly strong platform for sustained long-term growth as the concepts of outsourcing and PPPs gain wider acceptance – in new territories, sectors and activities – and clients' requirements become ever more complex.

Review of operations

Expanding our role in public services

The UK government's determination to involve the private sector more closely in the delivery of public services represents a major growth opportunity for us – not least because we anticipate similar developments worldwide over the next few years. In order to make the most of our early mover advantage in this area we have continued to focus on selected markets – including the relatively new areas of justice, science and education.

Justice

We are building a growing business in applying our management, IT and facilities management expertise to support national and local police operations. And we have already established a strong position in PFI projects to build and run new prisons, through our Premier Custodial Group (PCG) joint venture with Wackenhut Corrections Corporation.

The phase-in of our strategic partnership with the National Crime Squad for England and Wales is now nearing completion. We have recruited almost 100 staff at six sites for this 10-year contract worth over £65 million. As well as introducing core services on schedule, we are already broadening the scope of the contract and are working with the National Crime Squad on several new initiatives.

In January we were asked to intervene at short notice to support a critical national intelligence system serving the 52 Police Forces in the UK, and other agencies. The request was to provide remedial and maintenance services for the intelligence system and we intend to bid for the full five-year contract when it is tendered later this year.

We work with the majority of UK Police Forces as agent for Gatsometer enforcement cameras. The government has announced its intention to allow the police to reinvest fine revenues from enforcement cameras in new camera technology and resources. Clearly, we are well placed to benefit from the expansion of this market; our continuing development of the technology, including colour digital and automatic numberplate recognition camera systems, will stimulate further growth.

PCG was recently appointed to manage a new Immigration Detention Centre, Dungavel House, in South Lanarkshire. This will house up to 150 immigration detainees. Our expertise and experience were crucial in bringing the centre into operation fast and efficiently to meet urgent demand.

In July, PCG opened Dovegate, a new 800-bed prison and therapeutic community facility in Staffordshire, under a 25-year PFI contract. Its 200-bed high-security therapeutic treatment facility is the first to be developed in the UK for 30 years and the only one to be privately developed and managed.

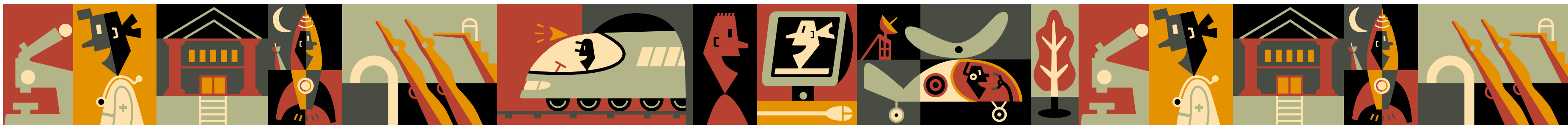
PCG has broken more new ground by winning a contract from Staffordshire Police to provide detention custody assistants. This staff support contract for a police authority opens up a new market.

In addition to high-profile PFI projects, there is strongly growing demand for outsourced services to the justice community. The market is now worth an estimated £2.5 billion a year in the UK and we are confident of expanding our role in this area.

Science

We are gaining real critical mass in science – by 2002 we expect to have a business with an annual turnover of £150 million in the UK and continental Europe.

In the UK we have gained a two-year, £60 million extension to our contract for operating the National Physical Laboratory (NPL) and we continue to add new business. This year – with our partners, Laboratory of the Government Chemist and the BioIndustry Association – we undertook a strategically important assignment to formulate a Biometrology Programme for the UK's Department of Trade and Industry (DTI). We began a Photonics Programme for the DTI, aimed at sustaining NPL's leadership in measurement for the fast-developing optical communications industry. And we are in advanced discussions on a Department of Health contract to support measurements needed in mobile phone research.



After a successful first 18 months, we anticipate further opportunities for expansion at Britain's Atomic Weapons Establishment (AWE), which we manage with partners Lockheed Martin and BNFL through our jointly owned subsidiary AWE plc. Meanwhile, our rigorous approach to health and safety has been recognised by a major award from the Royal Society for the Prevention of Accidents (RoSPA). AWE was judged the best-performing company in the public service and national defence sector – one of only 16 Sector Awards across the UK in 2000.

Drawing on our marine services experience in the defence sector, we have won a 10-year contract to operate and maintain three marine research vessels for the UK's Natural Environment Research Council.

We do not anticipate major opportunities arising frequently in the science sector, but we are well positioned to seize them when they do. In Europe we are playing to our strengths by focusing on opportunities in defence and space-related science, mainly in France, Germany, Italy, the Netherlands and Switzerland. We are also working with partners to develop opportunities in the US. We continue to extend our capabilities in newer areas of science, particularly those with the greatest commercial potential – for example, at NPL we are shifting the emphasis from mature areas to those with applications in the electronics, biotechnology, energy efficiency and environmental sectors.

Education

Support for UK Local Education Authorities (LEAs) is a newly-emerging market in which we have become one of the leading operators. Since December we have built a business worth over £35 million a year after winning two strategically important contracts.

In Bradford we are providing education services to the council and schools under a 10-year contract involving almost 1,200 staff. It is the largest of its kind yet awarded to a private sector supplier in the UK. We are supporting all state maintained schools across the Bradford district and providing additional help where needed in order to raise levels of attainment for pupils.

In Walsall we are working in partnership with the LEA to deliver strategic management and school improvement services; the five-year contract involves around 100 staff.

Our success in securing a significant share of the first round of LEA contracts positions us at the forefront of this new market and builds on the excellent reputation that our QAA business has established in inspection, consulting and training services.

Maintaining firm foundations

While positioning ourselves for growth in emerging public service markets, we have continued to capitalise on Serco's strength in its more traditional public sector markets. We have also made further progress in the commercial sector.

Transport

The UK government has announced a 10-year transport plan involving investment of £180 billion – of which over a quarter will come from attracting private sector investment through long-term partnerships. This massive investment will be spread across road, rail and local government initiatives; we are active in all these market segments, bidding for contracts and pursuing long-term partnership opportunities with local and central government agencies.

In March we signed a 10-year, £160 million PFI contract with the UK Highways Agency to design, build and operate its national Traffic Control Centre (TCC). The contract builds on our existing relationship with the Agency and draws on our international experience of managing intelligent road systems. The TCC will make it possible to view and manage England's strategic trunk roads as an integrated network, directing traffic flows to reduce congestion. As operator, we will distribute traffic and travel information through existing and new media.

We have maintained our strong position in the UK rail industry after a series of successful rebids for routine property maintenance contracts. Our 60% market share makes us the leader in these contracts with Railtrack.

Since becoming operator of London's Docklands Light Railway (DLR) in 1997 we have consistently invested in improving train services and passenger information. Today, both reliability and customer satisfaction are at record levels. In August we gained a two-year extension until 2006, enabling Transport for London to retain our expertise while it integrates an extension to London City Airport. Annual passenger numbers have more than doubled to 40 million since 1997 and are expected to reach 60 million by 2006.

Another example of successful investment is our contract for the UK's National Rail Enquiry Scheme (NRES). Since winning this in 1997 we have introduced new technology to improve responsiveness and added new services. This year, our performance earned us an additional contract for the NRES Southern Region, increasing our call volume by 20% to some 21 million calls a year. Meanwhile, our performance on NRES has attracted contracts from ScotRail and the Association of Train Operating Companies; we operate all four from our call centre in Cardiff.

Since we took full control of Australia's Great Southern Railway (GSR) we have significantly improved its performance and developed its tourism potential – making possible this year's refinancing of its rolling stock. The refinancing – through a conventional lease-out lease-in transaction – is part of our continuing management of our portfolio of assets, releasing both profit and cash. It has no impact on GSR's day-to-day services.

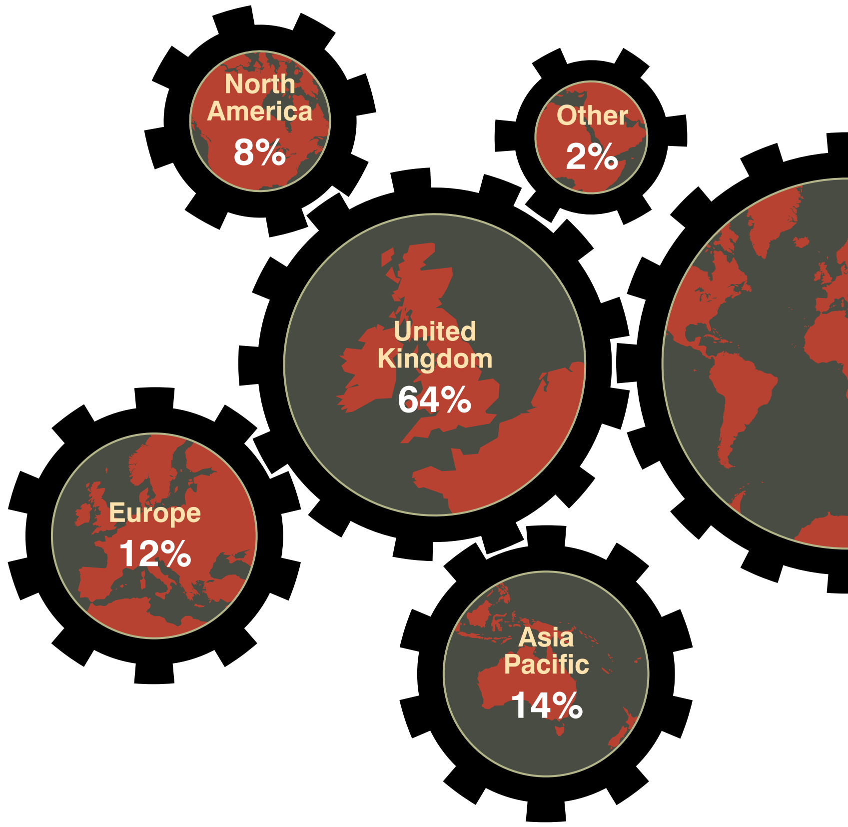
In the Middle East our contracts include air traffic control and engineering maintenance support at many of the region's major international airports. This year we have won a three-year renewal of our air traffic services contract at Abu Dhabi and Al Ain International Airports.

Looking ahead, our prospects in road transport will benefit from the strong position we have developed in the strategically important market for transport-related IT, particularly in traffic management. In rail transport our record as a light rail operator on the Manchester Metrolink, DLR and Copenhagen Metro will provide a solid platform for future bids: we are the UK market leader in light rail, and many more opportunities are expected to arise across Europe over the next few years.

Defence

The defence market remains a strong growth area, and we are well established as a market leader in outsourced support services to the military in the UK, Australia and New Zealand.

In Australia we have extended the manpower and personnel services contract under which we provide some 250 skilled technicians and managers to support the Royal Australian Air Force at bases across the country. In New Zealand we are negotiating with the army to renew our facilities management contract in the Papakura and Northern Regions for up to 9½ years. The air force has extended our contract for technical services at Ohakea Base.



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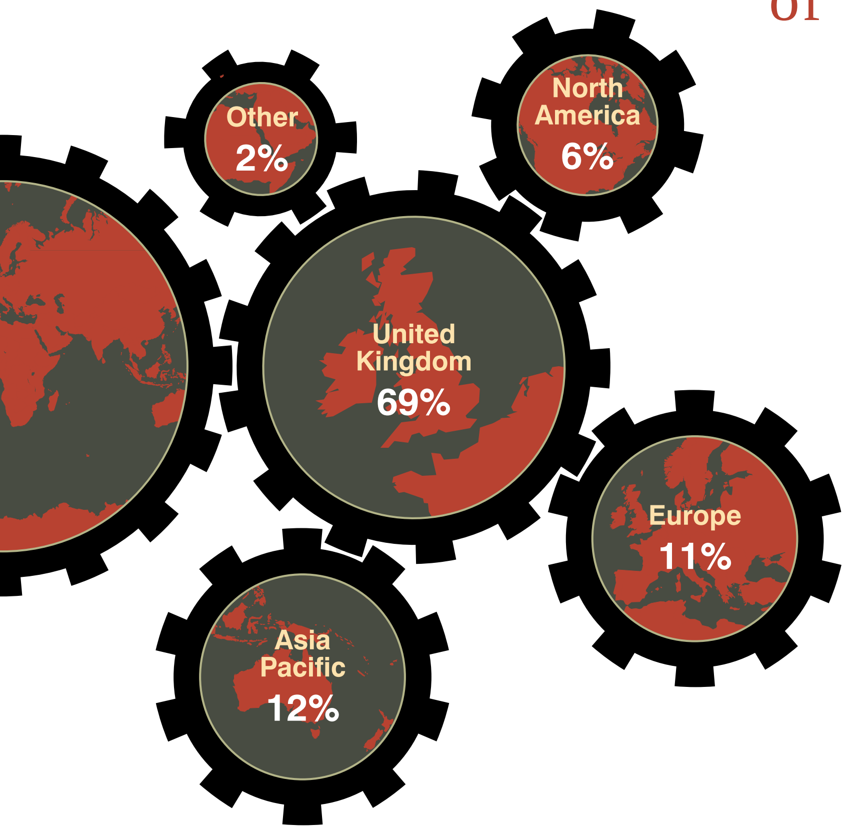
Contracts developed in the UK included the land ranges test and evaluation support contract with QinetiQ, which operates and manages the ranges on behalf of the MoD. The contract – covering two land range sites at Shoeburyness, Essex and Eskmeals, Cumbria – confirms that we will continue to play a key role in support of QinetiQ's land test and evaluation operations, complementing our work at its air and sea ranges.

New activities won by our test systems business included a contract for computerised verification of serviceability of the weapons systems fitted to Harrier and Tornado aircraft. The technology we are using draws on expertise acquired over the past 10 years in delivering the Merlin Avionics Test Systems and MK 24 Torpedo Test Systems contracts.

With our first PFI contracts now operating successfully in the UK, we are currently bidding for more and have invested in a strategic management team to ensure that we compete strongly as public-private opportunities develop internationally. We are already developing PPP proposals in Australia; and we see opportunities in North America as Canada adopts PPP/PFI principles and the

Geographic breakdown of turnover



2001

US moves towards 'multi-activity' contracts that require technology solutions coupled with change management skills.

Civil government

The trend towards outsourcing services is now firmly established in local and regional government across the UK – and gathering momentum in Europe, North America and Asia Pacific. For example, we provide about 20% of the outsourced services to Australian utilities. Several Australian states are now developing PFI projects and we are focusing on those that include a service element. We are also pursuing opportunities in Europe, particularly in Italy.

We are building an increasingly strong position in leisure centre management. During the first half we successfully negotiated extensions to three UK contracts – in Buckingham, Tenterden and Stockport – and successfully rebid to manage three centres in Northamptonshire for a further 15 years. In Sweden we successfully rebid our Linköping leisure centre contract and won a third at Växjö, making us the country's largest private provider in the public leisure centre market.

In May we won a seven-year professional property and construction services contract with the London Borough of Richmond, adding to our existing business in this field. The client commended our 'genuine understanding and commitment to a partnership'.

In Australia we won a two-year extension to our contract to operate and maintain the water and wastewater system in the Coliban area of Victoria. Over the initial contract period we successfully consolidated water operations serving 55 cities, towns and villages, delivering the intended substantial cost savings. The proven success of this innovative project has made it an attractive model for other areas.

We also extended our warehousing and distribution contract for the New South Wales Government's Q Stores, and our facilities management contract with the Western Australia Department of Contract and Management Services.

In New Zealand, our performance for Wellington City Council has won us additional business: we have signed a new five-year contract to provide building maintenance services for the city.

In North America we won rebids on our contracts for examination and registration services with the West Virginia Department of Motor Vehicles and for maintaining the school buses in Portsmouth, Virginia. In both cases we were re-appointed because of the quality of our service delivery over the previous contract term.

In Kentucky, Louisville Gas and Electricity appointed us to manage its 1,300-vehicle fleet, with a contractual challenge to develop further outsourcing opportunities within the company. The contract will provide a useful showcase as the US utilities industry becomes increasingly interested in outsourcing. It is our ninth fleet maintenance contract in the US, where we now maintain over 6,000 vehicles.

Commercial and industrial

In Bermuda we were awarded a BMD13 million facilities management contract with the Bank of Butterfield, which includes managing all the bank's properties across the island. In the past our presence in Bermuda has been confined to air traffic control and aviation services; this is the first result of an initiative to build commercial business there.

Review of operations continued

In Australia our growing relationship with BHP Billiton has won us a third contract with the company. Based at BHP Billiton's main steelworks site in Port Kembla, this five-year contract to provide security, medical, fire and emergency response services involves technology investment and a substantial culture change programme.

In Ireland, The Boots Company extended its facilities management contract, which now covers 78 stores throughout the country. We also successfully rebid for our facilities management contract with IBM.

In Germany we won a series of contracts to install fibre optic cable: a 40km telecommunications network in Düsseldorf and Neuss for Metromedia, multimedia links at the Nürburgring racetrack for WIGE-MIC Media Service, and a 50km installation for mobile phone companies along part of the new Frankfurt-Cologne high-speed rail link.

We see future growth potential in the US, where we have already established a good foothold in the utilities sector.

The future

In the fast expanding worldwide market for public-private collaboration, both governments and corporate partners are attracted by our proven experience. We are making good headway in countries that have begun to follow the UK's lead, notably in Europe and Asia Pacific. Opportunities are also beginning to emerge in North America, and we are strengthening our position there to make the most of our early mover advantage.

The diversity of our contract and market portfolios positions us well for the future. Our contracts are widely spread around the world and across a broad spectrum of sectors and clients; they also vary widely in complexity, from relatively straightforward tasks to politically sensitive partnerships demanding high levels of managerial and technological sophistication. This well-balanced business model differentiates Serco from competitors. It enables us to go on expanding at a rapid yet controlled pace, identifying and addressing new business opportunities energetically but with the selectivity that has underpinned our historic growth.

Proforma Summary Consolidated Profit and Loss Account For the six months ended 30 June 2001

	6 Months to 30.6.01 £'000	6 Months to 30.6.00 £'000	Year to 31.12.00 £'000
Turnover: Group and share of joint ventures - continuing operations	**531,784**	454,933	966,991
Less: Share of joint ventures	**(97,557)**	(77,640)	(194,948)
Group turnover	**434,227**	377,293	772,043
Cost of sales	**(376,476)**	(327,490)	(669,361)
Gross profit	**57,751**	49,803	102,682
Administrative expenses	**(40,203)**	(32,536)	(74,601)
Exceptional item: Cost of unsuccessful NATS acquisition	**(10,187)**	—	—
Exceptional item: GSR refinancing	**15,356**	—	—
Share of profits arising from joint ventures - including group joint venture costs and joint venture interest	**4,242**	2,930	13,172
Profit before group interest and goodwill	**26,959**	20,197	41,253
Net group interest	**(2,563)**	(1,592)	(3,543)
Profit on ordinary activities before taxation - pre amortisation of goodwill	**24,396**	18,605	37,710
Amortisation of goodwill	**(1,970)**	(1,750)	(3,681)
Profit on ordinary activities before taxation	**22,426**	16,855	34,029
Taxation on profit on ordinary activities	**(7,288)**	(5,478)	(11,059)
Profit on ordinary activities after taxation	**15,138**	11,377	22,970
Dividends	**(2,270)**	(1,964)	(6,387)
Retained profit	**12,868**	9,413	16,583
Earnings per Share ("EPS") of 2p each:			
Basic EPS, after amortisation of goodwill	**3.86p**	2.90p	5.85p
Basic EPS, before amortisation of goodwill	**4.36p**	3.34p	6.78p

Basis of Preparation

As in our 2000 Annual Review and Accounts we have included a Proforma Summary Consolidated Profit and Loss Account as an alternative presentation to aid in the understanding of the Group results. The Proforma is derived directly from the statutory profit and loss account.

Summary Consolidated Profit and Loss Account

For the six months ended 30 June 2001

	6 Months to 30.6.01 £'000	6 Months to 30.6.00 £'000	Year to 31.12.00 £'000
Turnover: Group and share of joint ventures - continuing operations	**531,784**	454,933	966,991
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Group turnover	**434,227**	377,293	772,043
Cost of sales	**(376,476)**	(327,490)	(669,361)
Gross profit	**57,751**	49,803	102,682
Administrative expenses	**(42,173)**	(34,286)	(78,282)
Amortisation of goodwill	**(1,970)**	(1,750)	(3,681)
Other administrative expenses	**(40,203)**	(32,536)	(74,601)
Exceptional item: Cost of unsuccessful NATS acquisition	**(10,187)**	—	—
Other operating costs relating to joint ventures	**(3,352)**	(2,227)	(7,654)
Operating profit - continuing operations	**2,039**	13,290	16,746
Exceptional item: GSR refinancing	**15,356**	—	—
Share of operating profit in joint ventures	**13,397**	8,901	28,876
Net interest			
Group	**(2,563)**	(1,592)	(3,543)
Share of joint ventures	**(5,803)**	(3,744)	(8,050)
Profit on ordinary activities before taxation	**22,426**	16,855	34,029
Taxation on profit on ordinary activities	**(7,288)**	(5,478)	(11,059)
Profit on ordinary activities after taxation	**15,138**	11,377	22,970
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Earnings per Share ("EPS") of 2p each:			
Basic EPS, after amortisation of goodwill	**3.86p**	2.90p	5.85p
Basic EPS, before amortisation of goodwill	**4.36p**	3.34p	6.78p
Diluted EPS, after amortisation of goodwill	**3.84p**	2.88p	5.79p
Diluted EPS, before amortisation of goodwill	**4.33p**	3.32p	6.72p
Dividend per share	**0.57p**	0.50p	1.63p

Notes to the Summary Consolidated Profit and Loss Account are on page 14.

Summary Consolidated Balance Sheet

As at 30 June 2001

	As at 30.6.01 £'000	As at 30.6.00 £'000	As at 31.12.00 £'000
Fixed assets			
Intangible asset: Goodwill	**70,346**	65,199	68,662
Tangible assets	**53,649**	38,775	40,269
Investments in joint ventures	**31,707**	25,023	27,688
Investment in own shares	**9,350**	7,000	9,680
Total fixed assets	**165,052**	135,997	146,299
Current assets/(liabilities)			
Stocks	**28,231**	23,527	25,942
Debtors	**210,552**	163,992	190,729
Cash (net of overdraft)	**43,467**	22,686	45,497
Trade and other creditors	**(147,310)**	(99,853)	(137,957)
Accruals and deferred income	**(91,832)**	(72,876)	(88,386)
Net current assets	**43,108**	37,476	35,825
Long term creditors[+]	**(59,643)**	(47,053)	(47,121)
Provisions for liabilities and charges	**(25,916)**	(26,403)	(26,078)
Equity shareholders' funds	**122,601**	100,017	108,925

+ includes £6,600,000 of PFI related non-recourse bank loans at 30 June 2001 (at 30 June 2000 and 31 December 2000: nil).

Summary Consolidated Cash Flow Statement

For the six months ended 30 June 2001

	6 Months to 30.6.01 £'000	6 Months to 30.6.00 £'000	Year to 31.12.00 £'000
Operating profit pre NATS cost	**12,226**	13,290	16,746
Exceptional item: Cost of unsuccessful NATS acquisition	**(10,187)**	—	—
Operating profit	**2,039**	13,290	16,746
Depreciation and goodwill amortisation	**8,131**	7,492	15,419
Movement in working capital	**(13,542)**	(9,702)	13,369
Net cash (outflow)/inflow from operating activities	**(3,372)**	11,080	45,534
Dividends received from joint ventures	**2,376**	1,971	7,477
Returns on investments and servicing of finance	**(2,711)**	(1,729)	(3,805)
Taxation	**(1,824)**	(1,253)	(5,653)
Capital expenditure and financial investment	**2,799**	(9,967)	(17,965)
Capital expenditure and financial investment	**(15,060)**	(9,967)	(17,965)
Exceptional item: GSR refinancing	**17,859**	—	—
Acquisitions and disposals	**(3,493)**	(7,944)	(8,174)
Equity dividends paid	**(4,425)**	(3,861)	(5,816)
Net cash (outflow)/inflow before financing	**(10,650)**	(11,703)	11,598
Financing	**8,620**	(798)	(1,288)
(Decrease)/increase in cash	**(2,030)**	(12,501)	10,310
Opening balance	**45,497**	35,187	35,187
Closing balance	**43,467**	22,686	45,497

Interim Report
As required by Section 240 of the Companies Act 1985, notification is hereby given that the accounting information contained in the Interim Report for 2001 does not comprise a full set of accounts and that no full accounts have been delivered to the Registrar of Companies. The interim results for both 2000 and 2001 are unaudited whilst the results for the 2000 full year were audited, and an unqualified audit report was made. The 2000 full year accounts have been delivered to the Registrar of Companies.

Distribution of Report
Copies of this Report are being sent to all shareholders of Serco Group plc. Copies can be obtained from our website, www.serco.com or on request from the Registered Office:

Serco Group plc
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Windmill Road
Sunbury-on-Thames
Middlesex
TW16 7HT
United Kingdom

Notes

For the six months ended 30 June 2001

1. Earnings per share

The calculation of basic and fully diluted earnings per Ordinary Share after goodwill is based on profits of £15,138,000 for the six months ended 30 June 2001 (2000 – £11,377,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

The calculation of basic and fully diluted earnings per Ordinary Share before goodwill is based on profits of £17,108,000 for the six months ended 30 June 2001 (2000 – £13,127,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

2. Analysis of profit before tax – pre goodwill

	6 Months to 30.6.01 £'000	6 Months to 30.6.00 £'000
Profit on ordinary activities before taxation reported	**22,426**	16,855
Amortisation of goodwill	**1,970**	1,750
Profit on ordinary activities before taxation - pre amortisation of goodwill	**24,396**	18,605
Exceptional item: Cost of unsuccessful NATS acquisition	**10,187**	—
Investment: People and Technology project	**3,440**	575
Exceptional item: GSR refinancing	**(15,356)**	—
Underlying profit on ordinary activities before taxation - pre amortisation of goodwill	**22,667**	19,180

3. Analysis of net joint venture profit

	6 Months to 30.6.01 £'000	6 Months to 30.6.00 £'000
Share of joint venture operating profit	**13,397**	8,901
Share of joint venture interest	**(5,803)**	(3,744)
	7,594	5,157
Other operating costs	**(2,756)**	(2,040)
Underlying net joint venture profit	**4,838**	3,117
Investment: People and Technology project	**(596)**	(187)
Share of profit arising from joint ventures	**4,242**	2,930

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