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Stock Exchange Announcement

24 August 2011

International portfolio drives good financial performance; UK and US headwinds continue; strong future growth opportunities remain across the Group

Serco Group plc – 2011 Half Year Results

6 months to 30 June	**2011**	**2010**	**Change**
Revenue	£2,245.8m	£2,140.3m	+4.9%
Adjusted operating profit	£133.8m	£124.4m	+7.6%
Operating profit	£122.0m	£115.6m	+5.5%
Adjusted profit before tax	£123.6m	£110.2m	+12.2%
Profit before tax	£111.8m	£101.4m	+10.3%
Adjusted earnings per share	18.74p	16.53p	+13.4%
Earnings per share	16.74p	15.13p	+10.6%
Dividend per share	2.50p	2.20p	+13.6%
Group free cash flow	£51.8m	£93.0m	(£41.2m)

International portfolio drives good financial performance
- Total revenue growth of 4.9%; 5.4% excluding currency; 4.2% organic
- AMEAA exceptionally strong growth of 44% (37% excluding currency)
- 43% of total Group revenue now generated outside the UK
- Adjusted operating profit growth of 7.6%, representing a margin increase of 15bps to 6.0%
- Group free cash flow of £51.8m; reduction reflecting the anticipated increase in net capital expenditure and the return to a more usual operating cash conversion rate
- Total dividend up 13.6% to 2.50p, reflecting growth in adjusted earnings

Contract awards across the portfolio
- £2.5bn of rebids, extensions and new contract awards in the period
- Continue to win one in two new bids and 90% of rebids and extensions
- Further £1.0bn of major contract awards in the second half to date

High revenue visibility and substantial pipeline of opportunities
- Order book of £16.7bn at 30 June 2011 (£16.6bn at 31 December 2010)
- 98% visibility of planned revenue for 2011, 82% for 2012 and 69% for 2013
- Substantial £29bn pipeline of identified opportunities around the world

UK and US headwinds continue
- For 2011, still expect good organic revenue growth and further progress on operating margin
- US federal market faces new risk of further delays and cancellations to bids and awards; impact of austerity measures in the UK may also continue
- Assuming the impact of ongoing economic challenges is manageable, our guidance remains that by the end of 2012 we expect increases in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3% (excluding material acquisitions, disposals and currency effects)

Strong future growth opportunities remain across the Group
- Efficiencies and improvements in essential services continue to be sought by customers around the world
- Potential for increased opportunities through ongoing public service reform
- Intelenet acquisition adds significant global capability in the fast growing, higher margin, private sector Business Process Outsourcing (BPO) market
- The breadth of our portfolio across different markets and economies provides resilience and enhances our overall growth potential

Christopher Hyman, Chief Executive of Serco Group plc, said: "Our international portfolio has delivered a good performance in the first half of the year through the commitment of our people to providing high-quality and cost-effective essential services. Without doubt our markets in the UK and US are facing challenging conditions. However, the breadth of our portfolio, our presence in fast-growing international markets, our significant new BPO capabilities, and the flexibility and innovation of our 100,000 people underpin our strong growth opportunities into the future."

Notes:

Adjusted operating profit, Adjusted profit before tax and Adjusted earnings per share are before amortisation of acquired intangibles and acquisition-related costs, as shown on the face of the Group's consolidated income statement and the accompanying notes.

Group free cash flow is free cash flow from subsidiaries and dividends received from joint ventures, and is reconciled to movements in cash and cash equivalents in Section 3 of the Finance Review.

Performance excluding currency has been calculated by translating non-Sterling revenue and earnings for the half year to 30 June 2011 into Sterling at the average exchange rates for the same period in 2010.

The order book is the value of future revenues based on all existing signed contracts. It excludes contracts at the preferred bidder stage and excludes Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles where we are one of a number of companies able to bid for specific task orders within the IDIQ.

The pipeline is the estimated value of all future potential opportunities that are clearly defined and identifiable.

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Presentation

A presentation for investors and analysts will be held at J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 9.45 a.m. today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Overview

Our portfolio has delivered a good financial performance and we have achieved significant new contract awards. While headwinds in the UK and US continue, we operate in markets with excellent potential, have high revenue visibility and a substantial pipeline of opportunities. We therefore continue to develop our business to address the strong growth opportunities in attractive markets, which support our medium and long-term confidence.

International portfolio drives good financial performance

Serco delivered a good financial performance in the first half of 2011 with total revenue growth of 4.9% to £2,245.8m. Growth was 5.4% excluding adverse currency effects (principally the US dollar), while organic growth excluding acquisitions (principally The Listening Company) and currency effects was 4.2%.

This growth demonstrated the resilience of our portfolio and our ability to develop capabilities in new sectors and geographies. This has been achieved at the same time as headwinds have been felt in the UK and US markets. Revenue growth was exceptionally strong in AMEAA, reflecting growth from existing and recently won contracts. In the UK, performance was varied: Civil Government grew, as the benefits of previous contract wins became fully operational; Defence, Science and Nuclear held broadly steady; while Local Government felt a sharper impact from austerity measures. The Americas saw constant currency growth, despite very challenging conditions for US federal contractors. Our divisional performance is described fully in the Operational Review.

Adjusted operating profit rose by £9.4m or 7.6% to £133.8m, with a 15 basis point increase in Adjusted operating profit margin to 6.0%. Net finance costs reduced by £4.0m, which included a benefit from the movement in retirement benefit obligations. Adjusted profit before tax grew by £13.4m or 12.2% to £123.6m. Small reductions in the effective tax rate and average share base contributed to Adjusted earnings per share increasing by 13.4% to 18.74p.

Group free cash flow was £51.8m compared with £93.0m in 2010. Net capital expenditure increased by £28m, reflecting a return to a more normal underlying level of capital investment, the anticipated investment in SAP systems in 2011 and one-off asset sales in the previous year. The working capital outflow was also £14m greater, reflecting a return to a more usual operating cash conversion rate.

Our policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. Accordingly, the Board has declared an interim dividend of 2.50p per share, representing an increase on the 2010 dividend of 13.6%. The interim dividend will be paid on 14 October 2011 to shareholders on the register on 2 September 2011.

Our earnings, cash flow, financing and related matters are described fully in the Finance Review.

Contract awards across the portfolio

In the first half of 2011, we signed contracts valued at £2.4bn across our wide portfolio of markets and geographies, and were appointed preferred bidder for a further £0.1bn of contracts. Our wins included smaller and medium-sized awards which are fundamental to our growth, as well as significant rebids, extensions, expansions and new contracts. The value of these wins does not include the Indefinite Delivery, Indefinite Quantity (IDIQ) contracts in the US we won as either a prime contractor or subcontractor in 2011, which have a combined ceiling value of approximately US$3bn among awardees. These new IDIQs enable us to compete against other awarded companies for specific task orders issued under the IDIQ, with the value of the task orders recognised when won and included then within our order book.

Among the notable rebids, extensions and new contract wins during the first half of 2011 were:

- Prisoner Escort and Custody Services for London and the East of England, with a potential value to Serco of £420m over 10 years;
- HM Prison and Young Offenders Institution Doncaster, valued at around £250m over 15 years;
- Service management for UK Border Agency's e-Borders system, valued at £29m over two years;
- Maintenance and support services for AgustaWestland's support of the Royal Navy's Merlin helicopter fleet, valued at £33m over five years;
- a 15-year partnership for support services at two of Sport England's National Sport Centres, valued at over £100m to Serco;
- Information, Communications and Technology (ICT) for secondary schools, an expansion within our joint venture with Glasgow City Council, worth £19m over seven years;
- IT support services to the European Commission, valued at £60m over four years;
- US Air Force Space Command task orders valued at $33m under the C4I2TSR IDIQ;
- US Navy task orders valued at $15m under the SPAWAR (C4ISR) IDIQ;
- US Army task orders valued at $41m under the HRsolutions PSS IDIQ;
- Court Security and Custodial Services in Western Australia, valued at A$210m over five years;
- Logistics and base support in the Middle East for the Australian Defence Force, valued at A$50m over two years; and
- Acacia Prison in Western Australia extended and expanded contract, valued at A$310m over five years.

There have also been significant contract awards in the second half of the financial year to date. Of particular note is the signing of the non-clinical support services contract for Fiona Stanley Hospital near Perth, which has a total value to Serco of A$1.3bn (approximately £850m) over ten years.

More details of these and other contract awards can be found in the Operating Review. We also signed numerous other smaller and medium-sized contracts during the year, some of which are described in the contract news update available on our website, www.serco.com.

High revenue visibility and substantial pipeline of opportunities

Visibility of earnings remains high due to the signed contracts that make up our order book, contracts we expect to extend and rebid, and contracts at the preferred bidder stage which we expect to sign. At 30 June 2011, our order book stood at £16.7bn, compared with £16.6bn at 31 December 2010. This leads to visibility of 98% of planned revenue for 2011, 82% for 2012 and 69% for 2013. Our pipeline of identified opportunities around the world has remained stable at £29bn; some of these opportunities are discussed in the market opportunities and drivers section.

UK and US headwinds continue

In the US, the Federal Government's budgetary negotiations during the first half of the year risked a shutdown of the US Federal Government and caused significant impact and disruption to the industry. While we had anticipated improved conditions in the second half, the economic challenges relating to the US deficit reduction plans have added new risk of further delays and cancellations to bids and awards, and this may continue into 2012. Austerity measures in the UK may also continue to challenge us in the short term.

For 2011, we still expect an outcome for the year of good organic revenue growth, although with continued short-term headwinds the rate of growth for the full year is expected to be similar to that achieved in the first half. In addition to good organic growth, total revenue growth will also include The Listening Company. An increase in operating margin (excluding material acquisitions) is also still expected. We do not, therefore, anticipate a change in consensus expectations for the financial outcome of 2011.

Assuming the impact of ongoing economic challenges is manageable, our guidance remains that by the end of 2012 we expect increases in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3% (excluding material acquisitions, disposals and currency effects).

Strong future growth opportunities remain across the Group

Whilst headwinds may continue in the UK and US in the short term, we still see excellent opportunities that support our future growth. Delivering efficiencies and improvements in essential services will continue to be sought by customers around the world. We also expect the potential opportunities to increase as a result of the ongoing public service reform. The Intelenet acquisition adds significant global capability in the fast growing, higher margin, private sector Business Process Outsourcing (BPO) market. Overall, the breadth of our portfolio across different markets and economies provides resilience and enhances our growth potential.

The significant market opportunities and drivers of future growth are reviewed more fully by division in the next section.

Market opportunities and drivers

This section on market opportunities and drivers, together with the Operating Review that follows, is presented according to our five divisions based around our principal markets:

- Civil Government,
- Defence, Science and Nuclear,
- Local Government and Commercial,
- Americas, and
- AMEAA (Africa, Middle East, Asia, and Australasia).

The differing economic environments around the world present a broad range of opportunities for Serco. These stem from the requirement to deliver efficiencies and cost savings in services to the public, the investment to improve or create new services, and structural challenges including economic development, ageing and growing populations, unemployment, migration, security, congestion and climate change.

There is continuing recognition of the benefits to be derived from opening new areas of public service to competition to reduce cost and stimulate innovation in delivery. For example, the UK Government's recent parliamentary White Paper on Open Public Services confirmed it would be moving to a position where "the principles of open public services will switch the default from one where the state provides the service itself to one where the state commissions the service from a wide range of diverse providers".

With only 10-15% of total spend typically currently opened up to competition in our major government markets around the world, we remain confident in the medium and long-term market opportunities and drivers of growth for Serco.

We also continue to develop our support to the private sector, with The Listening Company and the Intelenet acquisitions expected to add significant new growth opportunities.

Civil Government

In home affairs, following an initial market-testing of existing public sector prisons in early 2011, a further nine prisons will be tendered in late 2011 with Serco expecting to bid for a number of these. This forms part of the UK Ministry of Justice programme of opening up the custodial sector more fully to competition, which it reaffirmed as central to the delivery of public service reform. Other opportunities include Community Payback schemes of non-custodial sentencing, the first of which is the London region with Serco bidding in partnership with the London Probation Trust.

A significant opportunity that the UK Border Agency is expected to bring to market is the management of the dispersal, accommodation and movement of asylum seekers and refugees around the country. This project is expected to deliver major financial savings and operational efficiencies, and could draw upon Serco's skills in a number of related services.

In health, the UK Government spends more than £100bn per annum and is looking for greater efficiency and improved outcomes. Our GSTS joint venture has now obtained substantial scale and we have completed the integration of King's College Hospital's pathology service into the joint venture. We also look to provide facilities management and support services to healthcare establishments and GP commissioners, as well as involvement in further opportunities to manage NHS hospitals and expand in offender healthcare.

Serco, as a leading welfare to work provider, continues to assess the opportunities within both the UK and international markets. Welfare is an area of significant UK government expenditure. We have been awarded two regions for The Work Programme, Britain's biggest employment programme for decades. This is also a further major move to a system of payment by results, and builds upon our experience of success in the previous Flexible New Deal contracts. Our place on the Department for Work and Pensions' 'Framework for the Provision of Employment Related Services' enables us to bid for tenders in seven UK regions, including opportunities that attract European Social Fund support.

Defence, Science and Nuclear

The UK defence market is expected to continue to undergo significant change. Last year, the Government published the Strategic Defence and Security Review (SDSR), and in June this year the Ministry of Defence (MOD) published the Defence Reform Unit's independent report into the structure and management of the MOD.

These developments require the MOD and the UK's armed forces to find new ways of working and a more radical approach to the delivery of their front line services and the support to those services. Implementation of these changes involves significant challenges for the MOD and Serco is well placed to help deliver them. This is likely to provide opportunities for Serco to support the MOD in change management, transition and the provision of complex integrated services including outsourced recruitment and training services.

In the science sector, Public Sector Research Establishments (PSRE) have a critical role in addressing challenges such as economic recovery, climate change and national and energy security. The number of these in the UK and the current low level of outsourcing present an opportunity for both the Government and the private sector. Serco aims to deliver high quality science output and ensure science independence, while creating additional value for money. We are in a strong position to contribute given our experience of involvement in managing and operating a number of critical assets, including the National Physical Laboratory, the National Nuclear Laboratory and the Atomic Weapons Establishment (AWE). AWE has recently been recognised by an independent external study as operating at the highest international standard in its delivery of major capital projects.

In the energy sector, the UK Government faces major challenges in securing the country's long-term needs while tackling climate change. This will present further significant opportunities and our participation ranges from delivering regulatory and technical services in the nuclear industry to reducing the radar interference of wind farms. We are also exploring how we can apply our operations and maintenance capability in the wider renewable energy market.

Local Government and Commercial

In UK local government, short-term pressure is being created by the reduction in funding. Looking forward however, this, together with increased service demands from citizens, is driving more interest in strategic partnering, service sharing, process re-engineering and personalisation of services.

We continue in discussions regarding a strong pipeline of opportunities with local authorities to help them transform services. These play across the range of our broad and deep capabilities, in particular IT-enabled BPO service delivery and environmental services, with our credentials supported by our successful bids over the last year at Enfield Borough Council, Hertfordshire County Council and Sandwell Metropolitan Borough Council.

The acquisition of The Listening Company is a key component of our future proposition as their capability allows us to promote easier access to front line services as well as encouraging the migration to the use of more effective and efficient customer contact channels. We expect this to enhance our capability to deliver local authority transformation programmes and also to improve our market position to support the private sector. As we integrate the Intelenet offering into the Group, their deep skills and expertise will also strengthen our position.

Health service delivery is changing, presenting opportunities to build on our integrated facilities management offering to acute hospital trusts, reaching into middle and back office services including HR and Finance. Our success in transferring skills from contracts such as Forth Valley Hospital to Fiona Stanley Hospital in Australia has demonstrated the significant value of our experience.

Americas

The economic challenges surrounding the US deficit reduction plans means the US federal outsourcing industry faces the risk of further delays and cancellations to previously anticipated work. However, the US Federal Government market, which is the largest government contracting market in the world and has an addressable share estimated at over US$100bn per annum, still offers Serco attractive medium and long-term growth opportunities. Despite challenges in the short term given the economic environment, we believe that increasing reliance on technology-enabled managed services to improve efficiency, productivity and provide better services to citizens present opportunities for Serco in the federal defence, federal civilian, and intelligence markets.

Information Technology (IT), professional and managed services are essential for successful government operations. Therefore, we expect continued demand associated with these areas where Serco has strong capabilities. These include C4ISR services (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), network and systems engineering, cybersecurity, logistics systems modernisation, military personnel support services, programme management, business process outsourcing, human capital management and logistics supply operations.

Government agencies are increasingly using multi-award contract vehicles to compete and issue task orders. We have numerous Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles, which enable Serco to bid on specific task orders within the IDIQ. During the first half of 2011, we won a new IDIQ contract vehicle, US Navy's Space and Naval Warfare Systems Command (SPAWAR) Sea Enterprise Global with a ceiling value of $1.4bn over five years. We are pursuing three additional multi-award contract vehicles which are expected to be announced in 2012.

Serco has over $1bn in estimated value of non-IDIQ bid proposals submitted to various US federal government agencies that are awaiting award. We have bid for contracts across a broad range of capabilities including application development and processing, personnel support, systems engineering, logistics support, programme management, transportation solutions, and learning and training. Serco has identified another $1.5bn in estimated value of bids to be submitted during the second half of 2011.

We believe that the programmes relating to supporting military operations and veterans, securing the nation's borders, increasing government efficiency, and enhancing intelligence capabilities are vital to the interests of the US. Our continued focus, efforts, and attention remain on federal clients with robust budgets in the high-priority areas we serve and support. Going forward, we expect to see opportunities in emerging priority areas such as aviation, federal health, veterans' support, surveillance and reconnaissance, and cloud computing.

AMEAA

The AMEAA region has experienced the fastest growth of our portfolio for a number of years. While volume-related growth in contracts such as our work with Australia's immigration services may reduce, the region also presents some of our strongest market opportunities and drivers looking forward. Having grown to represent around 14% of Group revenue in the first half, the region accounts for over 20% of the Group's pipeline of identified opportunities as at 30 June 2011.

In Australia and New Zealand there is a growing range of opportunities. In the justice sector we are seeing a number of new-build and existing prisons being put to the market as governments challenge the traditional approach. Serco is strongly placed through its excellent track record at Acacia Prison and Borallon Correction Centre in Australia, and its recent contract wins for Mount Eden Corrections Facility in Auckland and the Court Security and Custody Services in Western Australia. Our defence strategy in Australia is also developing and winning new business, with further opportunities expected in areas such as logistics and garrison support.

We continue to pursue the emerging health markets in Australia, Hong Kong and the Middle East, as governments encourage the private and voluntary sectors to develop models for the build, finance and operation of hospitals. The Fiona Stanley contract represents a significant development, building as it does upon substantial experience and expertise from our operations within UK hospitals and our other healthcare services in Australia.

The Middle East continues to show strength and resilience to the economic downturn as governments continue to move forward with their social infrastructure improvement programmes. Growth in the region is envisaged from expansion into new sectors and territories. Governments are increasingly seeking value for money and whole life asset management of buildings and infrastructure. Significant opportunities are emerging in the Integrated Facilities Management sector across airports, schools and other infrastructure. We continue to win further business and witness a strong pipeline in the existing aviation and transport business, along with opportunities emerging for adjacent services.

We are well placed in the region to move into new markets such as clinical and non-clinical healthcare, education, justice, welfare to work and defence logistics, with a strong pipeline of opportunities for the foreseeable future. Countries such as Saudi Arabia, Qatar and Kuwait have taken significant steps to improve transparency and adopt international best practices for their procurement processes, and are therefore offering an increasing number of new opportunities across sectors.

In India, our presence in the domestic BPO market will be significantly enhanced to a leading position by the acquisition of Intelenet. This will also strengthen the platform from which to win business within the promising healthcare and transport sectors (including rail, traffic management and aviation).

Intelenet and Business Process Outsourcing

Serco has acquired Intelenet, a leading provider of Business Process Outsourcing (BPO) services to the private sector around the world and in the domestic Indian market, for up to £386m. We have concluded the regulatory approval process that was required to complete the transaction and took control of the business from 7 July 2011. With the exception of acquisition-related costs incurred in the first half of the year, the acquisition will therefore begin to impact the Group financially in the second half of the year.

This acquisition is strategically important for the development and growth of Serco. Firstly, it provides access to attractive markets: the international and domestic Indian BPO markets are large, forecast to grow around 15% per annum in the medium term, and have margins reflective of high value services. Secondly, it broadens our customer and geographic reach: in line with our strategy of building a balanced portfolio, Intelenet's diverse and international private sector customer base will further increase our spread across markets. Thirdly, it adds to our scale and depth of capabilities: together with our existing BPO-related operations we will have around 40,000 employees providing transactional, process and voice support, finance and accounting services, and business transformation consulting, making us strongly placed to provide our customers with a broad range of end-to-end business services.

As companies seek out new ways to improve their service and reduce costs, we expect the BPO market to continue to show attractive growth and opportunities. Intelenet has highly valued capabilities and a strong customer base, which together with its economies of scale, means we can access new markets and strengthen our existing propositions.

Operating Review

The Operating Review outlines contract wins which are significant because of their value or their strategic contribution to our business. We have also won numerous other smaller and medium-sized contracts, details of some of which can be found on our website at www.serco.com.

Civil Government

Civil Government includes our UK and European operations in transport, home affairs (custodial, immigration and field services, and border security and control), welfare to work and healthcare.

Revenue on a reported basis grew 4% to £599m, (2010: £574m) and represented 27% of Group revenue. Excluding the impact of currency, revenue on a constant currency basis also grew 4%.

Growth was supported by large contracts awarded in 2009 that became operational or saw revenues build through the course of 2010. These included the previous Flexible New Deal contracts, the Barclays Cycle Hire Scheme in London, the expansion of the GSTS Pathology joint venture to include King's College Hospital NHS Foundation and passenger growth on the Docklands Light Railway.

Transport

Northern Rail operational performance has continued to be positive. Its latest punctuality metrics of 90.7% were at the industry average, maintaining the significant improvement achieved over our operation of the franchise. Northern Rail was awarded the top transport title from the Royal Society for the Prevention of Accidents for the third year running, as well as the 'Sustainable Business of the Year' for 2011 in the Environment and Energy Awards, supported by Sustainable Business.

Merseyrail has also had a strong operational start to the year, with the majority of its business indicators showing a stable and healthy performance, including punctuality at 95.0%. This comes on top of being the UK's most punctual rail operation as well as the most highly rated in terms of customer satisfaction during 2010. Merseyrail has also achieved the Investors in Excellence Standard, an internationally recognised mark of quality for achieving continuous improvement as well as ongoing success and sustainability.

Docklands Light Railway rolled out last year a full three-carriage service which increased capacity by 50%. This has continued to support both passenger growth and improved customer satisfaction now at 96.3%, the best result for over three years. Service reliability has also increased to 97.6% of trains running to schedule, based on the most recent figures.

Barclays Cycle Hire for Transport for London, while experiencing some operational challenges in the first year of this highly innovative scheme, has continued to grow in numbers and popularity. Since launch in August 2010, the five million cycle hires milestone was reached by Easter and average weekday hires are now 23,000. The scheme's success has resulted in plans to extend it to areas in both south and west London, as well as east in readiness for the 2012 Olympics. Awards for the scheme have included an 'Infrastructure Award' at the Institution of Civil Engineers awards, 'Innovative Transport Project' at the London Transport awards, and a 'Design of the Year' award at the Brit Insurance Design awards for innovative and forward thinking designs from around the world.

Home Affairs

The UK Government's Ministry of Justice awarded Serco a contract to provide Prisoner Escort and Custody Services within the new National Offender Management Service (NOMS) region of London and the East of England, with a potential value to Serco of £420m over 10 years. This new contract replaces Serco's current agreement to provide prisoner escorting services to the NOMS regions of London and the South East, which has reached the end of its seven-year term. Serco will work in partnership with Wincanton plc to provide the safe, timely and secure transportation of prisoners between Police stations, Courts and HM Prisons. Whilst at court, Serco staff will manage custody suites and accompany prisoners in courtroom docks. The contract solution brings together experience and expertise to deliver an innovative approach, high quality services and considerable savings for the taxpayer.

Serco was awarded the contract to continue operating HM Prison and Young Offenders Institution Doncaster in the UK. The new contract will commence in October 2011 and is valued at around £250m over 15 years. As part of the contract, management and staff will be working in partnership with social enterprise Turning Point and the leading charity Catch22 to pilot a rehabilitation programme, on a payment by results basis, to reduce reoffending. This is the first such pilot in the UK, and the Secretary of State for Justice has described its success as central to the Government's rehabilitation reform strategy.

The new prison at Belmarsh West, in London, to be known as HMP Thameside, will be completed in early 2012 and operations will begin soon afterwards. The contract has a value to us of approximately £415m over 26½ years. Our operations at HMP Lowdham Grange are one of the highest ranked by the National Offender Management Service's measure and described by the Chief Inspector of Prisons recent report as "among the most impressive category B training prisons in the system". HMP & YOI Ashfield was also recently described as "impressive" by the Chief Inspector, and HMP Dovegate, working with Staffordshire University, has helped to professionalise prison staff by developing the first Foundation Degree in Offender Management.

Serco signed a new contract as prime contractor with the UK Border Agency to provide service management for the e-Borders system, valued at £29m over two years. Previously a subcontractor, the new contract means Serco continues to operate the e-Borders service and the National Border Targeting Centre (NBTC), which is the central hub of the multi-agency border security system.

Welfare to Work

Serco was awarded prime contractor status for the Work Programme in the West Midlands and South Yorkshire by the UK Department for Work and Pensions. Serco will work with a strong network of some 37 public, private, and voluntary sector providers to support jobseekers finding sustainable employment. Under the previous three Flexible New Deal contracts which ended in June 2011, Serco has already successfully supported the entry of nearly 25,000 people into sustainable employment since October 2009.

Serco has been awarded two new contracts by the UK Ministry of Justice to help ex-offenders into work in the South East and East of England. The four-year contracts, valued in total at £15m, are the second phase of an initiative called 'Job Deal' which aims to support ex-offenders into work by improving their employment prospects and tackling barriers to employment. Serco already delivers the first phase of Job Deal in these two regions via a network of sub-contractors from the charitable, voluntary and private sectors. The contracts are co-financed by the European Social Fund and National Offender Management Service.

Health

Serco has acquired for £1.6m Braintree Clinical Services Limited, which manages and operates the Braintree Community Hospital in the UK on behalf of the Mid-Essex Primary Care Trust. The recently built hospital provides a comprehensive range of clinical services to day-surgery patients under one roof. Services include general surgery, plastic surgery, orthopaedics, ophthalmology and the diagnosis of ear, nose and throat (ENT) disorders. It also provides outpatients, diagnostic services and has 24 community in-patient beds. Serco's aim is to make the best use of the state-of-the-art facilities to improve local health care.

Serco has also consolidated its position as one of the UK’s leading providers of primary healthcare support when it was selected as preferred bidder by NHS Cornwall and Isles of Scilly for GP Out of Hours Care. Serco has provided this service to more than half a million people since April 2006, working closely with local acute healthcare providers and community services to manage unscheduled care in its entirety.

Defence, Science and Nuclear

Defence, Science and Nuclear (DSN) brings together our businesses providing support to the armed forces in the UK and European defence markets, science-based businesses such as our contracts at the Atomic Weapons Establishment (AWE), the National Physical Laboratory and the National Nuclear Laboratory, our energy market operations and our nuclear safety and assurance business.

Revenue on a reported basis was broadly flat at £460m, (2010: £461m) and represented 20% of Group revenue. Excluding the impact of currency, revenue on a constant currency was also flat.

Revenue progress has reflected some delays to decision making and major contract awards as a result of customer budgetary reviews. Progress in other areas, including a greater number of smaller value contract awards, has offset particular challenges in the level of higher margin discretionary project work and the timing of efficiency improvements in our marine services business.

In the UK defence market, our support services at various bases for the UK's armed forces continue. For example, our maintenance and support services at the Depth Maintenance Facility for the Royal Navy's Merlin helicopter fleet at Royal Naval Air Station (RNAS) Culdrose in Cornwall had its contract renewed with AgustaWestland, valued at £33m to Serco over five years. Our engineers were also awarded a Commander-in-Chief Fleets Commendation for outstanding support to flying training.

Serco has been awarded a five-year extension to its contract to provide air traffic control, air traffic engineering, flight briefing and operations support services at Cranfield Airport, Bedfordshire in the UK. Serco has provided similar services at Cranfield Airport, which is owned and operated by Cranfield University, continuously since the 1950s. We have also secured an extension for the Woolwich Ferry, valued at approximately £14m.

Our joint venture with Lockheed Martin and Jacobs Engineering, which manages and operates AWE, continues to achieve excellent results, working with the MOD to reduce costs while maintaining performance levels. An AWE-led consortium that includes Serco was selected as preferred bidder to deliver elements of the Strategic Weapons Systems (SWS) support at Royal Naval Armament Depot (RNAD) Coulport.

In support of the UK Ministry of Defence's nuclear propulsion programme, Serco has been awarded a new contract in addition to continuing consultancy support delivering safety assurance and technical services. The new contract involves the build of a series of five test rigs that will be used to study environmentally-accelerated corrosion of materials. In total, this work is valued at approximately £15m over one year.

Serco is also providing installation and support of a new radar system for Germany's Ministry of Defence. Serco has been appointed to three sub-contracts by Thales Raytheon to assist in the replacement of six old radar systems with a new system. Under these contracts Serco will be installing the new equipment, providing technical documentation and delivering service maintenance and repair services. This continues on from a strong performance last year in our European defence operations.

Operations of the National Physical Laboratory (NPL) continue to develop. We have almost quadrupled third party income since 2004 to represent around one third of overall income. In the period, NPL has won work from the European Space Agency (ESA) that will utilise NPL's world-leading expertise and state of the art facilities to evaluate powering future European space missions.

Local Government and Commercial

Local Government and Commercial (LG&C) comprises our UK and European IT-enabled BPO services, integrated and environmental services, leisure, education, consulting and commercial businesses.

Revenue on a reported basis reduced 1% to £428m, (2010: £433m) and represented 19% of Group revenue. Excluding the revenue contribution in the period from the acquisition of The Listening Company, as well as the impact of currency, revenue on an organic basis declined by 6%.

The decline included the impact of government spending reductions in a number of areas. The majority of our regional Business Link services have closed as a result of the funding cuts borne by Regional Development Agencies (RDAs). Following the Comprehensive Spending Review, we have continued to see some customers delay decisions on discretionary project work. These cuts taken together have more than offset strong growth in other areas, such as our delivery of efficiencies and improvements for local authorities in IT-enabled BPO and integrated and environmental services. Although short-term challenges in our local authority business may continue, they do not alter our belief in the significant market opportunities and the drivers of future growth in this sector.

IT-enabled BPO services

Our ground-breaking strategic partnership with Hertfordshire County Council commenced earlier this year. This contract, valued at up to £200m over eight years, will achieve efficiency savings for the Council of at least £25m. We are providing front and back office operations including information and communication technology (ICT) services, business processes such as finance, payroll and HR, and support services such as facilities management, customer contact centres and occupational health. We assumed full responsibility for operations in April, following a six month transition period, since when we have been awarded an extension to the scope of our core contract to deliver a new customer services centre. By designing services around the needs and desired outcomes of end users and through integrating front, middle and back office BPO, this new agreement will transform the way the County's citizens access local services.

Serco's property and IT joint venture with Glasgow City Council, known as Access, has been extended to include Information, Communications and Technology (ICT) support for the authority's secondary schools. Under the seven-year £19m extension to the base contract (representing a 10% extension to the base contract value), the joint venture will provide services to 29 schools starting in July this year. Serco has also signed contracts to provide additional services to London Borough of Enfield and Derby City Council respectively to enhance technology and communications capabilities.

In March, Serco acquired The Listening Company, a UK-based provider of outsourced customer contact centre services to both private and public sector organisations. It specialises in bespoke solutions for managing customer interaction ranging from customer acquisition to retention, renewal and growth, including advice and service. It operates across multiple communication channels including email, telephone and internet. The business therefore adds significant contact centre scale and expertise which will strengthen our capability to deliver high volume call handling and frontline customer services.

Recent wins at The Listening Company include becoming the new provider of West Sussex County Council's UK contact centre. A series of innovations and service improvements are planned for the contract which is valued at £5.4m, including broadening the contact centre's existing scope to include back office transactions and the delivery of more complex services. The four-year contract commenced in July. The Listening Company also recently announced the opening of a new contact centre in Cardiff, its ninth major UK site. This is creating up to 600 new jobs to manage sales and customer service activity for a range of UK based organisations, including Shop Direct Group, the UK's largest online and home shopping retailer which is home to brands including Littlewoods, isme.co.uk and Very.co.uk.

Serco has continued to strengthen its position as a leading provider of services to European bodies and agencies, with a series of contract wins in the period. Our contract has been renewed to provide IT support services to the European Commission, valued at £60m over four years. A renewed contract was awarded to provide specialist technical engineering support services for the European Organization for Nuclear Research's (CERN's) accelerator complex, physics detectors, test bench facilities and technical infrastructure, valued at €42m over seven years. Other smaller contract wins include operational support and analysis for the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT), satellite engineering and support services for the European Space Operations Centre, and a contract renewal for IT support services for the Italian Space Agency.

Integrated and Environmental Services

Serco signed a 15-year partnership with Sport England to provide support services at two of Sport England's National Sports Centres, Bisham Abbey and Lilleshall. Under the contract, valued at over £100m, Serco will provide a number of services to these centres as well as playing a major part in the development of new accommodation and sporting facilities at both sites, and upgrading existing facilities and conference venues. This contract will focus upon delivering the best customer experience at each site with particular attention to youth development and ensuring the facilities are managed to give home-grown athletes a competitive advantage as they prepare for the London 2012 Olympic and Paralympic Games.

Serco began its largest environmental services contract in November 2010. The Sandwell 25-year Waste Improvement Plan contract, valued at around £650m, covers refuse and recycling collection services, street cleansing services, and delivering waste processing and disposal, including the construction of a new waste transfer station (WTS). Good progress has been made over the last nine months, with planning permission now granted for both the WTS and development of the depot facility. Construction is expected to commence on both projects later this year. In addition, our team has introduced an improved recycling service and forged strong links with the local community through a series of successful engagement initiatives, which have seen community groups and thousands of households taking part in campaigns to improve their local environment.

Under the same challenges to meet government recycling targets and reduce costs such as landfill taxes, Serco won a new contract in July for refuse and recycling services for Wandsworth Borough Council, with an eight-year value of £44m.

Education

As previously announced, our ten-year contract with Bradford Council has come to an end and we have transferred the responsibility for all education services back to the Council. We are delighted with the significant improvements that have been made. In 2001, SATS Key Stage 2 pupils achieving Level 4 or higher was 66% for English and 59% for Maths, with this improving to 78% and 80% respectively in 2010. In 2001, GCSE pupils achieving five A*-Cs including English and Maths was 34.3%, improving to 71.9% in 2010.

In Walsall we have been delivering similar successes, with improvements in English and Maths now double the national average at age 11, and 75.3% of Walsall's GCSE pupils achieving five A*-Cs in 2010, compared to 40% in 2001. This means that on average 1,200 more pupils per year are leaving school with 5 good GCSEs. However, this contract, due for review in 2015, will now end in 2013. This reflects changes to government policy within the Education Bill 2011, whereby a shift in local government resources means schools now have increased autonomy and direct funding to purchase services previously provided through government grants to local education authorities.

The change in education funding is also leading to opportunities. This has seen Serco partnering with councils where schools contract back for the provision of school improvement and related services, with recent wins including North East Lincolnshire Council, Warrington Borough Council and Halton Borough Council.

Americas

Our Americas segment provides professional, technology and management services focused primarily on the US Federal Government, including every branch of the military, key civilian agencies such as the Department of Homeland Security, and the intelligence community.

Excluding the impact of currency, revenue on a constant currency basis grew by 3%. Revenue on a reported basis, given the weakening of the US dollar, reduced by 2% to £446m, (2010: £455m) and represented 20% of Group revenue.

The US Federal Government operated under seven continuing resolutions budgets over the past ten months, driven by Congressional pressure to cut federal spending. This led to government agencies postponing contract award announcements, delaying work under existing contracts, and cancelling or reducing the scope of task orders. Despite this backdrop, Serco Americas still grew during the first half of 2011. However, risk and uncertainty remains regarding the ongoing pressure to cut federal spending.

Growth, in local currency, during the first half of 2011 was primarily driven by increased work under existing contracts and new task orders being issued under several of our large Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles, primarily with defence customers. Awards across logistics, fleet support, procurement, HR services, technology installation and other support services have led to a resilient performance.

During 2011, Serco was awarded $15m of new task orders under the US Navy's Space and Naval Warfare Systems Command (SPAWAR) Sea Enterprise I IDIQ for installing Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems and equipment on US Navy surface ships and shore stations on the US west coast. In January 2011, Serco was awarded SPAWAR's successor IDIQ, known as Sea Enterprise Global, which expands our opportunities for installing systems worldwide for the US Navy. Serco is one of four prime contractors on this new award and will compete for work in the areas of programme management, engineering design and installation support services. The Sea Enterprise Global IDIQ has a ceiling value of $1.4bn over a three-year base period with a two-year option period. Serco has supported SPAWAR with C4ISR solutions for the past 23 years and has completed approximately 1,000 integrated installations on ships and shore facilities worldwide.

Serco also provides similar services to the Air Force Space Command under its Command, Control, Computer, Communications, Intelligence and Information Technology Surveillance and Reconnaissance (C4I2TSR) IDIQ. This is an $800m IDIQ contract on which Serco is the sole prime provider for the procurement of a full range of services for mission-critical and emergency information technology systems. Based on Serco's strong performance, the Government recently exercised the next two year option period that will begin in October 2011. During the first half of 2011, Serco has been awarded 28 C4I2TSR task orders valued at $33m. These services include engineering, systems integration, hardware procurement, software development, technical support, installation testing, operations and maintenance.

For the US Army, Serco provides human resource services under its HRsolutions Personnel Services Support (PSS) IDIQ. During 2011, Serco has competed and won 28 task orders valued at $41m. Through these task orders, we will assist Army human resource programmes with transition support, processing, counselling, and family community support.

Several new defence contracts have been awarded during the first half of 2011. For the Air Force, Serco won a new prime contract to provide support for the online processing and management of day-to-day operations in aircraft maintenance depots, valued at approximately $7m over three years. For the US Navy, Serco won a contract to continue providing Training and Operational Readiness Information Service (TORIS), valued at approximately $11m over five years. TORIS is a suite of Serco-created IT applications that provide web-based training support and capture training and readiness data for all US Navy surface ships.

Growth in the intelligence arena came from an expansion of programme management work and from success in growing our footprint with a new intelligence customer. Serco also re-competed and was awarded a contract with an intelligence agency. The contract is valued at $15m over five years to provide pre-employment processing for potential employees for the agency.

With collaboration between our business units and leveraging our wide range of capabilities across our customer base, we won a new contract with the Department of Veterans Affairs. We are providing programme management; a knowledge management-based web portal with job hiring tools, e-Learning elements and simulations, videos and chat rooms; mobile web technologies; a call centre; and career coaching. The contract was valued at approximately $20m over its first one-year base period. In 2011, this programme has expanded with Serco providing additional enhancements to the technical solutions, increasing coaching services for retention and recruitment, and business process analysis.

During the first half of 2011, Serco was also awarded several contracts with federal civilian agencies. For example, the US Pension Benefit Guaranty Corporation (PBGC) awarded Serco a new prime contract valued at $6m over five years to design, develop, and implement a quality management programme. PBGC, a US government agency, protects the retirement incomes of more than 44 million American workers in private-sector traditional defined benefit pension schemes.

Other contract awards included a new prime contract to provide information technology support to the State of Virginia Information Technology Agency, valued at $10m over five years. Additionally, Serco was successful in rebidding its contract to provide vehicle fleet management and maintenance services for the Louisville Gas & Electric, a utility company based in Kentucky. The contract is valued at $25m over five years.

In May 2011, Serco was selected by the Boeing Company as its "Supplier of the Year" in the technology category. This is a tremendous honour, especially when considering that Boeing gave awards to only 16 out of its more than 28,000 suppliers worldwide. This award recognises Serco for its enterprise architecture work. This is the second time Serco's enterprise architecture team has received Boeing's Supplier of the Year award. Vetrepreneur Magazine cited Serco as one of the "10 Best Corporations for Veteran-Owned Businesses to work with in 2011". This achievement emphasises Serco's continued dedication to working with the Veteran community.

AMEAA

Our AMEAA segment consists of Africa, Middle East, Asia and Australasia, in which we provide a range of services including transport, justice, immigration, health, defence, BPO and facilities management.

Revenue on a reported basis grew 44% to £313m, (2010: £218m) and represented 14% of Group revenue, up from 10% in same period in 2010. Excluding the impact of currency, particularly given the strong Australian dollar, revenue on a constant currency basis grew by 37%.

This high revenue growth reflects growth in both existing and new contracts that became operational in late 2010 and the first half of 2011 in our markets in Australia, the Middle East and India.

In home affairs in Australia, we work with the Australian Department of Immigration and Citizenship (DIAC) to transform its immigration services. Serco is committed to continuous improvement in the delivery of a humane and dignified service for the people in our care. The number of people in immigration detention was higher on average than the same period last year, but has reduced more recently to a lower level at which it may remain going forward. This reflects government policy initiatives and improvements in visa processing times. We are working closely with DIAC to respond effectively to their changing needs.

Serco signed a new contract with the Western Australian Department of Corrective Services to provide Court Security and Custodial Services (CSCS) including key services such as inter-prison transfers, court security services, and the operation of court custody centres. The contract, which commenced on 31 July 2011, has a value to Serco of around A$210m (approximately £140m) over five years, with two options to extend to a maximum ten year term. This contract builds on our achievements and record at Acacia Prison in Western Australia, as well as our expertise in providing this vital part of the criminal justice system in the UK.

Our contract for Acacia Prison in Western Australia was renewed in May 2011. The previous five-year contract awarded to Serco in 2006 had a total value of A$155m, while the new five-year contract is valued at approximately A$310m and has the potential for extension. Under the new operating contract, Serco will deliver all prison services working alongside the Department of Corrective Services which is managing the development of new living units and supporting infrastructure to accommodate a further 387 prisoners, bringing the total capacity to 1,387. Revenues will increase through the lifespan of the contract as the prison capacity increases.

Serco's commendable performance at Acacia Prison was validated by the independent report by the Western Australian Office of the Inspector of Custodial Services, released in May. This stated that Acacia is "without doubt one of the best performing prisons in Western Australia, if not the best and it is also providing a financial saving to the State."

Serco signed and commenced its contract at Mount Eden Corrections Facility in Auckland, for the New Zealand Department of Corrections. The six-year contract, to provide rehabilitation and reintegration programmes for prisoners as well as logistics and infrastructure management, has an option for extension for a further four years, and is valued at around NZ$300m over the full ten years. Responsibility for managing the prison facility began in May, with the transition completed at the start of August.

In defence, DMS Maritime (our 50:50 joint venture with P&O Maritime Services) which provides harbour and offshore services to the Royal Australian Navy, had its contract renewed last year. In the first half of this year, a new contract was signed for the support of patrol boats under the Australian Department of Defence Pacific Patrol Boats Programme. The programme provides participating Pacific Island Countries with patrol boats to police their Exclusive Economic Zones. DMS will provide technical, engineering and logistic support services for the 19 patrol boats in 11 countries and refits for eight of those vessels, for a period of five years, with options to extend for a further 12 years. The contract is worth around A$50m to Serco over the entire contract life of 17 years.

Serco signed a new contract with the Australian Defence Force (ADF) to provide logistics and base support services in the Middle East. The two-year contract is valued at around A$50m and has two one-year extension options. Under the contract, Serco will deliver fully integrated support services in the Middle East, ensuring the provision of high-quality services in areas such as healthcare, maintenance, ground re-fuelling, accommodation and catering services. As a trusted provider of complex, integrated services and with our well-established capabilities in the Middle East, we are ideally placed to provide these vital services for the Australian Defence Force. Our comprehensive and fully integrated solution will deliver seamless, efficient and high quality services, drawing on our 15-year experience of working with the Australian military.

We expanded into a new market last October when we were appointed preferred bidder by the Western Australian Department of Health to provide vital non-clinical support services at the new Fiona Stanley Hospital near Perth. This substantial contract was signed after the half-year, and is therefore not included in our order book figures. The 10-year contract has a total value to Serco of A$1.3bn (approximately £850m) and also has two five-year extension options. In the pre-operational phase which has now commenced, annual revenues will be approximately A$30-50m. From the opening of the hospital in 2014, annual revenues will be approximately A$160m.

The 783-bed hospital will be one of the leading hospitals in Australia and the major tertiary hospital serving communities south of Perth and across Western Australia. Under the Facilities Management Services contract, Serco will integrate non-clinical services through state-of-the-art technology to ensure the smooth running of the whole hospital. We will be responsible for 30 service lines, including: procurement for the fit-out of the hospital; management and maintenance of hospital assets including medical equipment; information communications technology (ICT); estate and property management; recruitment and HR processes for all clinical staff; safety and incident management; reception, help desk and communications services; design and provision of integrated bedside information and patient entertainment systems; the management of patient electronic medical records and a wide range of other support services.

In April, for the second year running, The Ghan was awarded ‘best luxury rail journey’ in Luxury Travel Magazine’s esteemed Gold List Awards, winning over competition from various famous international rail journeys. The strong Australian dollar and weak consumer spending has meant the Australian domestic tourism market has remained soft since the Global Financial Crisis. Despite the adverse market conditions, Great Southern Rail’s revenue has been broadly held in the first half of 2011. A new marketing campaign, the expansion of the Platinum Service on the Indian Pacific and a second successful season of our newest train Southern Spirit, have contributed to this positive result.

In the Middle East, the Dubai Metro has continued to achieve high levels of service, with availability and punctuality continuing to exceed 99%. Ridership has now tripled from 60,000 per weekday on opening in September 2009 to 180,000 per weekday since May 2011. The Dubai Metro won the Best Rail Operator Award in the Middle East in March 2011 for outstanding performance, while the Palm Jumeirah Monorail which we also operate was shortlisted among other finalists. The Green Line of the Dubai Metro is expected to enter service in September 2011, adding a further 24 kilometres of track, 18 additional stations, 17 more trains and a third depot.

In the Kingdom of Saudi Arabia, the contract to deliver operations and maintenance consultancy services to the Al Mashaaer Al Mugaddassah Metro Southern Line in Makkah has been extended by one year, with an annual value of around £5.2m. This extension strengthens Serco's position as the long term Operations and Maintenance solutions provider.

The strength of our aviation business saw the successful rebid for Provision and Management of Air Traffic Control and Engineering Maintenance Services at Abu Dhabi, Al Ain and Al Bateen International Airports, valued at £22m over two years.

Finance Review

Overview

Our business delivered a good financial performance in the first half, with revenue growing 4.9% and Adjusted operating profit increasing by 7.6% to £133.8m. Excluding currency effects, revenue growth was 5.4% (4.2% organic) and Adjusted operating profit growth was 8.3%. Our Adjusted operating margin increased by 15 basis points. Adjusted profit before tax grew by 12.2%. Group free cash flow decreased by £41.2m to £51.8m, principally as a result of an increase in net capital expenditure and a return to a more usual operating cash conversion rate.

1. Income statement

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

Figure 1: Income statement

Six months ended 30 June	**2011 £m**	2010 £m	Increase
Revenue	**2,245.8**	2,140.3	4.9%
Gross profit	**333.0**	316.1	5.3%
Administrative expenses	**(199.2)**	(191.7)	
Adjusted operating profit	**133.8**	124.4	7.6%
Investment revenue and finance costs	**(10.2)**	(14.2)	
Adjusted profit before tax	**123.6**	110.2	12.2%
Amortisation of acquired intangibles	**(8.4)**	(8.8)	
Acquisition-related costs	**(3.4)**	-	
Profit before tax	**111.8**	101.4	10.3%
Tax	**(29.6)**	(27.0)	
Profit for the period	**82.2**	74.4	10.5%
Effective tax rate	**26.5%**	26.6%	
Adjusted operating margin	**6.0%**	5.8%	
Adjusted earnings per share	**18.74p**	16.53p	13.4%
Earnings per share	**16.74p**	15.13p	10.6%
Dividend per share	**2.50p**	2.20p	13.6%

1.1 Revenue

Revenue grew by 4.9% to £2,245.8m (5.4% excluding currency effects). Organic revenue growth (excluding currency effects and acquisitions) was 4.2% and reflects the growth of existing contracts and the contribution of new contracts started in 2010 and 2011.

1.2 Adjusted operating profit

Following the significant acquisitions announced in the period, the calculations of Adjusted operating profit, Adjusted profit before tax and Adjusted EPS are now shown before acquisition-related costs as well as amortisation of acquired intangibles. There is no impact on the comparative results. Adjusted operating profit increased by 7.6% to £133.8m, representing an Adjusted operating profit margin of 6.0%. Adjusted operating profit margin increased by 15 basis points.

1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £10.2m, a decrease of £4.0m. The decrease was principally a result of greater interest receivable on retirement benefit obligations due to the increase in the value of pension assets compared to the prior period.

1.4 Adjusted profit before tax

Adjusted profit before tax was £123.6m, an increase of 12.2%.

1.5 Acquisition-related costs

These represent incremental costs arising from acquisition activity during the period. £2.7m of the costs incurred related to the acquisition of Intelenet Global Services Private Ltd (Intelenet) which completed on 7 July 2011.

1.6 Tax

The tax charge of £29.6m (2010: £27.0m) represents an effective rate of 26.5% (2010: 26.6%).

1.7 Earnings per share (EPS)

Adjusted EPS rose by 13.4% to 18.74p. EPS grew by 10.6% to 16.74p. EPS and Adjusted EPS are calculated on an average share base of 490.3m during the period (2010: 491.1m). The decrease in the average share base principally resulted from the full weighting in 2011 of own shares purchased in 2010 to satisfy options granted under the Group’s employee share option schemes.

2. Dividend

Serco’s policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has declared an interim dividend of 2.50p per share, representing an increase on the 2010 interim dividend of 13.6%. The interim dividend will be paid on 14 October 2011 to shareholders on the register as at 2 September 2011.

3. Cash flow

Figure 2 analyses the cash flow. As in previous years, we have designed the analysis to show the underlying cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 41, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 2 reconciles the movement in Group cash to the consolidated cash flow.

Figure 2: Cash flow

Six months ended 30 June	**2011 £m**	2010 £m
Adjusted operating profit excluding joint ventures	**97.0**	96.7
Non cash items	**31.3**	31.5
Adjusted EBITDA excluding joint ventures	**128.3**	128.2
Working capital movement	**(36.3)**	(21.8)
Operating cash flow excluding joint ventures	**92.0**	106.4
Interest	**(12.9)**	(12.5)
Tax	**(14.9)**	(14.7)
Expenditure on tangible and intangible assets	**(41.5)**	(20.6)
Proceeds from disposal of tangible and intangible assets	**0.9**	8.4
Dividends from joint ventures	**28.2**	26.0
Group free cash flow	**51.8**	93.0
Acquisition of subsidiaries	**(23.9)**	(1.4)
Acquisition-related costs	**(2.1)**	-
Purchase of own shares and issue proceeds of share capital	**(22.6)**	(16.6)
Financing	**72.6**	(94.5)
Special pension contribution	**(40.0)**	-
Dividends paid	**(25.2)**	(21.6)
Group net increase/(decrease) in cash and cash equivalents	**10.6**	(41.1)
Adjustment to include joint venture cash impacts	**15.2**	32.8
Net increase/(decrease) in cash and cash equivalents	**25.8**	(8.3)

Note: Adjusted EBITDA excluding joint ventures is earnings from subsidiaries before interest, tax, depreciation, intangible amortisation and other non cash items. Group free cash flow excludes the cash impact of acquisition-related costs.

3.1 Operating cash flow excluding joint ventures

Operating cash flow excluding joint ventures of £92.0m (2010: £106.4m) represents a conversion of Adjusted EBITDA into cash of 72% (2010: 83%). This represents a more usual first half conversion rate after a particularly strong result in 2010.

3.2 Interest

Net interest paid increased marginally by £0.4m to £12.9m.

3.3 Tax

Tax paid increased to £14.9m (2010: £14.7m). We expect cash tax payments to increase in the second half of 2011 leading to an increase in the cash tax rate compared with 2010. Cash tax remains below the equivalent charge in the income statement principally as a result of tax relief on special pension contributions, overseas tax refunds and the availability of accelerated capital allowances.

3.4 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets increased significantly to £41.5m (2010: £20.6m). This resulted from the planned additional investment in SAP systems in 2011 and a return to a more normal underlying level of contract capital investment compared to last year. This represents 2.3% of Group revenue excluding joint ventures (2010: 1.2%).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £28.2m (2010: £26.0m). The conversion rate of 93% of joint ventures' profit after tax excluding costs allocated by Group was closer to a more normal rate. The prior year conversion rate excluded the impact of the £4.2m goodwill impairment charge in 2010.

3.6 Purchase of own shares and issue proceeds of share capital

This represents a £24.0m (2010: £23.0m) purchase of own shares for the employee benefit trust in order to satisfy options granted under the Group's share option schemes net of cash inflows of £1.4m (2010: £6.4m) relating to proceeds from the issue of share capital and exercise of share options.

3.7 Financing

The movement in financing resulted primarily from additional loans taken out during the period.

3.8 Special pension contribution

This represents the second instalment of a one-off special pension contribution into the Group's main defined benefit pension scheme which was agreed following the triennial actuarial valuation in 2009. The first payment of £20m was made in December 2010.

4. Acquisitions

The Group acquired The Listening Company Ltd (The Listening Company) on 14 March 2011. The initial cash cost of the acquisition was £40.9m, comprising cash to the existing shareholders of £25.0m, and debt repayments of £15.9m. In addition, the fair value of deferred consideration is £12.5m which is payable conditional on the financial performance in the two year period from 1 March 2011 to the end of February 2013. The Listening Company is a leading UK provider of outsourced contact centre services. The acquisition gave rise to goodwill of £39.2m. Intangible assets arising on the acquisition have been recognised at £5.1m and will be amortised on a straight-line basis over their expected lives.

The Group also acquired Braintree Clinical Services Limited (Braintree), a UK-based company providing clinical and hospital services to Strategic Health Authorities, on 8 March 2011. The net cash received was £1.1m, comprising cash balances acquired of £1.6m and initial cash consideration of £0.5m. In addition, deferred consideration of £1.1m is payable in 2012.

On 7 July 2011, the Group acquired Intelenet Global Services Private Ltd (Intelenet), a leading provider of business process outsourcing (BPO) services to the private sector around the world and in the domestic Indian market, for up to £386m including acquired net debt of £50.8m. Initial cash consideration was £249.3m, a further £36.4m is payable on 16 October 2011. There are contingent deferred consideration cash payments of up to £49.8m through to December 2013.

£3.4m of acquisition-related costs incurred on the above acquisitions have been expensed to the income statement. The cash flow impact of these costs included in the cash flow statement was £2.1m.

5. Net debt

Figure 3: Net debt

At	30 June 2011 £m	31 December 2010 £m
Group - cash and cash equivalents	**214.5**	204.0
Group - loans	**(576.2)**	(482.6)
Group - obligations under finance leases	**(25.0)**	(25.0)
Group recourse net debt	**(386.7)**	(303.6)
Joint venture - cash and cash equivalents	**90.5**	75.3
Joint venture - loans	**(7.8)**	(7.8)
Joint venture - obligations under finance leases	**(1.1)**	(1.4)
Total recourse net debt	**(305.1)**	(237.5)
Group non recourse debt	**(20.1)**	(23.7)
Total net debt	**(325.2)**	(261.2)

5.1 Group recourse net debt

Group recourse net debt increased by £83.1m to £386.7m. This increase was principally a result of the special pension contribution, acquisition activity and purchase of own shares for the employee benefit trust. Changes in currency exchange rates reduced Group recourse net debt by £3.4m.

Cash and cash equivalents includes encumbered cash of £20.8m (31 December 2010: £10.9m). This is cash securing credit obligations and customer advance payments.

5.2 Group non recourse debt

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

Group non recourse debt reduced by £3.6m to £20.1m, as a result of payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada.

6. Pensions

The Group operates and is a member of a number of defined benefit schemes and defined contribution schemes.

At 30 June 2011, the net retirement benefit liability included in the balance sheet arising from our defined benefit pension scheme obligations was £61.9m (31 December 2010: £83.0m), on a pension scheme asset base of £1.6bn.

Figure 4: Defined benefit pension schemes

At	**30 June 2011 £m**	31 December 2010 £m
Group schemes – non contract specific	**(46.8)**	(76.1)
Contract specific schemes:		
– reimbursable	**(152.4)**	(123.4)
– not certain to be reimbursable	**(26.1)**	(26.7)
Net retirement benefit liabilities	**(225.3)**	(226.2)
Intangible assets arising from rights to operate franchises and contracts	**7.9**	8.9
Reimbursable rights debtor	**152.4**	123.4
Deferred tax assets	**3.1**	10.9
Net balance sheet liabilities	**(61.9)**	(83.0)

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

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

Serco has limited commercial risk in relation to the contract specific schemes, due to either the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2011, SPLAS had a small surplus included on our balance sheet of £14.9m (31 December 2010: deficit £16.4m). This is calculated under IAS 19 accounting rules using market derived rates at 30 June 2011. It therefore reflects the effect of market conditions on investment returns in the period and the net impact of an increase in inflation assumptions, offset by an increase in the applicable discount rate.

The estimated actuarial surplus of SPLAS as at 30 June 2011 was approximately £8.6m. The value calculated in the latest triennial review was a deficit of £141m at 6 April 2009. Following the 2009 review, the Group agreed with the Trustees to make a one-off special cash contribution of £60m to the scheme of which £20m was paid in December 2010 and £40m in January 2011. We continue to review the level of benefits and contributions under the scheme in the light of our business needs and changes to pension legislation.

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

Figure 5: Pension assumption sensitivities

	Assumption	Change in assumption	Change in present value of scheme liabilities
Discount rate	5.5%	+0.5% (0.5)%	(9)% +9%
Price inflation	3.5% (RPI), 3.0% (CPI)%	+0.5% (0.5)%	+6% (6)%
Salary	3.9%	+0.5% (0.5)%	+2% (2)%
Longevity	20.9 to 24.6*	Increase by one year	+2%

*Post retirement mortality range for male and female, current and future pensioners.

7. Treasury

The Group's committed bank credit facilities total £1,068m. As at 30 June 2011, £247m had been drawn down on these combined bank facilities (31 December 2010: £330m). The facilities are comprised of:

- a £400m syndicated revolving credit facility, maturing in September 2013;
- a term loan of £75m amortising over three years to 2014 arranged in May 2011;
- a credit facility of £225m arranged in May 2011 and expiring in June 2012 with an option to extend for a further six months;

- a syndicated amortising term loan for US Dollar 396m (£247m) repayable between September 2011 and September 2013. The next scheduled repayment of US Dollar 138m is due in September 2011;
- bilateral credit facilities for £110m, of which £35m matures in December 2011 and £75m (arranged in May 2011) in September 2013, and Euro 12.5m (£11m) maturing in April 2012.

In addition to the bank credit facilities, Serco has private placements totalling £305m which will be repaid between 2011 and 2021. This includes a £187m private placement issued in May 2011. All of the Group's credit facilities detailed above are unsecured.

8. Going concern

The directors have considered the principal risks and uncertainties affecting the Group and its performance in 2011, which were discussed in full on pages 70-79 of the Group's published accounts for the year ended 31 December 2010.

The risks include those arising from: significant change in Government policies, expenditure levels and budgetary constraints; failure to win a strategic or significant bid or rebid; the adverse impact on business from any harm to the Company's reputation; failure of significant programmes, including operating within agreed fixed costs; failure to deliver operational efficiency; major information security breach; major IT failure or prolonged loss of critical IT systems; significant incident or bribery or corrupt practice; major accident or incident; significant changes in energy and carbon costs and reporting requirements; compliance with complex laws and regulations; failure to attract and retain senior management and other key employees; failure to manage union/industrial relations; the adverse impact of the impairment of goodwill on reported results; additional funding requirements for pension schemes; fluctuations in foreign currency exchange rates that are not effectively hedged; and fluctuations in interest rates.

Whilst the current economic environment remains uncertain, the broad base of our contract portfolio and with most of our customers being government bodies, the Group is well placed to manage its business risks (as discussed in the section 'Principal Risks and Uncertainties' included in the Annual Report and Accounts for the year ended 31 December 2010) successfully and has adequate resources to continue in operational existence for the foreseeable future.

The Group's revenues are largely derived from long-term contracts with governments which, historically, have been relatively resilient to changes in the general economy. The contract portfolio is diverse and a downturn in any particular market, sector or geography has a more limited effect on the Group as a whole. In addition, with an order book of £16.7bn and high visibility of future revenue streams (98% in 2011; 82% in 2012 and 69% in 2013), the Group is well placed to manage its business risks despite the current uncertain economic climate.

As at 30 June 2011, the Group's principal financing is through revolving credit facilities, term facilities and US private placements. The Group has in excess of £1,370m of committed credit facilities. The headroom on the facilities was approximately £820m as at 30 June 2011 prior to the purchase of Intelenet. In addition, £24m of these facilities in respect of private placements was repaid on 20 August 2011. The next scheduled repayment is in respect of the syndicated amortising term loan and falls due in September 2011 for an amount of £86m (US Dollar 138m). The Group fully expects to meet these repayments through internally generated cash flows. Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Responsibility statement

We confirm to the best of our knowledge:

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

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

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

By order of the Board,

Chris Hyman Chief Executive	Andrew Jenner Finance Director

23 August 2011

INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

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

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 August 2011

Condensed consolidated income statement

For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 (unaudited) £m**	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Continuing operations				
Revenue	2	**2,245.8**	2,140.3	4,326.7
Cost of sales		**(1,912.8)**	(1,824.2)	(3,682.4)
Gross profit		**333.0**	316.1	644.3
Administrative expenses		**(199.2)**	(191.7)	(385.6)
Adjusted operating profit*		**133.8**	124.4	258.7
Other expenses – amortisation of intangibles arising on acquisition		**(8.4)**	(8.8)	(17.4)
Other expenses – acquisition-related costs	6	**(3.4)**	-	-
Operating profit	2	**122.0**	115.6	241.3
Investment revenue	3	**5.3**	1.6	3.9
Finance costs	3	**(15.5)**	(15.8)	(31.3)
Profit before tax		**111.8**	101.4	213.9
Tax		**(29.6)**	(27.0)	(57.1)
Profit for the period		**82.2**	74.4	156.8
Attributable to:				
Equity holders of the parent		**82.1**	74.3	156.7
Non-controlling interest		**0.1**	0.1	0.1
Earnings per share (EPS)				
Basic EPS	5	**16.74p**	15.13p	31.88p
Diluted EPS	5	**16.35p**	14.83p	31.35p

* Adjusted operating profit is before the amortisation of intangibles arising on acquisitions and acquisition-related costs.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 (unaudited) £m**	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Profit for the period		**82.2**	74.4	156.8
Other comprehensive income for the period:				
Net actuarial (loss)/gain on defined benefit pension schemes[1]	13	**(79.6)**	(58.5)	49.9
Actuarial gain/(loss) on reimbursable rights[1]	13	**61.1**	43.5	(38.4)
Net exchange gain on translation of foreign operations[2]		**3.9**	3.2	19.0
Fair value gain on cash flow hedges during the period[2]		**10.4**	1.7	1.7
Tax credit/(charge) on items taken directly to equity[3]		**2.7**	1.4	(4.9)
Recycling of cumulative net hedging reserve[2]		**0.1**	0.2	0.3
Total comprehensive income for the period		**80.8**	65.9	184.4
Attributable to:				
Equity holders of the parent		**80.7**	65.8	184.3
Non-controlling interest		**0.1**	0.1	0.1

1 Taken to Retirement benefit obligations reserve in condensed consolidated statement of changes in equity.

2 Taken to Hedging and translation reserve in condensed consolidated statement of changes in equity.

3 Of the tax credit/(charge), a credit of £5.4m (30 June 2010: £1.9m, 31 December 2010: charge of £4.3m) was taken to the Retirement benefit obligations reserve; a charge of £2.7m (30 June 2010: £0.5m, 31 December 2010: £0.6m) was taken to the Hedging and translation reserve.

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Condensed consolidated statement of changes in equity

For the six months ended 30 June 2011

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total equity £m	Non-controlling interest £m
At 1 January 2010	9.8	304.1	0.1	444.1	(150.0)	49.6	(13.0)	47.3	692.0	0.1
Total comprehensive income for the period	-	-	-	74.3	(13.1)	-	-	4.6	65.8	0.1
Shares transferred to option holders on exercise of share options	-	1.4	-	-	-	(2.7)	7.7	-	6.4	-
Dividends paid	-	-	-	(21.6)	-	-	-	-	(21.6)	(0.1)
Expense in relation to share-based payment	-	-	-	-	-	4.5	-	-	4.5	-
Tax credit on expense in relation to share based payment	-	-	-	-	-	3.0	-	-	3.0	-
Purchase of own shares for employee benefit trust (ESOP)	-	-	-	-	-	-	(23.0)	-	(23.0)	-
At 30 June 2010 (unaudited)	9.8	305.5	0.1	496.8	(163.1)	54.4	(28.3)	51.9	727.1	0.1
Total comprehensive income for the period	-	-	-	82.4	20.3	-	-	15.8	118.5	-
Shares transferred to option holders on exercise of share options	0.1	1.2	-	-	-	(0.2)	0.8	-	1.9	-
Dividends paid	-	-	-	(10.7)	-	-	-	-	(10.7)	(0.1)
Expense in relation to share-based payment	-	-	-	-	-	4.3	-	-	4.3	-
Tax credit on expense in relation to share based payment	-	-	-	-	-	0.2	-	-	0.2	-
At 31 December 2010 (audited)	**9.9**	**306.7**	**0.1**	**568.5**	**(142.8)**	**58.7**	**(27.5)**	**67.7**	**841.3**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**82.1**	**(13.1)**	**-**	**-**	**11.7**	**80.7**	**0.1**
Shares transferred to option holders on exercise of share options	**-**	**0.6**	**-**	**-**	**-**	**(1.8)**	**2.6**	**-**	**1.4**	**-**
Dividends paid	**-**	**-**	**-**	**(25.2)**	**-**	**-**	**-**	**-**	**(25.2)**	**(0.1)**
Expense in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**5.9**	**-**	**-**	**5.9**	**-**
Tax credit on expense in relation to share based payment	-	-	-	-	-	**0.8**	-	-	**0.8**	-
Purchase of own shares for employee benefit trust (ESOP)	**-**	**-**	**-**	**-**	**-**	**-**	**(24.0)**	**-**	**(24.0)**	**-**
At 30 June 2011 (unaudited)	**9.9**	**307.3**	**0.1**	**625.4**	**(155.9)**	**63.6**	**(48.9)**	**79.4**	**880.9**	**-**

Condensed consolidated balance sheet

At 30 June 2011

	Note	**At 30 June 2011 (unaudited) £m**	at 30 June 2010 (unaudited) £m	At 31 December 2010 (audited) £m
Non-current assets				
Goodwill		**932.7**	925.7	899.5
Other intangible assets		**146.9**	146.4	145.0
Property, plant and equipment		**146.9**	129.9	135.4
Trade and other receivables		**201.9**	206.5	156.7
Retirement benefit assets	13	**14.9**	-	-
Deferred tax assets		**27.7**	50.2	38.1
Derivative financial instruments		**2.2**	3.6	3.5
		1,473.2	1,462.3	1,378.2
Current assets				
Inventories		**70.5**	62.7	65.4
Trade and other receivables		**815.6**	801.4	786.2
Current tax assets		**3.9**	2.9	4.0
Cash and cash equivalents		**305.0**	313.8	279.3
Derivative financial instruments		**15.2**	4.1	3.9
		1,210.2	1,184.9	1,138.8
Total assets		**2,683.4**	2,647.2	2,517.0
Current liabilities				
Trade and other payables		**(836.1)**	(871.0)	(805.5)
Current tax liabilities		**(9.9)**	(19.0)	(19.5)
Obligations under finance leases		**(9.0)**	(7.3)	(7.1)
Loans		**(147.0)**	(105.9)	(159.5)
Derivative financial instruments		**(4.8)**	(5.6)	(2.4)
		(1,006.8)	(1,008.8)	(994.0)
Non-current liabilities				
Trade and other payables		**(28.6)**	(21.8)	(22.2)
Obligations under finance leases		**(17.1)**	(19.1)	(19.3)
Loans		**(457.1)**	(498.3)	(354.6)
Derivative financial instruments		**(0.9)**	(2.8)	(5.2)
Retirement benefit obligations	13	**(240.2)**	(319.6)	(226.2)
Provisions	9	**(37.2)**	(41.0)	(39.6)
Deferred tax liabilities		**(14.6)**	(8.6)	(14.6)
		(795.7)	(911.2)	(681.7)
Total liabilities		**(1,802.5)**	(1,920.0)	(1,675.7)
Net assets		**880.9**	727.2	841.3
Equity				
Share capital		**9.9**	9.8	9.9
Share premium account		**307.3**	305.5	306.7
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**625.4**	496.8	568.5
Retirement benefit obligations reserve		**(155.9)**	(163.1)	(142.8)
Share-based payment reserve		**63.6**	54.4	58.7
Own shares reserve		**(48.9)**	(28.3)	(27.5)
Hedging and translation reserve		**79.4**	51.9	67.7
Equity attributable to equity holders of the parent		**880.9**	727.1	841.3
Non-controlling interest		**-**	0.1	-
Total equity		**880.9**	727.2	841.3

Condensed consolidated cash flow statement

For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 (unaudited) £m**	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Net cash inflow from operating activities before special pension contribution		**118.9**	150.8	261.0
Special contribution to defined benefit pension scheme		**(40.0)**	-	(20.0)
Net cash inflow from operating activities	7	**78.9**	150.8	241.0
Investing activities				
Interest received		**1.3**	1.1	3.3
Proceeds from disposal of property, plant and equipment		**1.0**	1.7	6.1
Proceeds on disposal of intangible assets		**-**	7.2	7.3
Proceeds on disposal of investments		**0.5**	-	-
Acquisition of subsidiaries and business undertakings, net of cash acquired (excluding acquisition-related costs)	6	**(23.9)**	(1.4)	(2.1)
Purchase of other intangible assets		**(22.1)**	(7.3)	(20.9)
Purchase of property, plant and equipment		**(21.3)**	(14.9)	(35.4)
Net cash outflow from investing activities		**(64.5)**	(13.6)	(41.7)
Financing activities				
Interest paid		**(14.0)**	(13.4)	(27.9)
Dividends paid		**(25.2)**	(21.6)	(32.3)
Non-controlling interest dividends paid		**(0.1)**	-	(0.2)
Cash inflow from matured derivative financial instruments		**0.2**	-	1.6
Repayment of loans		**(99.3)**	(91.5)	(167.8)
Repayment of non recourse loans		**(3.6)**	(3.5)	(7.6)
New loan advances		**180.5**	6.3	10.1
Capital element of finance lease repayments		**(4.5)**	(5.2)	(8.7)
Purchase of own shares for employee benefit		**(24.0)**	(23.0)	(23.0)
Proceeds from issue of share capital		**1.4**	6.4	8.3
Net cash inflow/(outflow) from financing activities		**11.4**	(145.5)	(247.5)
Net increase/(decrease) in cash and cash equivalents		**25.8**	(8.3)	(48.2)
Cash and cash equivalents at beginning of period		**279.3**	319.4	319.4
Net exchange (loss)/gain		**(0.1)**	2.7	8.1
Cash and cash equivalents at end of period		**305.0**	313.8	279.3

Notes to the condensed set of financial statements

For the six months ended 30 June 2011

1. General information, going concern and accounting policies

The information for the year ended 31 December 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating Review on pages 12 to 24. The Finance Review includes a summary of the Group's financial position, its cash flows and borrowing facilities.

The Group's revenues are largely derived from long-term contracts with governments which historically have been relatively resilient to changes in the general economy. The contract portfolio is diverse and a downturn in any particular market, sector or geography has a more limited effect on the Group as a whole. In addition, with an order book of £16.7bn and high visibility of future revenue streams, the Group is well placed to manage its business risks despite the current economic climate.

The Group's committed bank credit facilities total approximately £1,068m. As at 30 June 2011, £247m had been drawn down on these combined bank facilities (31 December 2010: £330m). The headroom on the facilities was approximately £820m prior to the purchase of Intelenet. In addition to the bank credit facilities, Serco has private placements totalling £305m which will be repaid between 2011 and 2021.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed set of financial statements.

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

The information previously presented in the condensed consolidated statement of comprehensive income (CCSOCI) and the condensed consolidated statement of changes in equity (CCSOCIE) for the six months ended 30 June 2010 and the year ended 31 December 2010 has been re-presented. The tax credit on the expense in relation to share based payments previously reported within the CCSOCI and has now been separately disclosed within the CCSOCIE.

2. Segmental information

Information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets. Details of the different products and services provided to each operating segment are included in the Operating Review section of this report. The Group's reportable operating segments under IFRS 8 are:

Reportable Segments	Operating Segments
Civil Government	UK and Europe civil government and transport;
Defence, Science and Nuclear	UK and Europe defence and science-based businesses;
Local Government and Commercial	UK and Europe IT and BPO, integrated services, education and commercial businesses;
Americas	US defence, intelligence and federal civil government agencies operations, and Canadian operations; and
AMEAA	Africa, Middle East, Asia (including Hong Kong and India) and Australasia.

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2011. The accounting policies of the reportable segments are the same as those described in the summary of the significant accounting policies which are described in the Group's latest annual report and accounts.

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

Reportable segments

Six months ended 30 June 2011 (unaudited)	Civil Government £m	Defence, Science and Nuclear £m	Local Government and Commercial £m	Americas £m	AMEAA £m	Total £m
Revenue						
External sales	**599.2**	**459.8**	**428.2**	**445.6**	**313.0**	**2,245.8**
Result						
Segment Adjusted operating profit	**37.4**	**34.3**	**26.0**	**37.0**	**24.0**	**158.7**
Amortisation of acquired intangibles	**(0.1)**	**-**	**(1.4)**	**(6.8)**	**(0.1)**	**(8.4)**
Acquisition-related costs	**(0.1)**	**-**	**(0.6)**	**-**	**(2.7)**	**(3.4)**
Segment result	**37.2**	**34.3**	**24.0**	**30.2**	**21.2**	**146.9**
Corporate expenses						**(24.9)**
Operating profit						**122.0**
Investment revenue						**5.3**
Finance costs						**(15.5)**
Profit before tax						**111.8**
Tax						**(29.6)**
Profit after tax						**82.2**

Group Adjusted operating profit is £133.8m and comprises segment Adjusted operating profit of £158.7m less Corporate expenses of £24.9m.

2. Segmental information (continued)

Six months ended 30 June 2010 (unaudited)	Civil Government £m	Defence, Science and Nuclear £m	Local Government and Commercial £m	Americas £m	AMEAA £m	Total £m
Revenue						
External sales	573.9	460.9	433.1	454.7	217.7	2,140.3
Result						
Segment Adjusted operating profit	34.5	39.1	26.5	38.2	14.7	153.0
Amortisation of acquired intangibles	(0.1)	-	(1.3)	(7.1)	(0.3)	(8.8)
Segment result	34.4	39.1	25.2	31.1	14.4	144.2
Corporate expenses						(28.6)
Operating profit						115.6
Investment revenue						1.6
Finance costs						(15.8)
Profit before tax						101.4
Tax						(27.0)
Profit after tax						74.4

Group Adjusted operating profit is £124.4m and comprises segment Adjusted operating profit of £153.0m less Corporate expenses of £28.6m.

Year ended 31 December 2010 (audited)	Civil Government £m	Defence, Science and Nuclear £m	Local Government and Commercial £m	Americas £m	AMEAA £m	Total £m
Revenue						
External sales	1,126.9	910.8	853.9	953.9	481.2	4,326.7
Result						
Segment Adjusted operating profit	66.6	77.3	55.8	77.9	32.6	310.2
Amortisation of acquired intangibles	(0.2)	-	(2.7)	(13.9)	(0.6)	(17.4)
Segment result	66.4	77.3	53.1	64.0	32.0	292.8
Corporate expenses						(51.5)
Operating profit						241.3
Investment revenue						3.9
Finance costs						(31.3)
Profit before tax						213.9
Tax						(57.1)
Profit after tax						156.8

Group Adjusted operating profit is £258.7m and comprises segment Adjusted operating profit of £310.2m less Corporate expenses of £51.5m.

Segment assets	**Six months ended 30 June 2011 (unaudited) £m**	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Civil Government	**264.1**	303.6	292.2
Defence, Science and Nuclear	**438.6**	443.6	408.0
Local Government and Commercial	**605.2**	559.3	533.5
Americas	**664.8**	721.5	694.5
AMEAA	**313.6**	222.4	251.0
Corporate assets	**43.1**	22.2	9.0
Total segment assets	**2,329.4**	2,272.6	2,188.2
Unallocated assets	**354.0**	374.6	328.8
Consolidated total assets	**2,683.4**	2,647.2	2,517.0

Segment assets exclude all derivative financial instruments, current and deferred taxation assets and cash.

2. Segmental information (continued)

Segment liabilities

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Civil Government	**(247.5)**	(275.8)	(243.0)
Defence, Science and Nuclear	**(341.9)**	(381.2)	(313.3)
Local Government and Commercial	**(201.7)**	(234.5)	(176.0)
Americas	**(122.9)**	(131.7)	(133.5)
AMEAA	**(114.6)**	(77.4)	(85.8)
Corporate liabilities	**(76.3)**	(111.8)	(102.3)
Total segment liabilities	**(1,104.9)**	(1,212.4)	(1,053.9)
Unallocated liabilities	**(697.6)**	(707.6)	(621.8)
Consolidated total liabilities	**(1,802.5)**	(1,920.0)	(1,675.7)

Segment liabilities consist of all trade and other payables and retirement benefit obligations.

Geographic analysis

	Six months ended 30 June 2011		Six months ended 30 June 2010		Year ended 31 December 2010	
	Revenue (unaudited) £m	**Non-current assets (unaudited) £m**	Revenue (unaudited) £m	Non-current assets (unaudited) £m	Revenue (audited) £m	Non-current assets (audited) £m
United Kingdom	**1,290.6**	**815.9**	1,337.2	747.2	2,586.4	707.9
United States	**409.5**	**449.4**	417.1	486.0	880.3	463.2
Other countries	**545.7**	**178.0**	386.0	175.3	860.0	165.5
Total	**2,245.8**	**1,443.3**	2,140.3	1,408.5	4,326.7	1,336.6

Non-current assets exclude derivative financial instruments and deferred tax assets.

3. Investment revenue and finance costs

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Interest receivable on other loans and deposits	**1.6**	1.6	3.9
Net interest receivable on retirement benefit obligations	**3.7**	-	-
Investment revenue	**5.3**	1.6	3.9
Interest payable on non recourse loans	**(0.6)**	(0.8)	(1.4)
Interest payable and amortisation of capitalised financing transaction costs on other loans	**(13.7)**	(11.3)	(23.7)
Interest payable on obligations under finance leases	**(0.9)**	(1.0)	(2.2)
Movement in discount on provisions and deferred consideration	**(0.3)**	(0.6)	(1.2)
Net interest payable on retirement benefit obligations	**-**	(2.1)	(2.8)
Finance costs	**(15.5)**	(15.8)	(31.3)

4. Dividends

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2010 of 5.15p per share on 489.0 million ordinary shares	**25.2**	-	-
Final dividend for the year ended 31 December 2009 of 4.40p per share on 490.5 million ordinary shares	**-**	21.6	21.6
Interim dividend for the year ended 31 December 2010 of 2.20p per share on 488.2 million ordinary shares	**-**	-	10.7
	25.2	21.6	32.3

The proposed interim dividend for the year ending 31 December 2011 is 2.50p per ordinary share on 487.7 million shares, representing a payment of £12.2m (30 June 2010: 2.20p per ordinary share on 488.2 million shares, representing a payment of £10.7m).

The proposed interim dividend was approved by the Board on 23 August 2011 and has not been included as a liability as at 30 June 2011.

5. Earnings per share

Basic and diluted earnings per share (EPS) have been calculated in accordance with IAS 33 'Earnings per Share'. EPS is shown both before and after amortisation of intangible assets arising on acquisition to assist in the understanding of the underlying performance of the business.

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

Number of shares	**Six months ended 30 June 2011 (unaudited) £m**	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Weighted average number of ordinary shares for the purpose of basic EPS	**490.3**	491.1	491.5
Effect of dilutive potential ordinary shares: share options	**11.7**	9.9	8.4
Weighted average number of ordinary shares for the purpose of diluted EPS	**502.0**	501.0	499.9

Earnings	**Six months ended 30 June 2011**		Six months ended 30 June 2010		Year ended 31 December 2010	
	Earnings (unaudited) £m	**Per share amount (unaudited) Pence**	Earnings (unaudited) £m	Per share amount (unaudited) Pence	Earnings (audited) £m	Per share amount (audited) Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**82.1**	**16.74**	74.3	15.13	156.7	31.88
Add back:						
Amortisation of intangible assets arising on acquisition, net of tax of £1.7m (30 June 2010: £1.9m, 31 December 2010: £3.6m)	**6.7**	**1.37**	6.9	1.40	13.8	2.81
Acquisition-related costs, net of tax of £0.3m (30 June 2010: £nil, 31 December 2010: £nil)	**3.1**	**0.63**	-	-	-	-
Adjusted earnings before amortisation of intangible assets arising on acquisition and acquisition-related costs, net of tax	**91.9**	**18.74**	81.2	16.53	170.5	34.69
Earnings for the purpose of basic EPS	**82.1**	**16.74**	74.3	15.13	156.7	31.88
Effect of dilutive potential ordinary shares	**-**	**(0.39)**	-	(0.30)	-	(0.53)
Diluted EPS	**82.1**	**16.35**	74.3	14.83	156.7	31.35

6. Acquisitions

During the year, the Group completed the following acquisitions which have been accounted for in accordance with IFRS 3 Business Combinations (2008).

6 (a) The Listening Company Limited

On 14 March 2011, Serco acquired 100% of the issued share capital of The Listening Company Ltd. The initial cash cost of the acquisition was £40.9m, comprising £25.0m in cash, plus the repayment of £15.9m of debt immediately after acquisition. Consideration under IFRS 3 for the acquisition is £37.5m, being initial cash payment of £25.0m noted above, and £12.5m being the fair value of deferred consideration, payable conditional on the financial performance in the two year period from 1 March 2011 to the end of February 2013. The Listening Company is a leading UK provider of outsourced contact centre services. Due to the proximity of the acquisition to the reporting date the fair values presented are provisional.

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Goodwill	**0.2**	**(0.2)**	**-**
Intangible assets	**-**	**5.1**	**5.1**
Property, plant and equipment	**7.8**	**(1.0)**	**6.8**
Deferred tax asset	**0.1**	**1.9**	**2.0**
Trade and other receivables	**19.7**	**(0.2)**	**19.5**
Tax assets	**-**	**0.1**	**0.1**
Cash and cash equivalents	**-**	**-**	**-**
Trade and other payables	**(17.0)**	**(0.1)**	**(17.1)**
Loans	**(15.9)**	**-**	**(15.9)**
Tax liabilities	**(0.3)**	**0.3**	**-**
Deferred tax liabilities	**-**	**(1.4)**	**(1.4)**
Obligations under finance leases	**(0.2)**	**(0.6)**	**(0.8)**
Net liabilities acquired	**(5.6)**	**3.9**	**(1.7)**
Goodwill			**39.2**
Total consideration			**37.5**

Satisfied by:	
Cash	**25.0**
Contingent consideration arrangement	**12.5**
Total consideration	**37.5**

Net cash outflow arising on acquisition:	
Purchase consideration	**25.0**

The provisional fair value of the financial assets acquired includes trade receivables with a fair value of £14.0m and a gross contractual value of £14.5m.

The goodwill of £39.2m arising from the acquisition represents future opportunities in the UK outsourced contact centre services industry. None of the goodwill is expected to be deductible for income tax purposes.

The potential undiscounted amount of all future payments that Serco Group plc could be required to make under the contingent consideration arrangement, which has been measured based upon current expectations of future performance, is between £nil and £13.5m and the fair value is £12.5m.

Acquisition-related costs (included in Operating profit but excluded from Adjusted operating profit in Serco Group plc's condensed consolidated income statement for the period ended 30 June 2011) amounted to £0.6m.

6. Acquisitions (continued)

The Listening Company Ltd contributed £24.8m revenue and £0.3m to the Group's Operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition of The Listening Company Ltd had been completed on the first day of the financial year, Group Revenues for the period would have been £2,260.8m and the Group's Operating profit would have been £122.2m.

(b) Braintree Clinical Services Limited

On 8 March 2011, the Group acquired 100% of the issued share capital of Braintree Clinical Services Limited. The net cash received was £1.1m, comprising cash balances acquired of £1.6m and initial cash consideration of £0.5m. In addition, deferred consideration of £1.1m is payable in 2012. Net assets acquired totalled £0.1m.

Braintree Clinical Services Limited is based in the UK and provides clinical and hospital services to Strategic Health Authorities in the UK.

The acquisition gives rise to £1.5m of goodwill relating to future opportunities in the provision of clinical and hospital services. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs (included in Operating profit but excluded from Adjusted operating profit in Serco Group plc's condensed consolidated income statement for the period ended 30 June 2011) amounted to £0.1m.

Due to the immaterial nature of this acquisition, full disclosures under IFRS 3 are not presented.

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

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Operating profit for the period	**122.0**	115.6	241.3
Adjustments for:			
Share-based payment expense	**5.9**	4.5	8.8
Depreciation of property, plant and equipment	**20.4**	19.8	39.4
Amortisation and impairment of intangible assets	**19.4**	24.9	43.6
(Profit)/loss on disposal of property, plant and equipment	**(0.4)**	1.1	0.8
Profit on disposal of intangible assets	**-**	(1.5)	(1.5)
Impairment of goodwill	**-**	4.2	4.2
Movement in provisions	**(2.0)**	(4.1)	(5.1)
Operating cash inflow before movements in working capital	**165.3**	164.5	331.5
(Increase)/decrease in inventories	**(4.8)**	4.8	3.5
Increase in receivables	**(25.6)**	(70.0)	(43.4)
Increase in payables	**8.6**	74.3	10.0
Special contribution to defined benefit pension scheme	**(40.0)**	-	(20.0)
Cash generated by operations	**103.5**	173.6	281.6
Tax paid	**(24.6)**	(22.8)	(40.6)
Net cash inflow from operating activities	**78.9**	150.8	241.0

8. Analysis of net debt

	Cash and cash equivalents £m	Non recourse loans £m	Other loans £m	Obligations under finance leases £m	Total £m
At 1 January 2010	319.4	(29.0)	(624.9)	(24.0)	(358.5)
Cash flow	(8.4)	3.5	85.2	5.2	85.5
Acquisitions	0.1	-	-	-	0.1
Exchange differences	2.7	(1.8)	(37.2)	(0.3)	(36.6)
Non cash movements	-	-	-	(7.3)	(7.3)
At 30 June 2010 (unaudited)	313.8	(27.3)	(576.9)	(26.4)	(316.8)
Cash flow	(39.9)	4.1	72.5	3.5	40.2
Exchange differences	5.4	(0.5)	15.4	(0.8)	19.5
Non cash movements	-	-	(1.4)	(2.7)	(4.1)
At 31 December 2010 (audited)	279.3	(23.7)	(490.4)	(26.4)	(261.2)
Cash flow	**23.4**	**3.6**	**(81.2)**	**4.5**	**(49.7)**
Acquisitions	**2.4**	**-**	**(15.9)**	**(0.8)**	**(14.3)**
Exchange differences	**(0.1)**	**-**	**3.5**	**-**	**3.4**
Non cash movements	**-**	**-**	**-**	**(3.4)**	**(3.4)**
At 30 June 2011 (unaudited)	**305.0**	**(20.1)**	**(584.0)**	**(26.1)**	**(325.2)**

9. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2010	7.7	8.0	10.4	16.2	42.3
Charged to income statement	1.1	-	0.2	-	1.3
Released to income statement	-	(0.6)	(0.9)	(0.1)	(1.6)
Utilised during the period	(0.3)	(0.5)	(0.5)	(2.5)	(3.8)
Unwinding of discount	-	0.2	0.1	-	0.3
Exchange differences	0.3	0.5	0.5	1.2	2.5
At 30 June 2010 (unaudited)	8.8	7.6	9.8	14.8	41.0
Charged to income statement	2.4	0.1	-	2.3	4.8
Released to income statement	-	(0.3)	-	(2.6)	(2.9)
Utilised during the period	(0.3)	(0.7)	(1.7)	(0.2)	(2.9)
Unwinding of discount	-	0.1	0.2	-	0.3
Exchange differences	0.1	(0.2)	(0.3)	(0.3)	(0.7)
At 31 December 2010 (audited)	11.0	6.6	8.0	14.0	39.6
Charged to income statement	**2.4**	**-**	**-**	**-**	**2.4**
Released to income statement	**-**	**(0.2)**	**(0.4)**	**(2.0)**	**(2.6)**
Utilised during the period	**(0.1)**	**(0.5)**	**(1.1)**	**(0.1)**	**(1.8)**
Unwinding of discount	**-**	**0.1**	**0.1**	**-**	**0.2**
Exchange differences	**-**	**(0.2)**	**(0.1)**	**(0.3)**	**(0.6)**
At 30 June 2011 (unaudited)	**13.3**	**5.8**	**6.5**	**11.6**	**37.2**

10. Joint ventures

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

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Revenue	**408.4**	407.5	794.1
Operating profit*	**36.8**	27.7	64.6
Profit before tax	**37.6**	28.6	66.3
Tax	**(8.3)**	(8.1)	(17.2)
Share of post-tax results of joint ventures	**29.3**	20.5	49.1

*Operating profit is after allocating £1.0m of costs incurred by Group (30 June 2010: £0.7m, 31 December 2010: £0.7m) and, for both 30 June 2010 and 31 December 2010, after £4.2m of goodwill impairment.

11. Related party transactions

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

	Six months ended 30 June 2011 (unaudited) £m	Six months ended 30 June 2010 (unaudited) £m	Year ended 31 December 2010 (audited) £m
Royalties and management fees receivable	**1.2**	1.0	2.0
Dividends receivable	**28.2**	26.0	51.5
	29.4	27.0	53.5

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

	At 30 June 2011 (unaudited) £m	At 30 June 2010 (unaudited) £m	At 31 December 2010 (audited) £m
Current:			
Loans	**0.3**	0.1	0.1
Non-current:			
Loans	**3.5**	3.3	3.5

12. Share-based payments

In accordance with IFRS 2, a charge of £5.9m (30 June 2010: £4.5m, 31 December 2010: £8.8m) relating to the fair value of share-based schemes granted since 7 November 2002, has been charged to the condensed consolidated income statement.

13. Defined benefit schemes

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

The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent actuaries annually using the projected unit credit actuarial cost method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth, and long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Long-term expected rates of return for plan assets are based on published brokers' forecasts for each category of scheme assets which are set at the start of the financial year. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan and intends to exercise this right.

At 30 June 2011 (unaudited)	**Virtually certain costs reimbursed £m**	**Not certain costs reimbursed £m**	**Non contract specific £m**	**Total £m**
Fair value of scheme assets	**265.4**	**424.7**	**929.1**	**1,619.2**
Present value of scheme liabilities	**(417.8)**	**(561.4)**	**(978.4)**	**(1,957.6)**
Net amount recognised	**(152.4)**	**(136.7)**	**(49.3)**	**(338.4)**
Members' share of deficit	**-**	**35.9**	**2.3**	**38.2**
Franchise adjustment	**-**	**74.7**	**-**	**74.7**
Effect of IFRIC 14	**-**	**-**	**0.2**	**0.2**
	(152.4)	**(26.1)**	**(46.8)**	**(225.3)**
Analysed as:				
Net pension liability	**(152.4)**	**(26.1)**	**(61.7)**	**(240.2)**
Net pension asset	**-**	**-**	**14.9**	**14.9**
Related assets				
Intangible assets	**-**	**7.9**	**-**	**7.9**
Trade and other receivables	**152.4**	**-**	**-**	**152.4**
	152.4	**7.9**	**-**	**160.3**

At 30 June 2010 (unaudited)	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Fair value of scheme assets	222.3	362.5	820.5	1,405.3
Present value of scheme liabilities	(387.6)	(507.4)	(946.9)	(1,841.9)
Net amount recognised	(165.3)	(144.9)	(126.4)	(436.6)
Members' share of deficit	-	38.1	4.0	42.1
Franchise adjustment	-	77.0	-	77.0
Effect of IFRIC 14	-	-	(2.1)	(2.1)
Net pension liability	(165.3)	(29.8)	(124.5)	(319.6)
Related assets				
Intangible assets	-	10.1	-	10.1
Trade and other receivables	165.3	-	-	165.3
	165.3	10.1	-	175.4

13. Defined benefit pension schemes (continued)

At 31 December 2010 (audited)	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Fair value of scheme assets	254.8	403.3	875.1	1,533.2
Present value of scheme liabilities	(378.2)	(510.4)	(951.5)	(1,840.1)
Net amount recognised	(123.4)	(107.1)	(76.4)	(306.9)
Members' share of deficit	-	26.7	1.5	28.2
Franchise adjustment	-	53.7	-	53.7
Effect of IFRIC 14	-	-	(1.2)	(1.2)
Net pension liability	(123.4)	(26.7)	(76.1)	(226.2)
Related assets				
Intangible assets	-	8.9	-	8.9
Trade and other receivables	123.4	-	-	123.4
	123.4	8.9	-	132.3

Assumptions in respect of the expected return on plan assets are based on market expectations of returns over the life of the related obligation and are set at the start of the financial year. Due consideration was given to market conditions as at 31 December 2010 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions as discussed in full on page 148 of the Group's published accounts for the year ended 31 December 2010.

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by scheme.

	At 30 June 2011 (unaudited) %	At 30 June 2010 (unaudited) %	At 31 December 2010 (audited) %
Main assumptions:			
Rate of salary increases	**3.90**	3.40	3.50
Rate of increase in pensions in payment (CPI)	**3.00**	N/A	2.60
Rate of increase in pensions in payment (RPI)	**3.50**	3.00	3.10
Rate of increase in deferred pensions (CPI)	**3.00**	N/A	2.60
Rate of increase in deferred pensions (RPI)	**3.50**	3.00	3.10
Inflation assumption (CPI)	**3.00**	N/A	2.60
Inflation assumption (RPI)	**3.50**	3.00	3.10
Discount rate	**5.50**	5.40	5.40
Expected rates of return on scheme assets:			
Equities	**8.40**	8.25	8.30
Bonds except LDI	**5.50**	5.40	5.40
LDI	**5.00**	4.85	4.90
Gilts	**4.30**	4.15	4.20
Property	**5.55**	5.40	5.45
Cash and other	**0.50**	0.50	0.50
Annuity policies	**5.50**	5.40	5.40

	At 30 June 2011 (unaudited) Years	At 30 June 2010 (unaudited) Years	At 31 December 2010 (audited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	**20.9**	20.8	20.8
Current pensioners at 65 – female	**23.4**	23.3	23.3
Future pensioners at 65 – male	**22.5**	22.8	22.4
Future pensioners at 65 – female	**24.6**	25.0	24.5

14. Post balance sheet event

On 7 July 2011, the Group acquired 87% of the share capital of Intelenet Global Services Private Ltd (Intelenet) for an initial cash consideration of £249.3m plus £50.8m of acquired net debt. A further £36.4m is payable on 16 October 2011 for the remaining 13% of share capital. The Group is unconditionally obligated to acquire this remaining 13% of the issued share capital; as a result, from the acquisition date the Group has accounted for Intelenet as a 100% subsidiary with no attributable non-controlling interests.

There are contingent deferred consideration cash payments of up to £49.8m through to December 2013. The contingent cash payments are dependent principally on the delivery of revenue targets. The Group incurred £2.7m of acquisition-related expenses in the six months ended 30 June 2011 in relation to this acquisition.

Intelenet is a leading provider of business process outsourcing (BPO) services to the private sector around the world and in the domestic Indian market. It operates from 34 global delivery centres across seven countries, providing a broad range of middle and back office services and has a strong customer base of international organisations, predominantly across the financial services, travel, healthcare and telecom sectors.

As the initial accounting for the acquisition has not yet been completed due to the proximity of the acquisition date to the release of this report, full IFRS 3 disclosures have not been presented.