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Stock Exchange Announcement

26 August 2009

Record contract awards and strong financial performance

Serco Group plc – 2009 Half Year Results

6 months to 30 June	2009	2008	% change
Revenue	£1,950m	£1,491m	up 30.8%
Adjusted operating profit	£110.0m	£76.8m	up 43.2%
Operating profit	£101.1m	£72.3m	up 39.8%
Profit before tax	£83.4m	£62.8m	up 32.8%
Adjusted earnings per share	14.02p	10.18p	up 37.7%
Earnings per share	12.62p	9.35p	up 35.0%
Dividend per share	1.85p	1.48p	up 25.0%
Group free cash flow	£50.7m	£33.0m	up 53.6%

Increasing levels of activity in existing and new markets

- Record level of contract awards: signed contracts valued at £2.1bn and appointed preferred bidder for £1.4bn of contracts
- Excellent progress with SI acquisition integration: strong foundation for growth in US market
- Win rates of one in two for new bids and 90% of rebids
- Good start to the second half, with a further £0.5bn of contract awards

Strong financial performance

- Revenue growth of 30.8%; 21.2% excluding currency; 10.8% excluding SI and currency
- Adjusted operating profit margin growth of 49bps; 38bps excl. currency; 20bps excl. SI and currency
- Group free cash flow increase of 53.6% to £50.7m
- On track to deliver 2009 guidance

Growing order book supports excellent visibility

- Order book of £16.7bn at 30 June 2009 (£16.3bn at 31 Dec 2008)
- Continued high visibility of planned revenue: 99% of 2009, 86% for 2010 and 72% for 2011

Demand for efficient delivery of essential services driven by global economic climate

- Global economic environment driving demand for fundamental improvements in the delivery of essential services in existing and new markets
- Substantial opportunities to address our customers' needs through our high quality service delivery and flexible and agile deployment of our increasing capabilities
- Considerable opportunity pipeline of £27bn, and a disciplined and selective approach to bidding

Christopher Hyman, Chief Executive of Serco Group plc, said: "This has been a strong first half. We were awarded record level of contracts, entered a number of important new markets, and delivered a strong financial performance. Given the economic challenges our customers are facing, they are making transformational changes and asking for our support in delivering high quality, essential services while improving productivity. These opportunities, across all our markets, and our growing capabilities, underpin our confidence in the future."

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

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

Charles King, Head of Investor Relations

Dominic Cheetham, Corporate Communications Director

www.serco.com

Presentation

A presentation for investors and analysts will be held at J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 9.30 am today.

Financial Guidance

Our projections are that our revenue will increase to approximately £5bn and our Adjusted operating profit margin to approximately 6.3% by the end of 2012, excluding material acquisitions, disposals and currency effects. In 2009, we expect to deliver double-digit revenue growth and a 30bps increase in our Adjusted PBT margin, excluding SI International. The addition of SI International is anticipated to increase our 2009 revenue growth by approximately 10%. Including the benefit of SI International, we expect our Adjusted operating profit margin of 5.3% in 2008 to increase by approximately 40bps in 2009. This 2009 guidance excludes material currency effects.

Performance excluding currency

Where performance has been stated as "excluding currency", the currency effect has been calculated by translating non-Sterling revenue and earnings, including those of SI, for the six months ended 30 June 2009 into Sterling at the average foreign exchange rates for the same period in 2008.

Overview

Record contract awards and strong financial performance

We enjoyed a sustained high level of activity in our business throughout the first half of 2009 across all our markets and regions. This included developing potential opportunities, bidding and winning contracts, and starting up and transitioning new contracts. We continued to see growth in our existing contracts, were awarded a record level of new contracts, and opened a number of significant new markets for the delivery of essential services which we expect to present substantial opportunities for growth. We have continued to strengthen our capabilities and have made excellent progress with the integration of SI International (SI). This activity has continued since the half year end and we have made a good start to the second half.

We delivered a strong financial performance, which benefited from the inclusion of SI for the first time. Excluding currency effects, we grew revenue by 21.2% to £1,807.3m and Adjusted operating profit rose by 30.2% to £100.0m. Our margins increased, with Adjusted operating profit margin rising 38 basis points, excluding currency effects. Excluding both SI and currency effects, we grew revenue by 10.8% to £1,651.7m and Adjusted operating profit rose by 15.1% to £88.4m. Organic revenue growth, excluding currency, was 9.6%. Group free cash flow increased by 53.6% to £50.7m, and Group recourse net debt at the half year end was £459.8m, a decrease of £64.7m from the end of 2008.

Our ability to enhance our position in existing markets and enter substantial new markets was reflected in the record level of contract awards, totalling £3.5bn, in the first half of the year. These were across a wide range of markets and regions, and comprised contract wins valued at £2.1bn, and preferred bidder appointments with a value of £1.4bn. Our win rates of 90% on rebids and one in two new bids continued to reflect our track record of delivering high quality services for our customers.

In line with our policy of increasing the total dividend each year broadly in line with the increase in underlying earnings, the Board has declared an interim dividend of 1.85p per share, representing an increase on the 2008 interim dividend of 25.0%. The interim dividend will be paid on 16 October 2009 to shareholders on the register on 4 September 2009.

Growth in existing markets

In existing markets, we deepened our presence through a number of significant new contract awards and by expanding the scope, scale and length of existing contracts.

Our home affairs business, where we see substantial opportunities for the future, has been particularly active in this half year. In the UK, our consortium was selected by the National Offender Management Service (NOMS) as the preferred bidder to provide and operate two new prisons at Belmarsh West, London and Maghull, Liverpool. We will manage and operate the prisons, and these contracts, which are due to be signed in the first half of 2010, are expected to have a combined value to Serco of around £600m over 26½ years.

Building on expertise developed in the UK, we signed an important new contract with the Australian Government Department of Immigration and Citizenship (DIAC) to transform its immigration detention centres across the country. The five year contract is valued at around AUS$370m (approximately £180m), and may be extended for a further four years.

Expanding the scope, scale and term of our existing contracts remains an important driver of growth for Serco. The most notable example in the half year was in Middle East transport, where we renewed and expanded our contract with the Dubai Airports Company for air traffic services at Dubai International Airport. The new contract is valued at £245m over a longer period of ten years, and builds on the air traffic services that Serco has provided to Dubai for more than 40 years.

Opening significant new markets

In January we entered the important new pathology market by forming a partnership, GSTS Pathology LLP, with the Guy's & St Thomas' NHS Foundation Trust. We are now improving the Trust's pathology services, under a contract valued at £250m over ten years to Serco, and targeting the pathology market in the UK and overseas.

In May, we were selected as preferred bidder for three contracts under the UK Government's Flexible New Deal initiative, our first contracts in what we expect to be a significant new market for Serco in supporting jobseekers in returning to and remaining in work. The contracts have a five year term and are expected to have a value to Serco over their five year term of £400m-£500m.

Excellent progress on SI integration

We have continued to strengthen our capabilities and broaden our reach in existing and new markets to address the considerable opportunities we see. In the US, we have made excellent progress with the integration of SI, following completion of the acquisition at the end of last year. We have rebranded the business as Serco, and have integrated it with our existing business and implemented our plan for a new combined leadership team.

We are also pleased with SI's financial performance, which was in line with our expectations. SI's revenue grew by 11.4% compared with the first half of 2008 to US$308.9m. SI contributed Adjusted operating profit of US$23.1m, which was growth of 29.8% compared with the first half of 2008, and represented a margin of 7.5%.

Good start to the second half

Following our strong first half performance, we have made a good start to the second half of the year, having signed or been appointed preferred bidder on around £0.5bn of further contracts.

In a further new market, we have been awarded a new contract by Transport for London to design, build and operate the new London Cycle Hire Scheme. This six year contract is valued at approximately £140m, and we will provide, operate and maintain 6,000 bicycles for hire in Central London and 400 docking stations offering over 10,000 docking points.

In North America, we won a contract recompete with the US Department of Homeland Security's US Citizenship and Immigration Services to provide records processing support at its National Benefits Center. We have supported the National Benefits Center for the past seven years. This contract is for a one year base period with a further four one year option periods and is valued at approximately US$190m over the full five years.

We have also been appointed preferred bidder for two contracts that will expand our presence in two existing markets. The value and quality of our work in supporting small and medium-sized enterprises has been recognised in our appointment as preferred bidder by the South East England Development Agency to provide business link services in the South East, in a contract that is valued around £80m over three years, with the opportunity to extend for a further two years. We are also the preferred bidder to provide the London Borough of Bexley with a full range of environmental services. The contract is for an initial term of ten and a half years, with an option to extend for a further five years, and is valued at around £170m over the full 15½ years.

In existing contracts, we were pleased that our joint venture with Lockheed Martin and Jacobs Engineering to manage and operate the UK's Atomic Weapons Establishment (AWE) successfully concluded the periodic pricing review.

Outlook

Our customers, who are principally governments, are making the transformational changes that will enable them to continue to deliver high quality, essential services, whilst improving productivity. They are seeking to improve the position of public finances by achieving significant productivity gains over the medium term, while they continue to experience growing demand for quality services from their citizens. Our private sector customers are facing similar issues.

Given the economic climate our customers face, they are increasingly asking for our support in existing markets, and we also see significant opportunities to extend our capabilities to new markets. We believe that our reputation for delivering high quality, efficient services, together with our broad and deep capabilities, will be increasingly attractive to our customers around the world.

Our strong performance in the first half of this year and the good start we have made to the second half supports our expectation in achieving our financial guidance for 2009 and beyond.

Operating Review

Civil Government

In Civil Government, our work encompasses sectors including home affairs, healthcare, local government, education and children's services and the commercial sector, providing a broad range of integrated facilities management, IT and business process outsourcing (BPO) support and consulting services. In the US, the acquisition of SI has added new records management and IT capabilities which we provide to a number of civil government agencies. With the start of our three contracts under the UK Government's Flexible New Deal initiative later this year, we will also play an important role in supporting jobseekers in returning to and remaining in work.

Civil Government revenue grew by 49.1% to £809m, representing 41% of Group revenue (2008: 36%).

Home Affairs

In home affairs, our consortium has been selected by the UK Government's National Offender Management Service (NOMS) as the preferred bidder to provide and operate two new prisons at Belmarsh West, London and Maghull, Liverpool. Under the Design, Construct, Manage and Finance contracts, we will operate the prisons and these contracts are expected to have a combined value to us of around £600m over 26½ years. It is anticipated that construction of the prisons, by our construction partner Skanska, will begin in the second half of 2010, with completion expected in the second half of 2011. Equity and debt finance will be provided by third parties. As well as ensuring a secure and safe environment, we will use our operational expertise to ensure a highly effective and efficient prison design, to train and mentor new staff and to deliver a range of innovative services. In conjunction with our partners Turning Point and Catch22, we will seek to create an environment for change in order to discourage offenders from reoffending and prepare them for employment on release, and will also support effective delivery of services such as healthcare and education in conjunction with other providers.

In Australia, we signed a new contract with the Australian Government Department of Immigration and Citizenship (DIAC) to transform its immigration detention centres across the country. The five year contract is valued at around AUS$370m (approximately £180m), and may be extended for a further four years. The transition from the existing service provider commenced in July, and is expected to be completed by November. Under the contract, we will manage and operate seven adult immigration detention centres and provide national and international transport and escort services from Australia. Our new approach and improved services will create a comprehensive framework for quality improvement, introduce performance management systems and deliver value for money.

We also continue to see expansion in our other services in the home affairs market. In Electronic Monitoring, we were awarded a two year extension to our contract in England and Wales, extending the contract to March 2012 and securing additional revenue of around £70m. We also won a five year contract valued at over £7m to provide electronic monitoring equipment into Poland, making Serco the sole provider of electronic monitoring equipment to Comp Safe Support, Poland's selected prime contractor, and offering the potential for Serco to build further business in Poland and elsewhere in Eastern Europe.

Our expertise in supporting border security and control was recognised in this half year with the signing of new contracts. We extended our contract, known as Mycroft, to provide infrastructure and intelligence applications to the UK Border Agency and other Home Office Agencies. Under this new contract, which is valued at around £34m over its five year term, in addition to providing the existing service, we will assist the Home Office in refreshing and enhancing the desktop, server and application technologies over the next two years. In our existing Cyclamen border security contract, whilst start-up has taken longer than expected, we are now focused on the full roll-out of the next stages of this leading edge programme. Similarly, as part of the Trusted Borders consortium, we have now successfully delivered the first capability piece for e-Borders enabling the processing of over 250 million passengers a year.

Welfare to Work

We have been selected by the UK Department for Work and Pensions (DWP) as the prime contractor for three contracts under the Government's Flexible New Deal initiative. These contracts are the first in a significant new market in supporting jobseekers in returning to and remaining in work. A number of similar-sized opportunities in the UK are expected to be announced in the next two years.

Flexible New Deal is the Government's new initiative for individuals who have been claiming Jobseeker's Allowance for over twelve months. To support them back into work and to stay in work, our local networks of private, public and third sector organisations will provide tailored, individual support including career planning and job search advice and specialist services such as debt advice, top-up training and confidence building.

We are the preferred bidder for contracts for five year terms in three regions: North, Mid & South East Wales (North Wales); Coventry, Warwickshire, Staffordshire & The Marches (West Midlands); and Greater Manchester. The North Wales and West Midlands contracts are each expected to have a value to Serco of £100m-£125m, and Greater Manchester £200m-£250m. Delivery of Flexible New Deal will commence in October 2009.

As prime contractor, we will deliver an innovative programme of jobseeker support through a unique network of successful, established providers. The contracts will be funded through a combination of service fee and performance-based payments, with our providers paid on a similar basis.

Integrated services

We saw further growth in our integrated services business, driven by the requirement for our public and private sector customers to improve the quality of essential services and to increase efficiency.

In environmental services, we were awarded a new contract to provide environmental, recycling and streetscene services to Charnwood Borough Council in Leicestershire. We have made a successful start to this contract, which is valued at around £35m for a minimum period of seven years with potential for negotiating an extension.

We have also continued to expand our presence in the UK health market, with the signing of a contract with the Plymouth Hospitals NHS Trust to develop technology enabled solutions in partnership with the Trust to raise the standards of cleanliness and catering, and to tailor them to meet the needs of staff and patients in each particular ward. The contract is for seven years with an option to extend for a further three, and is valued at around £140m over the full ten years.

We renewed and expanded our contract with Airbus for the management and provision of a range of integrated services in the UK. This contract now includes the Broughton site in addition to Filton, and brings together new services, almost doubling our business with Airbus. The contract includes the provision of fire and rescue, reception, security, cleaning, transport and waste management services, and is valued at around £40m over four years.

We were also appointed preferred bidder on a new four year contract valued at £24m with Babcock Marine to provide building and civil maintenance repairs and other services to the Devonport Naval Base, Devonport Royal Dockyard and associated UK Ministry of Defence establishments.

In Australia, we have been providing facilities management and maintenance for the City of Melbourne Council parks and gardens since 1995. The contract has now been extended for another five years and expanded. We also won a new, five year contract for the provision of open space facilities management services in Docklands, Melbourne, and have extended our grounds maintenance contract with the University of Melbourne for a further two years. Together, these contracts are valued at approximately £12m.

Education and Children's Services

We extended our position as one of the leading private sector providers of educational services in the UK with the award of a contract from Ofsted to run inspections in the Midlands, covering the central region of England. Under the new six year contract, which is valued at around £55m and which will start in September, we will manage inspection services at a third of all education based organisations in England, delivering inspection services to schools, further education colleges, and work-based learning organisations. We will bring our current practical experience to improve the delivery of inspection services and, in particular, we will draw from our wider Group and IT capability to introduce innovative systems and processes to drive more effective inspections. We will also increase the use of current practitioners (existing and recent headteachers and other senior educational staff), and an automated scheduler to manage the process of inspections.

The quality of the services we deliver under our existing contracts continues to be recognised, both in external reports and through expansion of our contracts. In a joint area review published in January this year, inspectors praised our team for leading “significant and rapid progress” and "accelerating" improvements in children’s services at Stoke-on-Trent City Council. We were also pleased to receive further funding of £1.3m in May for increased support on short breaks and parent participation in our contract under the Aiming High for Disabled Children programme (Together for Disabled Children).

IT & BPO

The current challenging economic environment has enhanced the focus on the support we provide for small and medium-sized enterprises. We are delighted that the high quality of the services we provide has been recognised not only in our appointment as preferred bidder to provide Business Link services in the South East, in a contract that is valued at around £80m over three years, with the opportunity to extend for a further two years, but also by further expansion in one of our existing contracts with the award by the South West RDA (Regional Development Agency) of an additional £14m over five years. This enhanced funding is to enable us to lead on the delivery of enhanced Business Link services in the South West for all areas excluding Cornwall, which is covered by a separate agreement. South West RDA has also awarded Serco three additional contracts worth approximately £5 million to provide advice for businesses in the rural economy.

In the US, we renewed a number of smaller training and technical support contracts with customers including the Pension Benefit Guaranty Corporation and the Department of Transportation, in total valued at approximately US$10m.

In Europe, we were selected for a number of contracts supporting space and research initiatives. We were selected by the European Space Agency to provide Engineering and Technical Management services for its Earth Observation programme, the Global Monitoring for Environment and Security (GMES). Under the contract, which has an approved budget of Euro22m over five years, we will define and procure the ground systems used to process data generated by the instruments on board the Sentinel satellites in the first three missions of the GMES programme.

We also successfully renewed our Earth Observation support contract at ESRIN, the European Space Agency's European Space Research Institute. The contract has a term of three years with an option to extend for a further two, which would bring the total contract value to approximately Euro13m.

We were also selected for a contract for the Provision of Maintenance Services for the Cryogenic Installations and Equipment at CERN. We have worked for CERN since 1993 and currently provide IT Services, Industrial Support and Cryogenic Operations Support and have more than 100 employees on site. CERN awarded this service contract for a firm initial period of three years with the potential of four, one year, extensions. The total value of this contract is Euro20m over the full seven years.

Defence

We are a major provider of operational support services to the armed forces of the UK, US, Canada, Germany and Australia. We provide training, engineering and operational support, maintain strategic defence assets, and deliver cost analysis, human resources, systems engineering, safety assurance and risk management services. We are well placed to help our customers to improve efficiency and reduce costs, through providing advice and consultancy to achieve greater efficiencies while improving operational availability, and implementing the delivery of services to improve operational capability.

Defence revenue grew by 33.2% to £499m, representing 26% of Group revenue (2008: 25%).

United Kingdom and Europe

In the UK, the Ministry of Defence’s focus on operational delivery and efficiency meant that our defence business delivered a good performance, underlining our critical role in supporting UK armed forces and improving military capability. We grew the scope and scale of existing contracts, and saw a number of smaller contract wins.

Growth in existing contracts included increased demand for our specialist support to British military helicopters, where we have secured additional work valued at up to £17m in the half year. This includes our work at the Royal Naval Air Stations Culdrose and Yeovilton, where we support the Royal Navy’s fleet of Merlin, Lynx and Sea King aircraft, at RAF Odiham in our Chinook support role, at the Wattisham Station of the Army Air Corps where we support the Apache Attack Helicopter, and at RAF Benson, where we train all of the RAF’s helicopter crews on state of the art simulators.

We have also been awarded an extension to our contract to support, operate and maintain the UK Ministry of Defence's mobile underwater targets at the British Underwater Test and Evaluation Centre, Kyle of Lochalsh, Scotland, and Weymouth, Dorset. Mobile underwater targets are used when training submarine crews on the use of the Spearfish torpedo by simulating a realistic submarine target. The contract extension is valued at up to £7.3m over four and a half years.

We were also successful in a number of contract rebids. Our contract to provide the Ministry of Defence with Air Surveillance and Control Systems was renewed for a further five years with potential for a three year extension. The contract is valued at £25m over the full eight years. We also renewed our contract with the Ministry of Defence to provide nuclear propulsion support. Our contract to provide essential logistical support services to the US Air Force at three bases at Alconbury, Molesworth and Croughton, valued at £10m over five years, was also successfully renewed, and expanded to include medical and mail delivery services.

Our Germany defence business secured new contracts worth close to £6m. We were awarded a new £3.1m systems integration contract by NATO's Consultation, Command and Control Agency. This will involve the provision of support to NATO's initiative to improve data and voice communications links between operating units from the various member states, particularly important in enabling NATO to fulfil its mission in Afghanistan. In addition, we were awarded contracts to provide a deployable prison for the Germany military police and deliver the systems integration of deployable command and control containers for close proximity defence systems at German MoD field camps. These contracts are worth £1.5m and £1m respectively.

North America

In North America, we provide information services, technology and network solutions, enterprise management, engineering, logistics, and human resources services primarily to the US Government. The acquisition of SI at the end of 2008 has significantly expanded our capabilities and broadened our customer base, where we now serve all branches of the US armed forces, key federal civilian agencies such as the Department of Homeland Security and Department of State, and the intelligence community. We continue to see good organic growth in our existing contracts and excellent opportunities to expand our business using our enhanced capabilities across our enlarged customer base.

We were awarded two substantial government-wide procurement programmes in the half year; GSA Alliant and STOC II. These appointments give us, as one of a number of award winners, the opportunity to compete on task orders. Alliant is a multiple award, indefinite delivery/indefinite quantity (ID/IQ) contract vehicle through which Serco has the opportunity to provide integrated Information Technology solutions. The contract has a ceiling value of US$50bn over a five year base period and one five year option period, and contains three major components: Infrastructure, Application Services, and IT Management. The US Army Program Executive Office for Simulation, Training and Instrumentation Omnibus Contract (STOC II) is a multiple award, ID/IQ contract vehicle, with Serco as one of a number of award winners, with a ceiling value of US$17.5bn over a ten year period. This new contract provides support to the US Army and other federal organisations using a wide range of advanced technology capabilities in the areas of simulation and training.

In smaller contracts, we were awarded a new contract with the US Army Research Laboratory to provide automation, information, and technology services for their Program and Budget Office. This contract expands our IT capabilities with the US Army and has a potential value of US$8m over a one year base period with four one year options. We also renewed two further contracts in this period, including one to provide access card services for the US Army at around 70 locations around the world, issuing approximately 1.1m identification and access cards annually. The contract, which Serco has held since 2001, is valued at US$9.4m over one year. We also successfully rebid our contract to support the US Air Force as a subcontractor to BAE Systems in providing Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) engineering to the intelligence community. The contract value for Serco is approximately US$8m over three years.

Transport

We are a major provider of transport services to the UK and markets in Australia, the Middle East and US. We operate heavy and light rail systems, are a leader in the development of integrated traffic management systems, and are one of the world's largest private sector suppliers of air traffic control services. We are broadening our capabilities into other modes of transport, including marine transportation services through our operation of the Woolwich Ferry, and bicycles with our recently announced contract to operate the London Cycle Hire Scheme.

Transport revenue grew by 13.2% to £346m, representing 18% of Group revenue (2008: 21%).

Heavy rail

Northern Rail and Merseyrail, Serco's two joint ventures with NedRailways, continued to deliver good growth in the first half of 2009, supported by excellent operational performance, new service initiatives, such as Northern's new Nottingham to Leeds direct service launched in December 2008, and other innovations. These joint ventures have revenue or profit sharing agreements, and stable subsidies which account for over 60% of revenue.

Northern achieved a major milestone in delivering a more punctual train service for its growing numbers of passengers, with more than 90% of trains running on time in the last year (and a record 94% in May) making it one of the best performing franchises outside London. This compares to a punctuality of under 84% prior to the start of the franchise. This performance has been achieved through several initiatives, including improving the reliability of its 290-strong fleet of trains by 50% since the start of the franchise, and working closely with Network Rail to reduce infrastructure related delays and improve the management of incidents through co-located control centres.

Merseyrail's performance benefited from enhanced yield management, and further improvements to its operational performance. In the past year, over 95% of its trains ran on time, which was the second best performance of any franchise in the UK. This strong operational performance was reflected in the spring 2009 National Passenger Survey which showed another increase in the "overall satisfaction" rating of Merseyrail to 91%, the joint highest rating in the UK.

Our Australian rail operation, Great Southern Rail, is performing in line with our expectations. We have responded to challenging market conditions and discounting with the introduction of the Platinum service on The Ghan train in late 2008, and innovative marketing and scheduling strategies, and as a result bookings are in line with last year's levels.

Light rail

The operational phase of our £500m contract with the Dubai Government Roads and Transport Authority (RTA) to operate and maintain the first two lines of the new Dubai Metro will commence this year, and we are fully prepared for the inauguration of this flagship project. We also continue to see further opportunities for our skills across a number of types of transport in Dubai and the wider region.

On the Docklands Light Railway (DLR), work continues to upgrade capacity and extend the network, including for the introduction of three-carriage trains in early 2010. The Stratford International extension, which will bring five new stations to the network, is scheduled to open in summer 2010. Despite disruption from these works, the DLR continues to perform well, with improvements seen in service reliability and journey times.

Traffic management

We continue to see good demand for our innovative traffic management solutions, with a number of new contract wins, renewals and extensions in the half year.

In the UK, we have been appointed as preferred bidder for the Birmingham NEC Parking and Traffic Management improvement scheme, to improve parking and vehicle access/movement at the NEC using new technology and traffic management systems. The contract is for three years and has a value of £3m.

Other wins in the half year, valued at over £10m in total, included an expansion to our National Traffic Control Centre contract, and our appointment as one of four suppliers for the Transport Scotland Consultancy Framework which will provide transport systems advice, design and support. We also extended our contract for the maintenance of Transport for London's Eastern Tunnel management system to the end of September 2010, and were awarded a contract by the Highways Agency covering software and systems work on the abnormal loads management and website booking system.

Civil Aviation

In addition to the successful renewal and expansion of our contract with the Dubai Airports Company for air traffic services at Dubai International Airport, we have been awarded on rebid a contract for the provision of Air Traffic Control and Electronic Engineering services at Abu Dhabi International Airport, Al Ain International Airport, and City Airport at Bateen as well as two additional satellite airports in the Emirate of Abu Dhabi. Valued at over £24m for two years, the contract commenced in April 2009. Serco has also been successful in the rebid for the provision of Air Traffic Control services for Ras Al Khaimah's International Airport, which has a value of over £1.5m for one year.

Science

Serco manages science-based organisations and develops and applies scientific knowledge for wealth creation. Technology, innovation and people management are at the heart of our offering in this market.

Science revenue grew by 10.5% to £295m, representing 15% of Group revenue (2008: 18%).

Our joint venture with Lockheed Martin and Jacobs Engineering to manage and operate the UK’s Atomic Weapons Establishment (AWE) performed well, and after the half year end we were pleased to successfully conclude the periodic pricing review.

AWE’s health and safety achievements were again recognised in its winning the National Defence Sector Award and the International Dilmun Environmental Award for the second year running in annual awards from the Royal Society for the Prevention of Accidents (RoSPA). This is the ninth successive year that AWE has won RoSPA recognition. In other awards, the AWE Apprentice Academy was awarded Beacon status, the hallmark of a standard of excellence in learning providers, by the Learning and Skills Improvement Service.

A consortium of Serco, Battelle and The University of Manchester has been awarded a new contract to run the UK National Nuclear Laboratory (NNL). The objectives are for NNL to become an international centre of excellence in nuclear research, to play a central role in cleaning up the UK's nuclear waste legacy and to contribute to the programme of nuclear new build. The overall value of the contract will be determined by our management performance.

The National Physical Laboratory (NPL) continued to strengthen its third-party business with around £5m of new business signed in the half year. NPL also signed an agreement, valued at approximately £1m to Serco, with the University of Surrey to collaborate on a programme to translate the results of research into innovation. Under the agreement, NPL will provide knowledge transfer services, and will focus on areas of technology that have the potential to create transformational benefits for the UK economy and society. NPL also opened its Knowledge and Innovation Centre, located in its new laboratory building in Teddington. By the end of 2009, NPL is aiming to have established a community of businesses who will benefit from active collaboration with NPL.

Market opportunities

The financial crisis and subsequent economic slowdown means that governments around the world are contending with increasing demand for high quality services whilst also facing a sharp deterioration in public finances. They continue to experience growing demand for quality services from their citizens. In addition, they are also addressing challenges in economic development, congestion, security, ageing populations and population growth, and climate change. This has accelerated the pace of change in governments seeking greater efficiency in the delivery of high quality services. Our private sector customers are facing similar productivity imperatives in their drive to enhance shareholder value.

The scale of the productivity improvements required, and the fact that they will need to be delivered over a longer period than in previous downturns, means that our customers now have an increasing need to make more fundamental changes than before, and to address some of the largest areas of their spend. As well as resulting in the cancellation of certain programmes, particularly large capital projects, in the shorter term, we believe this is also leading to a greater acceptance of innovative ways of achieving these changes, a broader range of markets to be addressed, and an increase in the size and term of change programmes in order to achieve the scale of efficiencies required.

Given these challenges faced by our customers around the world, our reputation for delivering high quality services is becoming increasingly attractive to them. We are well placed to help them maintain and improve levels of service while achieving greater efficiency, given the breadth and depth of our capabilities across a wide range of markets, and the flexibility and agility we have within our business to apply these skills to create innovative solutions targeted at their needs.

The trends towards larger, longer-term and more fundamental change programmes across a broader range of markets are being borne out in developments in our existing markets and in the development of new markets.

In home affairs, both in the UK and Australia, we continue to see strong opportunities driven by rising prison populations and border security issues, but also new developments to increase efficiency in the existing estate. In the UK, the Ministry of Justice has confirmed its intention for the private sector to build and operate five new prisons by 2014, and also, for the first time, for poorly performing public sector prisons to be market tested. In the UK, this will be initially on two prisons at Birmingham and Wellingborough, and in Australia, the only other country to have adopted this approach, we have bid to operate an existing prison at Parklea in New South Wales.

In the UK, we are now supporting government in two of the largest areas of its spend, benefits and the National Health Service. We expect further Flexible New Deal contracts to support jobseekers to be tendered next year, and see good opportunities to broaden our presence in the pathology market, where our shared services approach is expected to lead to significant productivity gains.

We also anticipate further opportunities to address employment and encourage entrepreneurship through the support we provide to smaller and medium-sized enterprises in our business link contracts.

The requirement for local authorities to deliver productivity improvements continues to provide opportunities, driving the need for transformation and the efficient delivery of core services. The UK's Local Government Association has said that the "tough economic outlook is forcing councils to take a look at almost every aspect of their finances". It estimates that low interest rates and depressed property prices alone have resulted in a £4bn deficit in income for councils over the last two years, at a time when they have continued to make significant investments in helping people and businesses through the recession. We are engaged with a number of local authorities in transformational opportunities, and in areas such as environmental services where we see a strong pipeline.

In UK education, our capabilities now include education and children's services, and advisory and inspection services. We expect to see further inspection and advisory opportunities, as well as expansion of successful central government programmes such as Together for Children and Together for Disabled Children.

We continue to see opportunities for growth in India, both in BPO as an increasingly wealthy population drives demand for services, and in public services where we have been encouraged by the initial progress we have made in the market.

In defence, we are in active dialogue with our customers at all levels in both the UK and internationally to help them address the challenge of the requirement to deliver battle-winning front-line services while achieving greater efficiency. In the UK, while we expect a strategic defence review to set the framework in the medium-term, we believe that the Ministry of Defence will be seeking to deliver efficiencies ahead of the outcome of any review given the budgetary pressures it is facing.

The integration of our strong customer relationships, in particular with the intelligence agencies, with our skills in information assurance, network solutions and enterprise architecture gives us a significant opportunity to help government address growing cybersecurity challenges, both in stand-alone programmes and as adjuncts to existing business.

We have also been selected to compete for two major contracts to be awarded between 2011 and 2012. The first of these is the 'Fleet Outsourced Activities Project' to provide comprehensive training services to the Royal Navy. This ten year contract is designed to replace the current arrangement of skills-based training and training support, equipping naval recruits for life on board ship. We have also been shortlisted, as part of the Prospector Group consortium with Logica and the AMV Group, for the Armed Forces Recruiting Partnering Project (RPP) to support Army recruitment at every stage, from initial marketing to when a recruit starts training.

In the US, where we support the government in a number of key areas including program and human capital management, enterprise architecture and IT modernisation, we now have a strong foundation for growth in the world's largest government services market with the integration of SI. We are achieving good recognition from our customers for our enhanced capabilities, and we see strong potential across our larger customer base and especially in focus areas such as cyber security and healthcare.

Our capabilities across a number of different modes of transport are giving us strong opportunities for growth in many of our regions, including in light rail and marine operations in Europe, the Middle East and Australasia. We also see good potential to expand our cycle scheme technology both in London and in other cities.

In science, we expect opportunities for growth to be driven by the challenge of achieving a low carbon economy, and the role scientific establishments and innovation can play in wealth creation and supporting economic recovery. Our nuclear safety expertise, our skills in environmental measurement and our evolving expertise in renewable energy, waste management and energy efficiency, position us well to play a key role in achieving a low carbon economy.

People

The commitment of our people to the consistent delivery of high quality services for our customers is critical for our business to prosper.

During the half year, we once again conducted our “Viewpoint” survey, which measures our people’s engagement with and commitment to our business. We were pleased that over three-quarters of employees completed the questionnaire, an improvement of around 10% since the last survey at the end of 2007, and to find world-class levels of commitment and discretionary effort on the part of our people. We also found an open culture, and a culture of respect, in terms of their working relationships. The ambition of our people to excel and to have the opportunity to develop further within Serco was also clear, and we will be increasing our focus in these areas in the future.

Our people’s commitment was also recognised in this half year, not only in the number of contract wins, renewals and extensions in the period, but also through a large number of awards across our business. Of particular note was the recognition we received for our outstanding safety performance at the annual awards presented by the Royal Society for the Prevention of Accidents (RoSPA). In total, we were recognised with 29 different awards, including the highest accolade, the Sir George Earle trophy, which was won by Northern Rail, with the National Physical Laboratory as the other finalist. Within our 29 awards, we won three of RoSPA’s six major awards and three of the awards for industry sectors.

We were also recognised for our responsible business practices and the positive impact we make on society by Business in the Community with a Gold rating for the third year running in the UK and the second year running in Australia.

Risk Management

The directors have considered the principal risks and uncertainties affecting the Group and its performance in 2009, and determined that those discussed in the Group's published accounts for the year ended 31 December 2008 remain relevant.

Our business, results and financial condition could be affected by a broad range of risks and uncertainties. The Group risk register identifies the principal risks facing the business, including those that are managed directly at a Group level. The Group risk register is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly Board meetings.

The risk management process is now incorporated in an over-arching resilience management framework that incorporates risk, security, business continuity and crisis management. The resilience management framework is supported by a set of top-level requirements, more detailed process descriptions and guidance and tools to support the implementation of the framework across the Group.

Active risks are ranked by importance and grouped under the following six headings:

- **Strategic** – covering threats to the long-term deliverability of the Group's strategy. Principal risks include loss of competitive position and risks associated with acquisitions.
- **Financial/Commercial** – covering threats to the short- to medium-term performance. Principal risks include the loss of key contracts, failure to meet financial business plans, availability of funding, pension fund liabilities and delays or cost over-runs in major transition programmes.
- **Compliance** – covering compliance with all relevant legislation and regulations. Principal risks include legal action resulting from compliance failures, loss or compromise of personal data and unethical behaviour by Directors or members of staff.
- **Safety and Security** – covering threats to the safety of staff, sub-contractors, members of the public and the environment and the security of the Group's assets and staff. Risks include the responsibility for a major accident or incident where public safety is concerned, environmental pollution, assaults on staff in the course of their duties, loss of sensitive information and crime, fraud and terrorism.
- **Operational** – covering threats to the continuity of business operations. Principal risks include the failure of information systems, loss of key infrastructure, the recruitment and retention of key staff and the impact of pandemic influenza.
- **Management** – covering possible internal failures of managers or management systems. Principal risks include failures of internal controls and management systems.

For the Group, the most significant risks relate to the strategy and safety areas. Social, environmental and ethical issues, while recognised within a number of the Group's risks, do not represent significant threats to the Group's strategy at present. Reputational and emerging risks are kept under active review and the Board informed of changes. Emerging risks cover longer-term risks that could represent a threat to the Group's activities but which are not yet sufficiently defined to be included as active risks.

Finance Review

Overview

The business had a strong first half delivering growth rates of 30.8% for revenue and 43.2% for Adjusted operating profit. We have benefited from the effects of the acquisition of SI and currency; excluding currency, revenue growth was 21.2% (10.8% excluding SI) and Adjusted operating profit growth was 30.2% (15.1% excluding SI). This equates to a 38 basis point improvement (20 basis points excluding SI) in Adjusted operating profit margin (see Figure 2). Free cash flow grew by over 50% to £50.7m and Group recourse net debt reduced by £64.7m to £459.8m from the 2008 year end position.

1. Income statement

The 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	**2009 £m**	2008 £m	Increase
Revenue	**1,949.8**	1,490.5	30.8%
Gross profit	**285.7**	217.6	31.3%
Administrative expenses	**(175.7)**	(140.8)	24.8%
Adjusted operating profit	**110.0**	76.8	43.2%
Investment revenue and finance costs	**(17.7)**	(9.5)	
Adjusted profit before tax	**92.3**	67.3	37.1%
Amortisation of acquired intangibles	**(8.9)**	(4.5)	
Profit before tax	**83.4**	62.8	32.8%
Tax	**(22.0)**	(16.9)	30.2%
Profit for the period	**61.4**	45.9	33.8%
Effective tax rate	**26.4%**	26.9%	
Adjusted earnings per share	**14.02p**	10.18p	37.7%
Earnings per share	**12.62p**	9.35p	35.0%
Dividend per share	**1.85p**	1.48p	25.0%

1.1 Currency translation

The increase in the size of overseas operations with earnings not denominated in Sterling, principally as a result of the acquisition of SI International (SI) at the end of 2008, and changes in currency exchange rates over the last twelve months, have benefited Serco's reported results. In order to more accurately present the growth of the business in the period, the effect of currency exchange rate changes on revenue, Adjusted operating profit, Investment revenue and finance costs, Adjusted profit before tax and Group recourse net debt are included below. The currency effect has been calculated by translating non-Sterling earnings, including those of SI, for the six months ended 30 June 2009 into Sterling at the average foreign exchange rates for the same period in 2008.

Figure 2: Income statement bridge

Six months ended 30 June	**Revenue £m**	**Revenue growth %**	**Adjusted operating profit £m**	**Adjusted operating margin %**
2008 Group	1,490.5	-	76.8	5.15%
2009 **Group excluding SI and currency**	**161.2**	**10.8%**	**11.6**	**0.20%**
	1,651.7		**88.4**	
SI	**155.6**	**10.4%**	**11.6**	**0.18%**
Group including SI	**1,807.3**	**21.2%**	**100.0**	**5.53%**
Currency effects	**142.5**	**9.6%**	**10.0**	**0.11%**
Total	**1,949.8**	**30.8%**	**110.0**	**5.64%**

1.2 Revenue

Revenue grew by 30.8% to £1,949.8m. Revenue growth, excluding SI and currency effects, was 10.8%. Organic revenue growth, excluding currency, was 9.6%. SI, which contributed to revenue for the first time in this period, had revenue of US$308.9m (£155.6m excluding currency effects), adding 10.4% to revenue growth. SI's revenue grew 11.4% when compared to the same period in 2008. Currency effects added a further £142.5m (9.6%) to Group revenue.

1.3 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.7%, a small increase on the first half of 2008.

1.4 Adjusted operating profit

Adjusted operating profit increased by 43.2% to £110.0m representing an Adjusted operating profit margin of 5.6%. Adjusted operating profit margin increased by 49 basis points of which 38 basis points relates to the group including SI but excluding currency effects. The table in Figure 2 illustrates the Adjusted operating profit resulting from the group excluding SI, SI, and currency effects.

1.5 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £17.7m (2008: £9.5m), an increase of £8.2m. The increase, excluding currency effects, was £6.3m. Borrowing costs to fund the SI acquisition and an increase in the net pension funding cost of £3.1m charged to the income statement were the principal reasons for this increase.

1.6 Adjusted profit before tax

Adjusted profit before tax was £92.3m, an increase of 37.1%. Excluding SI and currency effects, the Adjusted profit before tax margin was 4.7%.

1.7 Tax

The tax charge of £22.0m (2008: £16.9m) represents an effective rate of 26.4%, compared with 26.9% in the first half of 2008. The reduction principally reflects the fall in the UK corporation tax rate from the blended UK corporation tax rate of 28.5% in 2008 to 28% in 2009.

1.8 Earnings per share (EPS)

Adjusted EPS rose by 37.7% to 14.02p. EPS grew by 35.0% to 12.62p.

EPS and Adjusted EPS are calculated on an average share base of 486.6m during the period (2008: 487.1m). The decrease in the average share base resulted principally from the purchase of shares for the ESOP trust in the second half of 2008 partially offset by the exercise of employees' share options.

2. Dividend

Serco's policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has declared an interim dividend of 1.85p per share, representing an increase on the 2008 interim dividend of 25.0%. The interim dividend will be paid on 16 October 2009 to shareholders on the register on 4 September 2009.

3. Cash flow

The Group generated a free cash inflow of £50.7m (2008: £33.0m), an increase of 53.6%.

Figure 3 analyses the cash flow. As in previous years, we have designed the analysis to show the true cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 36, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 3 reconciles the movement in Group cash to the consolidated cash flow.

Figure 3: Cash flow

Six months ended 30 June	**2009 £m**	2008 £m
Operating profit excluding joint ventures	**73.0**	48.8
Non cash items	**38.5**	23.2
Group EBITDA	**111.5**	72.0
Working capital movement	**(31.3)**	(24.2)
Group operating cash flow	**80.2**	47.8
Interest	**(18.0)**	(12.4)
Tax	**(8.4)**	(3.1)
Expenditure on tangible and intangible assets	**(22.5)**	(19.1)
Dividends from joint ventures	**19.4**	19.8
Group free cash flow	**50.7**	33.0
Disposal of subsidiaries	**-**	1.6
Acquisition of subsidiaries and business undertakings	**(15.4)**	(21.3)
Other financing	**(32.9)**	12.5
Dividends paid	**(16.9)**	(14.5)
Group net (decrease)/increase in cash and cash equivalents	**(14.5)**	11.3
Adjustment to include joint venture cash impacts	**14.1**	15.1
Net (decrease)/increase in cash and cash equivalents	**(0.4)**	26.4

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

3.1 Group operating cash flow

Group operating cash flow of £80.2m (2008: £47.8m) reflects a conversion of Group EBITDA into cash of 72% (2008: 66%). The increase in working capital movement from £24.2m to £31.3m was driven by the significant number of contract start ups and transitions.

3.2 Interest

Net interest paid was £18.0m, compared to £12.4m in 2008, reflecting the increase in borrowings resulting from the acquisition of SI in 2008.

3.3 Tax

Tax paid was £8.4m (2008: £3.1m). Cash tax is below the equivalent charge in the income statement as a result of accelerated capital allowances and other timing differences.

3.4 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets in the period was £22.5m (2008: £19.1m). This represents 1.4% of group revenue excluding joint ventures (2008: 1.7%).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £19.4m (2008: £19.8m), a conversion rate of 81% (2008: 93%) of joint ventures' profit after tax and minority interest, excluding costs allocated by Group.

3.6 Acquisition of subsidiaries and business undertakings

To effect the partnership arrangement between Serco and Guy's & St Thomas' NHS Foundation Trust announced on 30 January, in February 2009, Serco Group plc acquired a 50% interest in GSTS Pathology LLP. The joint venture arrangement with Guy's & St Thomas' NHS Foundation Trust will provide improved pathology services to the Trust and target the significant national and international pathology market. Total cash outflows associated with this transaction were £5.5m including directly attributable costs. Other acquisition costs included the acquisition of Sandrunner Limited, a UK based specialist consultancy provider, for £0.3m in January 2009, and further payments in relation to the acquisition of Infovision and SI in December 2008 of £3.7m and £5.9m respectively.

3.7 Other financing

The movement in other financing resulted primarily from repayments on our committed facility and non recourse debt.

4. Net debt

Figure 4 analyses net debt.

Figure 4: Net debt

At	**30 June 2009 £m**	31 December 2008 £m
Group - cash and cash equivalents	**172.3**	199.8
Group – loans	**(611.7)**	(708.8)
Group - obligations under finance leases	**(20.4)**	(15.5)
Group recourse net debt	**(459.8)**	(524.5)
Joint venture recourse net cash	**55.7**	44.5
Total recourse net debt	**(404.1)**	(480.0)
Group non recourse debt	**(28.9)**	(34.1)
Total net debt	**(433.0)**	(514.1)

4.1 Group recourse net debt

Group recourse net debt decreased by £64.7m to £459.8m. This principally reflects the changes in currency exchange rates which reduced net debt by £56m. Cash and cash equivalents includes encumbered cash of £12.3m (31 December 2008: £10.4m). This is cash securing credit obligations and customer advance payments.

4.2 Group non recourse debt

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

Group non recourse debt reduced by £5.2m to £28.9m during the first half primarily as a result of the payments made in line with the debt repayment schedule. Non recourse debt relates to our Driver Examination Services contract in Canada.

5. Pensions

At 30 June 2009, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £73.8m (31 December 2008: £20.5m), on a pension scheme asset base of £1.2bn.

Figure 6: Defined benefit pension schemes

At	**30 June 2009 £m**	31 December 2008 £m
Group schemes – non contract specific	**(73.8)**	(0.7)
Contract specific schemes		
– reimbursable	**(110.5)**	(89.6)
– not certain to be reimbursable	**(25.7)**	(24.4)
Net retirement benefit liabilities	**(210.0)**	(114.7)
Intangible assets arising from rights to operate franchises and contracts	**12.9**	14.4
Reimbursable rights debtor	**110.5**	89.6
Deferred tax assets/(liabilities)	**12.8**	(9.8)
Net balance sheet liabilities	**(73.8)**	(20.5)

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

- Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes, we charge the actuarial gain or loss for the period to the consolidated Statement of 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 period 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 2009, SPLAS had a deficit of £12.4m (31 December 2008: surplus of £62.4m). The deficit reflects the effect of the market conditions on investment returns in the period and an increase in inflation assumptions since the year end.

Figure 6 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. Assumptions in the period are disclosed in note 13 to the condensed set of financial statements on page 46.

Figure 6: Pension assumption sensitivities

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

6. Treasury

The Group's principal debt finance comprises a £400m bank revolving facility which matures in September 2013 together with a term loan and bilateral facility totalling US$550m to fund the acquisition of SI International, Inc. The term loan and bilateral facility are repayable between September 2010 and September 2013. The facilities, which are syndicated with a group of 13 banks, are unsecured. As at 30 June 2009 £461m had been drawn down on these facilities (31 December 2008: £560m). Excluding the effects of currency on the US$ denominated debt, the equivalent drawn down would have been £528m.

Serco has also issued loan notes under a private placement of £117m, which will be repaid evenly from 2011 to 2015.

Responsibility statement

We confirm that to the best of our knowledge:
(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Christopher Hyman	Andrew Jenner
Chief Executive	Finance Director
25 August 2009	

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 2009 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 13. 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 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 2009 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 Auditors
London, United Kingdom
25 August 2009

Condensed consolidated income statement

For the six months ended 30 June 2009

	Note	**6 months to 30 June 2009 £m (unaudited)**	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Continuing operations				
Revenue	3	**1,949.8**	1,490.5	3,123.5
Cost of sales		**(1,664.1)**	(1,272.9)	(2,666.7)
Gross profit		**285.7**	217.6	456.8
Administrative expenses		**(175.7)**	(140.8)	(291.6)
Other expenses – amortisation of intangibles arising on acquisition		**(8.9)**	(4.5)	(9.2)
Total administrative expenses		**(184.6)**	(145.3)	(300.8)
Operating profit	3	**101.1**	72.3	156.0
Investment revenue	2	**1.3**	4.6	8.2
Finance costs	2	**(19.0)**	(14.1)	(28.1)
Profit before tax		**83.4**	62.8	136.1
Tax		**(22.0)**	(16.9)	(36.5)
Profit for the period		**61.4**	45.9	99.6
Attributable to:				
Equity holders of the parent		**61.4**	45.5	99.5
Minority interest		**-**	0.4	0.1
Earnings per share (EPS)				
Basic EPS	5	**12.62p**	9.35p	20.49p
Diluted EPS	5	**12.46p**	9.23p	20.18p

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2009

	Note	**6 months to 30 June 2009 £m (unaudited)**	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Profit for the period		**61.4**	45.9	99.6
Other comprehensive income for the period:				
Net actuarial (loss)/gain on defined benefit pension schemes[1]	13	**(148.6)**	(153.7)	8.7
Actuarial gain on reimbursable rights[1]	13	**60.8**	86.8	50.6
Net exchange (loss)/gain on translation of foreign operations[2]		**(28.4)**	9.7	54.1
Fair value (loss)/gain on cash flow hedges during the period[2]		**(5.9)**	10.5	14.2
Tax credit/(charge) on items taken directly to equity[3]		**23.2**	14.1	(21.3)
Recycling of cumulative net hedging reserve[2]		**0.1**	(0.7)	(0.7)
Total comprehensive (expense)/income for the period		**(37.4)**	**12.6**	**205.2**
Attributable to:				
Equity holders of the parent		**(37.4)**	12.2	205.1
Minority interest		**-**	0.4	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, £22.6m (30 June 2008: £16.8m, 31 December 2008; debit of £16.8m) was taken to the Retirement benefit obligations reserve; £1.6m (30 June 2008; debit of £2.9m, 31 December 2008; debit of £3.9m) was taken to the Hedging and translation reserve; a debit of £1.0m (30 June 2008; credit of £0.2m, 31 December 2008; debit of £0.6m) was taken to the Share based payment reserve.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2009

	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	Minority interest £m
At 1 January 2008 (audited)	9.7	299.3	0.1	260.6	(90.2)	34.6	(15.1)	(1.8)	497.2	1.3
Total comprehensive income for the period	-	-	-	45.5	(50.1)	0.2	-	16.6	12.2	0.2
Shares transferred to option holders on exercise of share options	-	0.7	-	-	-	(0.2)	2.6	-	3.1	-
Dividends paid	-	-	-	(14.5)	-	-	-	-	(14.5)	-
Credit in relation to share-based payment	-	-	-	-	-	3.0	-	-	3.0	-
At 1 July 2008 (unaudited)	9.7	300.0	0.1	291.6	(140.3)	37.6	(12.5)	14.8	501.0	1.5
Total comprehensive income for the period	-	-	-	54.0	92.6	(0.8)	-	47.1	192.9	(0.1)
Shares transferred to option holders on exercise of share options	-	1.1	-	-	-	(0.8)	2.0	-	2.3	-
Dividends paid	-	-	-	(7.1)	-	-	-	-	(7.1)	-
Credit in relation to share-based payment	-	-	-	-	-	4.0	-	-	4.0	-
Purchase of own shares for employee benefit trust (ESOP)	-	-	-	-	-	-	(9.2)	-	(9.2)	-
Acquisition of minority interest by joint venture	-	-	-	1.3	-	-	-	-	1.3	(1.3)
At 1 January 2009 (audited)	9.7	301.1	0.1	339.8	(47.7)	40.0	(19.7)	61.9	685.2	0.1
Total comprehensive income for the period	**-**	**-**	**-**	**61.4**	**(65.2)**	**(1.0)**	**-**	**(32.6)**	**(37.4)**	**-**
Shares transferred to option holders on exercise of share options	**-**	**0.6**	**-**	**-**	**-**	**(0.6)**	**2.4**	**-**	**2.4**	**-**
Dividends paid	**-**	**-**	**-**	**(16.9)**	**-**	**-**	**-**	**-**	**(16.9)**	**-**
Credit in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**4.0**	**-**	**-**	**4.0**	**-**
At 30 June 2009 (unaudited)	**9.7**	**301.7**	**0.1**	**384.3**	**(112.9)**	**42.4**	**(17.3)**	**29.3**	**637.3**	**0.1**

Condensed consolidated balance sheet

At 30 June 2009

	Note	At 30 June 2009 £m (unaudited)	At 30 June 2008 £m (unaudited)	At 31 December 2008 £m (audited)
Non-current assets				
Goodwill		**901.8**	566.6	964.7
Other intangible assets		**170.6**	135.4	191.3
Property, plant and equipment		**117.5**	100.5	115.4
Trade and other receivables		**141.1**	118.0	121.1
Retirement benefit assets	13	**-**	-	62.4
Deferred tax assets		**42.4**	65.7	19.6
Derivative financial instruments		**3.9**	6.2	5.6
		1,377.3	992.4	1,480.1
Current assets				
Inventories		**54.4**	50.2	50.2
Trade and other receivables		**712.6**	571.1	719.5
Cash and cash equivalents		**237.2**	215.6	250.8
Derivative financial instruments		**0.8**	4.3	5.0
		1,005.0	841.2	1,025.5
Total assets		**2,382.3**	1,833.6	2,505.6
Current liabilities				
Trade and other payables		**(745.3)**	(682.8)	(754.7)
Current tax liabilities		**(24.5)**	(19.3)	(19.5)
Obligations under finance leases		**(5.1)**	(4.2)	(4.5)
Loans		**(42.2)**	(7.8)	(36.8)
Derivative financial instruments		**(8.6)**	(1.6)	(4.2)
		(825.7)	(715.7)	(819.7)
Non-current liabilities				
Trade and other payables		**(28.7)**	(12.3)	(35.5)
Obligations under finance leases		**(17.1)**	(10.5)	(12.7)
Loans		**(605.8)**	(313.4)	(710.9)
Derivative financial instruments		**(2.4)**	(8.1)	(0.4)
Retirement benefit obligations	13	**(210.0)**	(243.4)	(177.1)
Provisions	9	**(33.7)**	(12.7)	(38.1)
Deferred tax liabilities		**(21.5)**	(15.0)	(25.9)
		(919.2)	(615.4)	(1,000.6)
Total liabilities		**(1,744.9)**	(1,331.1)	(1,820.3)
Net assets		**637.4**	502.5	685.3
Equity				
Share capital		**9.7**	9.7	9.7
Share premium account		**301.7**	300.0	301.1
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**384.3**	291.6	339.8
Retirement benefit obligations reserve		**(112.9)**	(140.3)	(47.7)
Share-based payment reserve		**42.4**	37.6	40.0
Own shares reserve		**(17.3)**	(12.5)	(19.7)
Hedging and translation reserve		**29.3**	14.8	61.9
Equity attributable to equity holders of the parent		**637.3**	501.0	685.2
Minority interest		**0.1**	1.5	0.1
Total equity		**637.4**	502.5	685.3

Condensed consolidated cash flow statement

For the six months ended 30 June 2009

	Note	**6 months to 30 June 2009 £m (unaudited)**	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Net cash inflow from operating activities	7	**104.2**	84.5	162.6
Investing activities				
Interest received		**1.2**	4.4	7.3
Proceeds from disposal of subsidiary and business undertakings		**-**	1.6	1.9
Proceeds from disposal of property, plant and equipment		**3.4**	3.0	17.5
Acquisition of subsidiaries and business undertakings, net of cash acquired	6	**(14.7)**	(21.3)	(322.2)
Purchase of other intangible assets		**(8.1)**	(10.1)	(20.4)
Purchase of property, plant and equipment		**(17.4)**	(14.3)	(32.6)
Net cash outflow from investing activities		**(35.6)**	(36.7)	(348.5)
Financing activities				
Interest paid		**(19.1)**	(15.4)	(30.3)
Dividends paid		**(16.9)**	(14.5)	(21.6)
Repayment of borrowings		**(59.5)**	(6.5)	(78.6)
New loan advances		**30.8**	22.7	397.4
Purchase of own shares for employee benefit (ESOP)		**-**	-	(9.2)
Capital element of finance lease repayments		**(3.1)**	(6.3)	(8.6)
Proceeds from issue of share capital		**2.4**	3.1	5.4
Other financing		**-**	-	(17.0)
Repayment of non recourse loans		**(3.6)**	(4.5)	(7.5)
Net cash (outflow)/inflow from financing activities		**(69.0)**	(21.4)	230.0
Net (decrease)/increase in cash and cash equivalents		**(0.4)**	26.4	44.1
Cash and cash equivalents at beginning of period		**250.8**	185.0	185.0
Net exchange (loss)/gain		**(13.2)**	4.2	21.7
Cash and cash equivalents at end of period		**237.2**	215.6	250.8

Notes to the Condensed set of financial statements

For the six months ended 30 June 2009

1. General information, going concern and accounting policies

The information for the year ended 31 December 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Register of Companies. The auditors' report on those accounts was not qualified and did not contain statements made under s237(2) or (3) of the Companies Act 1985.

The annual financial statements of Serco Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 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 7 to 21. 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 largely unaffected by changes in the general economy. The contract portfolio is spread across a number of markets, sectors and geographies such that a downturn in any one segment is highly unlikely to affect 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.

During 2008, the Group secured medium-term financing by entering into a five-year revolving credit facility and bilateral facilities. Including the term loan and US private placements, the Group has committed funding of £860m Sterling equivalent. As at 30 June 2009, the headroom on the facilities was in excess of £350m.

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 half-yearly condensed 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 except for as described below. The condensed set of financial statements includes the results of subsidiaries and joint ventures. Joint ventures have been proportionally consolidated.

Changes in accounting policy

In the current financial year, the Group has adopted International Financial Reporting Standard 8 'Operating Segments' and International Accounting Standard 1 'Presentation of Financial Statements' (revised 2007).

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive and Executive Board in order to allocate resources to the segments and to assess their performance. The information previously disclosed under the predecessor standard (IAS 14 'Segment Reporting') required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach. The Directors have reviewed the business segments identified under IAS 14 and consider that these segments are appropriate under IFRS 8.

IAS 1 (revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a condensed consolidated statement of changes in equity has been included in the primary statements, showing changes in each component or equity for each period presented.

2. Investment revenue and finance costs

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Interest receivable by PFI companies	**-**	1.0	1.0
Interest receivable on other loans and deposits	**1.3**	3.2	6.9
Net interest receivable on retirement benefit obligations	**-**	0.1	-
Fair value adjustment on derivative financial instruments	**-**	0.3	0.3
Investment revenue	**1.3**	4.6	8.2
Interest payable on non recourse loans	**(0.8)**	(1.8)	(2.7)
Interest payable on other loans	**(14.4)**	(11.8)	(23.5)
Interest payable on obligations under finance leases	**(0.7)**	(0.5)	(1.3)
Net interest payable on retirement benefit obligations	**(3.1)**	-	(0.6)
Finance costs	**(19.0)**	(14.1)	(28.1)

3. Segmental information

Information reported to the Chief Executive and Executive Board 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 provided in the Operating Review section of this report. The Group's reportable and operating segments under IFRS 8 are:

Reportable Segments	Operating Segments
Civil Government	- home affairs, healthcare, integrated services, IT and BPO, education and children's services and consulting
Defence	- provision of operational support services to the armed forces of the UK, the US, Canada, Germany and Australia
Transport	- provision of transport services in the UK, Australia, the Middle East and the US
Science	- science-based business including scientific research and nuclear industries

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2009. 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 financial statements.

Reportable segments

6 months to 30 June 2009 (unaudited)	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue					
External Sales	**809.2**	**499.2**	**346.0**	**295.4**	**1,949.8**
Result					
Segment result	**38.3**	**37.2**	**16.7**	**28.2**	**120.4**
Corporate expenses					**(19.3)**
Operating profit					**101.1**
Investment revenue					**1.3**
Finance costs					**(19.0)**
Profit before tax					**83.4**
Tax					**(22.0)**
Profit after tax					**61.4**

6 months to 30 June 2008 (unaudited)	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue					
External Sales	542.7	374.8	305.7	267.3	1,490.5
Result					
Segment result	25.9	27.0	13.0	25.3	91.2
Corporate expenses					(18.9)
Operating profit					72.3
Investment revenue					4.6
Finance costs					(14.1)
Profit before tax					62.8
Tax					(16.9)
Profit after tax					45.9

3. Segmental information (continued)

Year ended 31 December 2008 (audited)	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue					
External Sales	1,127.3	785.8	670.8	539.6	3,123.5
Result					
Segment result	55.2	59.1	29.7	51.6	195.6
Corporate expenses					(39.6)
Operating profit					156.0
Investment revenue					8.2
Finance costs					(28.1)
Profit before tax					136.1
Tax					(36.5)
Profit after tax					99.6

Segment assets

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Civil Government	**1,110.5**	776.2	1,138.2
Defence	**471.4**	285.8	585.6
Transport	**153.2**	130.6	168.5
Science	**275.7**	265.4	260.2
Total segmental assets	**2,010.8**	1,458.0	2,152.5
Unallocated assets	**86.3**	83.8	67.6
Consolidated segmental assets	**2,097.1**	1,541.8	2,220.1

Segmental assets reviewed exclude all derivative financial instruments, current and deferred taxation receivables and cash.

Segment liabilities

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Civil Government	**(368.2)**	(313.9)	(382.0)
Defence	**(153.8)**	(143.4)	(175.7)
Transport	**(141.1)**	(112.1)	(141.2)
Science	**(246.7)**	(222.5)	(249.9)
Total segmental liabilities	**(909.8)**	(791.9)	(948.8)
Unallocated liabilities	**(74.2)**	(146.6)	(18.5)
Consolidated segmental liabilities	**(984.0)**	(938.5)	(967.3)

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

Geographical analysis

	6 months to 30 June 2009		6 months to 30 June 2008		Year ended 31 December 2008	
	Revenue £m (unaudited)	**Assets £m (unaudited)**	Revenue £m (unaudited)	Assets £m (unaudited)	Revenue £m (audited)	Assets £m (audited)
United Kingdom	**1,244.0**	**1,163.2**	1,121.2	1,132.4	2,334.6	1,202.3
North America	**447.4**	**636.1**	170.8	206.0	369.9	731.0
Europe & Middle East	**150.4**	**160.5**	111.0	124.4	237.2	153.1
Asia Pacific and India	**108.0**	**137.3**	87.5	79.0	181.8	133.7
Total	**1,949.8**	**2,097.1**	1,490.5	1,541.8	3,123.5	2,220.1

4. Dividends

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2008 of 3.52p per share on 481.1 million ordinary shares	**16.9**	-	-
Final dividend for the year ended 31 December 2007 of 3.02p per share on 480.2 million ordinary shares	**-**	14.5	14.5
Interim dividend for the year ended 31 December 2008 of 1.48p per share on 480.3 million ordinary shares	**-**	-	7.1
	16.9	14.5	21.6

The proposed interim dividend for the year ending 31 December 2009 is 1.85p per ordinary share on 483.9 million shares (£9.0m) (30 June 2008: 1.48p per ordinary share on 480.2 million shares (£7.1m)).

The proposed interim dividend was approved by the Board on 21 August 2009 and has not been included as a liability as at 30 June 2009.

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

	6 months to 30 June 2009 Millions (unaudited)	6 months to 30 June 2008 Millions (unaudited)	Year ended 31 December 2008 Millions (audited)
Weighted average number of ordinary shares for the purpose of basic EPS	**486.6**	487.1	485.7
Effect of dilutive potential ordinary shares: share options	**6.2**	6.4	7.3
Weighted average number of ordinary shares for the purpose of diluted EPS	**492.8**	493.5	493.0

Earnings	**6 months to 30 June 2009**		6 months to 30 June 2008		Year ended 31 December 2008	
	Earnings £m (unaudited)	**Per share amount Pence (unaudited)**	Earnings £m (unaudited)	Per share amount Pence (unaudited)	Earnings £m (audited)	Per share amount Pence (audited)
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**61.4**	**12.62**	45.5	9.35	99.5	20.49
Add back:						
Amortisation of intangible assets arising on acquisition, net of tax £2.1m (30 June 2008: £0.4m, 31 December 2008: £0.9m)	**6.8**	**1.40**	4.1	0.83	8.3	1.71
Adjusted earnings before amortisation of intangible assets arising on acquisition, net of tax	**68.2**	**14.02**	49.6	10.18	107.8	22.20
Earnings for the purpose of basic EPS	**61.4**	**12.62**	45.5	9.35	99.5	20.49
Effect of dilutive potential ordinary shares	**-**	**(0.16)**	-	(0.12)	-	(0.31)
Diluted EPS	**61.4**	**12.46**	45.5	9.23	99.5	20.18

6. Acquisitions

During the period, the Group paid £5.9m and £3.7m of acquisition related costs and deferred purchase consideration in relation to its acquisitions in December 2008 of SI International and InfoVision, respectively.

During the period, the Group acquired share holdings in two companies;

a) On 28 January 2009, the Group acquired 100% of the share capital in Sandrunner Limited for consideration of £0.3m recognising £0.3m of goodwill. Sandrunner Limited is a management consultancy based in the UK.

b) On 2 February 2009, the Group acquired a 50% interest in GSTS Pathology LLP (‘GSTS’) from Pathology Services Limited, a subsidiary of the Guy’s & St Thomas’ NHS Foundation Trust (‘the Trust’). GSTS provides pathology services to the Trust and various third parties. Related net cash outflows on acquisition were £4.8m consisting of £5.5m consideration (including directly attributable costs) and £0.7m of cash acquired. Net assets acquired total £0.4m. £5.1m of goodwill has been recognised relating to future opportunities in pathology services.

These transactions have been accounted for in accordance with IFRS 3 ‘Business Combinations’.

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

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Operating profit for the period	**101.1**	72.3	156.0
Adjustments for:			
Share-based payment expense	**4.0**	3.0	7.0
Depreciation of property, plant and equipment	**17.8**	12.7	26.0
Amortisation of intangible assets	**20.3**	13.8	29.3
Profit on disposal of property, plant and equipment	**-**	(0.9)	(4.6)
Profit on disposal of business undertakings	**-**	(2.7)	(2.7)
Movement in provisions	**(0.7)**	(6.2)	(9.0)
Operating cash inflow before movements in working capital	**142.5**	92.0	202.0
(Increase)/decrease in inventories	**(5.5)**	(2.3)	0.9
(Increase)/decrease in receivables	**(16.9)**	3.0	11.0
(Decrease)/increase in payables	**(1.7)**	2.5	(26.4)
Cash generated by operations	**118.4**	95.2	187.5
Tax paid	**(14.2)**	(10.7)	(24.9)
Net cash inflow from operating activities	**104.2**	84.5	162.6

8. Analysis of net debt

	At 30 June 2009 £m (unaudited)	At 30 June 2008 £m (unaudited)	At 31 December 2008 £m (audited)
Cash and cash equivalents	**237.2**	215.6	250.8
Other non recourse loans	**(28.9)**	(32.9)	(34.1)
Other loans	**(619.1)**	(288.3)	(713.6)
Obligations under finance leases	**(22.2)**	(14.7)	(17.2)
Total net debt	**(433.0)**	(120.3)	(514.1)

9. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2008 (audited)	9.0	4.7	4.7	0.2	18.6
Charged to income statement	-	-	-	0.2	0.2
Released to income statement	(2.8)	(2.9)	(0.5)	-	(6.2)
Utilised during the year	(0.1)	-	-	(0.1)	(0.2)
Exchange differences	0.3	-	-	-	0.3
At 30 June 2008 (unaudited)	6.4	1.8	4.2	0.3	12.7
Arising from acquisitions	-	9.3	7.4	10.6	27.3
Charged to income statement	0.6	-	-	0.1	0.7
Released to income statement	(0.9)	(1.4)	(0.5)	-	(2.8)
Utilised during the period	(0.6)	(0.1)	-	-	(0.7)
Exchange differences	0.4	0.2	0.1	0.2	0.9
At 31 December 2008 (audited)	5.9	9.8	11.2	11.2	38.1
Charged to income statement	0.9	-	-	0.9	1.8
Released to income statement	-	-	(0.5)	-	(0.5)
Utilised during the period	(0.3)	(0.6)	(0.3)	(0.8)	(2.0)
Exchange differences	(0.3)	(1.1)	(0.9)	(1.4)	(3.7)
At 30 June 2009 (unaudited)	**6.2**	**8.1**	**9.5**	**9.9**	**33.7**

10. Joint ventures

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

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Revenue	**378.1**	354.1	719.7
Operating profit*	**28.1**	23.5	48.3
Profit before tax	**28.4**	25.8	52.7
Tax	**(5.9)**	(6.8)	(13.2)
Profit for the period	**22.5**	19.0	39.5
Minority interest	**-**	(0.4)	-
Share of post-tax results of joint ventures	**22.5**	18.6	39.5

* Operating profit is after allocating £1.4m of costs incurred by Group (30 June 2008: £2.7m, 31 December 2008: £4.7m).

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.

	6 months to 30 June 2009 £m (unaudited)	6 months to 30 June 2008 £m (unaudited)	Year ended 31 December 2008 £m (audited)
Royalties and management fees receivable	**0.1**	0.7	1.4
Dividends receivable	**19.4**	19.8	37.2
	19.5	20.5	38.6

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

	At 30 June 2009 £m (unaudited)	At 30 June 2008 £m (unaudited)	At 31 December 2008 £m (audited)
Current:			
Loans	**1.4**	1.0	1.2
Non-current:			
Loans	**6.1**	0.5	0.7

12. Share-based payments

In accordance with IFRS 2, a charge of £4.0m (30 June 2008: £3.0m, 31 December 2008: £7.0m) relating to the fair value of share-based schemes granted since 2 November 2002, has been charged to the 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 method. An analysis of the Group's net pension liability and related assets together with the amounts included within the SOCI are presented in the tables below.

	At 30 June 2009 £m (unaudited)	At 30 June 2008 £m (unaudited)	At 31 December 2008 £m (audited)
Net pension liabilities:			
Group scheme – non contract specific	**(73.8)**	(122.7)	(0.7)
Contract schemes specific:			
Reimbursable	**(110.5)**	(96.5)	(89.6)
Not certain to be reimbursable	**(25.7)**	(24.2)	(24.4)
	(210.0)	(243.4)	(114.7)
Analysed as:			
Net retirement benefit liabilities	**(210.0)**	(243.4)	(177.1)
Net retirement benefit assets	**-**	-	62.4
Related assets:			
Intangible assets arising from rights to operate franchises and contracts	**12.9**	15.9	14.4
Reimbursable rights debtor	**110.5**	96.5	89.6
	123.4	112.4	104.0

	At 30 June 2009 £m (unaudited)	At 30 June 2008 £m (unaudited)	At 31 December 2008 £m (audited)
Actual return on scheme assets	**(33.6)**	(72.5)	(175.7)
Less: expected return on scheme assets	**(34.3)**	(44.7)	(88.0)
	(67.9)	(117.2)	(263.7)
Other actuarial gains and losses	**(80.7)**	(36.5)	272.4
Actuarial (losses)/gains recognised in the SOCI	**(148.6)**	(153.7)	8.7
Pension deficit recognised on adoption of IFRIC 14	**-**	(4.7)	-
Change in paragraph 58(b) limit	**(2.4)**	(1.5)	(1.7)
Change in franchise adjustment	**27.3**	31.9	(1.3)
Change in members' share	**12.8**	25.3	21.7
Movement in reimbursable rights	**23.1**	35.8	31.9
Actuarial gains on reimbursable rights	**60.8**	86.8	50.6
Total pension (cost)/credit recognised in the SOCI	**(87.8)**	(66.9)	59.3

The net pension liability at 30 June 2009 has been calculated on a year to date basis. The main assumptions adopted in valuing the schemes are as follows.

	At 30 June 2009 % (unaudited)	At 30 June 2008 % (unaudited)	At 31 December 2008 % (audited)
Rate of salary increases	**2.75-3.70**	3.00-4.70	3.10
Rate of increase in pensions in payment	**3.20**	3.70	2.60
Rate of increase in deferred pensions	**3.20**	3.70	2.60
Inflation assumption	**3.20**	3.70	2.60
Discount rate	**6.40**	6.00	6.00

13. Defined benefit schemes (continued)

	At 30 June 2009	At 30 June 2008	At 31 December 2008
	Years	Years	Years
Post retirement mortality:			
Current pensioners at 65 - male	**20.3**	20.3	20.3
Current pensioners at 65 - female	**23.2**	23.1	23.2
Future pensioners at 65 - male	**21.6**	21.6	21.6
Future pensioners at 65 - female	**24.4**	24.3	24.4