logicaCMG

Interim report 2004

SOLUTIONS THAT MATTER

Front cover image:

LogicaCMG is sponsoring the Living Tomorrow project in Amsterdam. The ‘house of the future’ features many of LogicaCMG’s innovations, such as speech-operated applications, face recognition technology, interactive television and mobile ticketing.

The exhibition, which will be open for five years, has received over 80,000 visitors since opening its doors in January 2004.

Contents

Our mission

Our mission is to help leading organisations worldwide achieve their business objectives through the innovative delivery of information technology and business process solutions.

Highlights

- In IT services, we achieved a book to bill ratio of 1.15:1, the highest since the merger.
- Good results in key IT services territories:
  – UK (42% of group revenues) performed strongly, particularly in government and outsourcing

  – Benelux (23% of group revenues) returned to sequential revenue growth at constant currency with improved operating margin.
- Germany (6% of group revenues) – restructuring programme to return business to profitability in 2005.
- France (6% of group revenues) now trading profitably.
- Wireless networks (14% of group revenues):
  – strong book to bill ratio in first half

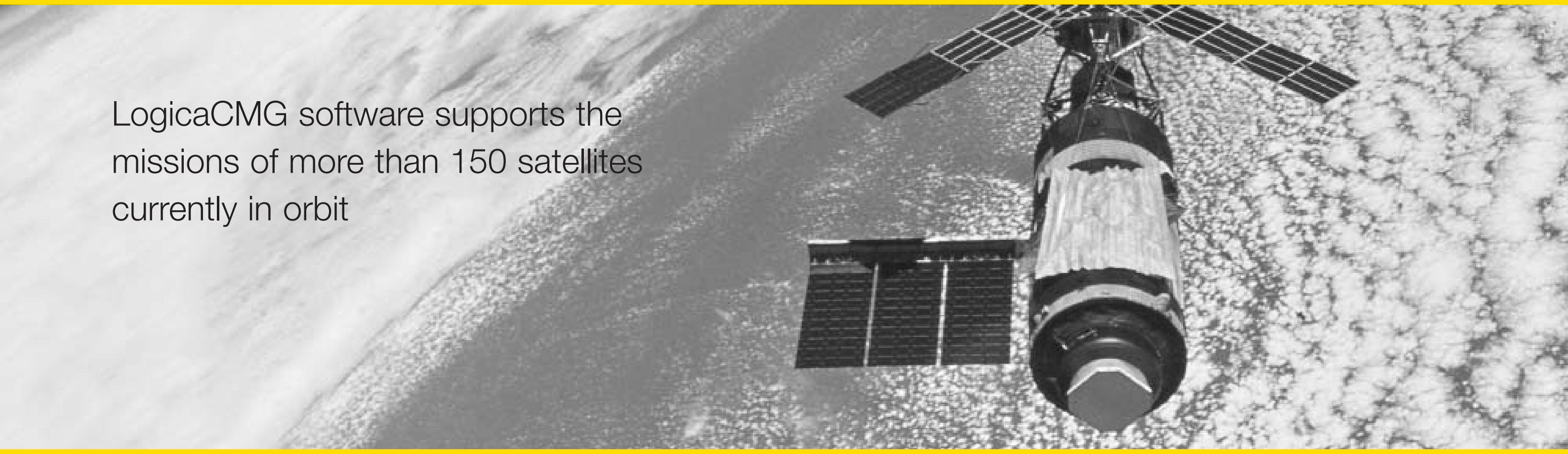
  – revenues declined in the first half generating a loss, primarily because a higher proportion of orders than expected had extended delivery schedules (in line with our AGM guidance)

  – anticipated revenue growth and cost-base reduction to underpin full year profit target.
- First half dividend maintained at 2.3p.

Financial summary

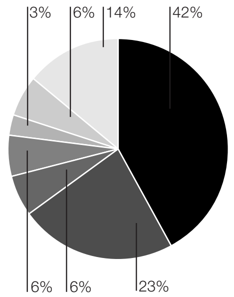
	6 months to 30 June 2004 £'m	6 months to 30 June 2003 £'m	12 months to 31 December 2003 £'m
Turnover	**809.2**	852.5	1,706.6
Operating profit before goodwill amortisation, restructuring and exceptional items	**46.1**	44.4	111.2
Profit/(loss) before tax	**27.3**	(58.2)	(33.0)
Profit/(loss) after tax and minority interests	**13.7**	(52.5)	(46.1)
	p/share	p/share	p/share
Basic earnings per share *	**3.5p**	3.6p	9.2p

* Before goodwill amortisation, restructuring and other exceptional items, net of tax.



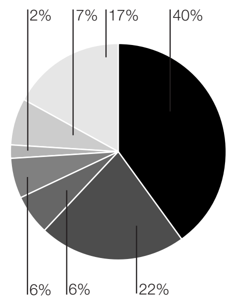
Business review

Revenue by geographic breakdown of location of operations



6 months to
30 June 2004

£809.2 million



6 months to
31 December 2003

£854.1 million

With economic and market conditions gradually improving and the full impact of LogicaCMG's merger benefits coming through, the majority of our IT services business performed well and in line with our plans at the start of the year. The United Kingdom and Benelux, which together represent 65% of group revenues, are both recruiting to take advantage of growth opportunities. Across the IT services business, order intake and the prospect pipeline continue to strengthen, with a growing number of sectors on an improving trend. We continue to make progress in securing outsourcing business, which represented 23% of revenues in the first half, up from 20% in the previous six months.

As explained at our annual general meeting and in more detail in our 22 July half-year trading update, two areas of our business are under-performing – our services business in Germany and our wireless networks business (6% and 14% of group revenues respectively). Firm management action is being taken in these operations to restore profitability and to provide a greater degree of certainty for 2005 growth prospects.

Outlook

Order intake in the first half was strong with an overall book to bill ratio of 1.16:1. In IT services, the book to bill ratio was the highest since the merger, driven by outsourcing. In wireless networks it stood at 1.22:1, well ahead of last year. Coupled with slowly improving market conditions and normal seasonality, this provides a good platform for the second half.

For the IT services business as a whole, we expect to increase revenue in the second half, following the strong order intake already achieved.

	6 months to 30 June 2004 £'m	6 months to 31 December 2003 £'m
United Kingdom	336.1 (42%)	339.4 (40%)
Benelux	189.5 (23%)	189.8 (22%)
Germany	46.3 (6%)	53.4 (6%)
France	50.9 (6%)	51.2 (6%)
Rest of Europe	18.7 (3%)	20.2 (2%)
Rest of World	50.4 (6%)	56.1 (7%)
Wireless networks	117.3 (14%)	144.0 (17%)

- In January, LogicaCMG won a €7.5 million (£5.2 million) contract from the European Space Agency to design the ground facilities for the Galileo navigation satellite programme.
- LogicaCMG's fire control application computer (FCA) was accepted into British military service in June.
- The Cassini-Huygens spacecraft, which is on a mission to explore Saturn, its rings and moons, went into orbit around the solar system's second biggest planet during June. LogicaCMG's software on the Huygens probe will control the decent to Titan, one of Saturn's moons, later in the year. Huygens' rendezvous with Titan will be the first time a landing has been attempted so far from Earth.

"Both our largest territories are growing once again and we are taking the necessary actions to address the under-performing parts of the business."

Second half margins will be ahead of those achieved during the first half, although the poor performance of Germany will continue to have an adverse but diminishing effect. The previously announced rationalisation plan in Germany is being implemented during the second half and is expected to provide some benefit during the fourth quarter. For the full year 2004, we therefore expect to achieve overall IT services margins ahead of 8% (2003: 7.2%).

In wireless networks, the strong first half book to bill ratio, together with its normal seasonal pattern, will support increased revenues in the second half. Gross margins in the second half are expected to be similar to the first half and as previously stated we plan to reduce the cost base by approximately £4 million. This action will help to underpin our target of returning the business to profit for the year as a whole. A key element of the cost reduction plan is our ability to deploy billable skilled wireless network resources on projects in the IT services business where demand is stronger.

Overall we are confident that our business is well-positioned for the future. Both our largest territories are growing once again and we are taking the necessary actions to address the under-performing parts of the business.

Overview of results

For the six months ended 30 June 2004, profit before tax* was £39.2 million compared with £60.6 million for the previous six months to 31 December 2003 and £38.9 million for the same period last year. Revenue of £809.2 million was down 5% (4% at constant currency) compared to the previous six months. Operating margins were 5.7%, down from 7.8% in the previous six months and up from 5.2% for the same period last year. Earnings per share* were down at 3.5p from 3.6p in the first half of 2003. After goodwill amortisation of £11.9 million, profit on ordinary activities before tax amounted to £27.3 million, giving a basic earnings per share of 1.9p. Cash flow from operating activities* for the period was £33.2 million, representing a cash conversion of 72%. Net debt at 30 June 2004 was £194.2 million (£177.4 million at 31 December 2003). The directors have declared an interim dividend for the six months of 2.3p to be paid on 22 October 2004 to shareholders on the register at the close of business on 24 September 2004.

Pricing has remained stable in our key territories, although the availability of lower cost delivery from offshore facilities mitigates against significant rate increases except for very specific in-demand skills. The pace of recovery has remained gradual and the competitive environment tough. In IT services, revenues in reported currency were down 3% sequentially (down 1%

* Figures are before goodwill amortisation, restructuring charges and other exceptional items. Statutory operating profit and the adjusted operating profit are reconciled on the face of the profit and loss account.

at constant currency), primarily due to a decline in Germany. First half margins* at 7.6% were slightly lower than those achieved in the second half of 2003 (8.1%) in line with seasonal trends and the impact of Germany, but above those achieved in the first half of 2003. The UK performed strongly while Benelux made further progress following a promising end to 2003 and returned to sequential revenue growth at constant currency. France continued to develop, building on the improvements seen during the second half of 2003 and was profitable for the first half.

In Germany, we continued to make progress in building a profitable outsourcing business. We renewed a contract with Interbrew expected to be worth at least €44 million over five years. However, the market for the traditional consulting business remained difficult and as expected, revenues reduced further during the first half. While there are some signs of stability, we see little prospect of a return to profitability in this part of the business as currently structured in today's economic environment. As previously announced, a new management team has been put in place, including a new chief executive appointed in March 2004 tasked with conducting a comprehensive review of the German business and the competitive environment. The immediate conclusions are to focus the business on the areas in which we can make the best returns over the medium term and to significantly reduce capacity in the weaker areas. In consequence, we announced a restructuring plan in July aimed at restoring profitability in 2005.

First half performance in wireless networks was in line with our AGM guidance. Order intake was strong with a book to bill ratio of 1.22:1. Revenues were down some 13% over the same period last year at reported currency (10% at constant currency) as a higher proportion of the orders won have longer delivery schedules and a more substantial solutions component, extending revenue recognition. Gross margins were slightly higher than expected because of a more favourable revenue mix and operating expenses were marginally improved.

Notable first half orders were two MMS contracts with European-based global Tier 1 operators. Respectively, these orders were to expand MMS capacity significantly for an existing MMS customer and to supply an MMS system for a major subsidiary of a new MMS customer. While these orders will not deliver significant short-term revenue, they demonstrate our strong position in this emerging market.

In line with our strategy to focus our wireless networks business in its core areas of activity, we are currently in the process of exiting from two small businesses. These are the Eppix billing platform and Migway, our messaging gateway joint venture with TDC. These businesses generated revenue of £5 million in the first half and reported operating losses. We expect to conclude arrangements during the second half. Overall staffing levels reduced by 1.4% to 19,468 at 30 June as a result of normal attrition, offset by renewed recruitment programmes in the UK and the Netherlands, growth at our offshore facilities and the strengthening of key skills in other operations.

Market sector review

The pace of recovery still varies considerably amongst different industries and government spending continues to be a key driver of growth in IT services. Maintaining a balanced portfolio of sector skills remains vital to delivering good results through the business cycle.

Public sector revenues grew strongly (up 11% sequentially), driven by the UK and the Netherlands. The UK benefited from initial revenues recognised as part of the National Health programme in partnership with BT as well as additional work agreed within a number of ongoing projects. In the Netherlands, we are beginning to take market share from our competitors as government business is increasingly combined into larger projects on an outsource basis. The most notable example is the contract to provide SAP-based human resource management services across the whole of Dutch central government on a shared service centre basis. At the time of writing, this is in the final stages of

- In February, LogicaCMG implemented a national payments system for the Central Bank of Sri Lanka (and later won *The Banker* magazine's Technology Award 2004 in June for this highly innovative system).

- LogicaCMG successfully implemented its Real Time Gross Settlement (RTGS) System for the Banco Central de Chile in April. The system provides Chile with a modern payment infrastructure, which confers stability to and confidence in the national banking system by eliminating systemic risk and increasing operational efficiency, crucial for attracting inward investment.

negotiation, with the consortium comprising IBM and LogicaCMG being the chosen partner subject to successful agreement of the terms.

Industry, distribution and transport (IDT) declined 10%, partly due to longer bidding processes for outsource business following new budget allocations in January. IT budgets remain under pressure in areas such as the automotive industry, with any volume increases offset by reduced pricing. This sector also has been most impacted by revenue dilution from moving work offshore. On a longer-term view, new technology areas such as mobility solutions, RFID (Radio Frequency Identification) and biometrics will help to build new revenue streams. We have successfully completed a pilot RFID integration project for Airbus with partners including SAP that has given us international visibility in this emerging field, while the European Union is sponsoring a proof-of-concept project for use of biometrics for cross-border control at London City, London Stansted, Madrid and Milan airports, building on our experience at Schiphol airport.

The decline of 12% in energy and utilities revenue reflects the overhang from a disappointing order intake last year. However, this situation has significantly improved in 2004, with double digit orders growth internationally and a particularly strong performance from our large business in the UK. This growth is coming both from new activity and through additional work for existing clients, such as the extension to our service contract with Elexon for the UK's wholesale electricity market, and the re-signing of services for TXU and Yarra Valley Water in Australia. LogicaCMG is also demonstrating thought leadership in the area of greenhouse gas emissions management and trading. In partnership with environmental specialist CarbonSIM, LogicaCMG provides companies with its Emissions *Logic* solution to manage compliance. We are currently engaged in a bid to take a majority interest in Edinfor, the IT services arm of Electricidad do Portugal (EDP), as part of a strategic partnership that includes an outsource contract for continued work at the parent company. Edinfor is a leading services provider in the Portuguese market and is developing its business in Spain. This is a significant opportunity for LogicaCMG and is similar in concept and structure to the Hyder deal won in 2001. At the time of writing we await EDP's decision as one of only two remaining bidders in the final round of submissions.

The revenue decline in the financial services sector continued to slow, with

Market sector review

Except where stated, comparisons are with the previous six months.

Revenue by sector	6 months to 30 June 2004 £'m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	223.7	10.9	11.7	27.7	26.1
Industry, distribution & transport	160.6	(10.0)	(8.1)	19.8	(19.7)
Energy & utilities	118.3	(11.5)	(10.2)	14.6	(14.1)
Financial services	124.9	(4.1)	(2.1)	15.4	(7.7)
Telecommunications	64.4	(2.3)	(0.3)	8.0	6.3
Total IT services	**691.9**	**(2.6)**	**(1.0)**	**85.5**	**(2.7)**
Wireless networks	117.3	(18.5)	(15.9)	14.5	(9.8)
Total group	**809.2**	**(5.3)**	**(3.5)**	**100.0**	**(3.8)**

LogicaCMG's systems have been fundamental to the regulatory transformation of energy markets around the world

the Netherlands and Rest of Europe markets returning to sequential growth. Issues of regulation and compliance are beginning to weigh heavily and thereby generate IT investment, while both banks and insurers continue to seek operational efficiencies from their payments, billing and other back office systems. In a number of cases, procurement has moved from a local to a regional or even global basis, allowing LogicaCMG to bid for larger contracts, albeit with longer lead times.

Similarly, in the telecoms sector, excluding our wireless networks business, revenues declined only marginally (2%) from the strong second half of 2003. The UK in particular posted strong growth through its major accounts which include Vodafone, BT, mmO2 and T-Mobile. Mobile operators are investing in their underlying systems and infrastructures ahead of the ramp up in 'next generation' data services, while fixed line operators are focused on streamlining their cost-bases to minimise the loss of traditional voice traffic to wireless.

We have continued to progress towards our target of having 30% of group revenues in outsourcing by the end of 2005. 23% of revenues in the first half represents a year-on-year increase of 14%, while orders were up 21% on the same basis. The use of lower cost facilities is increasingly standard practice when bidding for these projects. During the period, we increased our resources in such facilities to c.1,800 (up from 1,600 at the end of 2003) and continue to recruit aggressively for them. Our new facility in Bridgend, South Wales, came on stream in the first half, while our fast-growing Bangalore, India, facility will move into the first phase of its new campus-style premises during the next few months.

United Kingdom operations

After a strong performance in the second half of last year, the United Kingdom was able to maintain the momentum driven by the public sector and telecommunications. Revenues grew 5% over the same period last year and margins have been maintained at the high level achieved in the second half of 2003. While it remains the most competitive market in Europe, LogicaCMG has a strong position, an excellent track record for delivery and sufficient scale to address the growing market for outsourced services. During the period, we embarked on a major expansion of our South Wales outsourcing hub which, together with access to the Group's nearshore and offshore facilities, will ensure we continue to deliver the right ratio of cost to risk for customers in our areas of expertise.

United Kingdom operations

Revenue by market sector	6 months to 30 June 2004 £'m	% growth sequential	% share	% growth on H1 2003
Public sector	168.6	12.4	50.2	30.8
Industry, distribution & transport	47.6	(18.2)	14.2	(21.8)
Energy & utilities	62.3	(14.8)	18.5	(14.2)
Financial services	26.0	(17.2)	7.7	(19.3)
Telecommunications	31.6	18.4	9.4	18.4
Total	**336.1**	**(1.0)**	**100.0**	**4.6**

	H1 04	H2 03
Operating margin*	11.8%	11.8%

* Before goodwill amortisation, restructuring charges and other exceptional items.

- In March, LogicaCMG secured a £30 million extension contract with Elexon to provide core services to support the wholesale electricity trading arrangements in England, Wales and Scotland.
- LogicaCMG, in partnership with CarbonSim, launched a new emissions management solution, Emissions *Logic*. The software enables companies to comply with the new EU Emissions Trading Scheme regulations, which will come into effect on 1 January 2005.

"We have continued to progress towards our target of having 30% of group revenues in outsourcing by the end of 2005."

Public sector, including space and defence, grew 12% and now represents 50% of our UK business. During the period, work commenced on the backbone network and central database repository for the National Health Service IT programme and delivery to BT as the prime contractor is on schedule. Development of the new Electronic Patient Record system and the supporting infrastructure at University College London Hospitals NHS Foundation Trust is also progressing well. Payroll and HR services has been another notable success area. We are now a major supplier having extended our customer base in the period to include the Scottish Executive, Department of Trade & Industry, Department for the Environment, Food & Rural Affairs and several police forces. This is consistent with the impetus created by the Gershon Spending Review with its aim of generating investment for future IT projects from efficiency savings in back office systems and administration. The flagship project to deliver a new case management system to the Crown Prosecution Service is now in operational use across England and Wales.

The decline in industry, distribution and transport largely reflects timing on outsource contracts and continued budgetary pressures in the automotive sector. We also lost a major planned project with a long-standing customer in the transport and logistics field when they were the subject of a successful bid from a US-parented competitor. Demand for SAP rationalisation and integration has been strengthening through the period as evidenced by recent wins, including one for a major international construction and agricultural equipment company. The pipeline in rail and airlines for the second half is now looking more solid. Energy and utilities had a slow start following a relatively poor year for new contracts in 2003. Recent order intake has been good, though, with major new contracts at RWE npower and Centrica, as well as a three-year, £30 million extension contract from Elexon to support the wholesale electricity trading arrangements in England, Wales and Scotland.

The pipeline in financial services is strengthening, although the larger opportunities emerging have been subject to extended procurement processes. An example is the outsource contract secured from global insurance broker Aon after the half year-end. Our upgraded rFrame+ regulatory product went live with Northern Rock during the period, while consulting on new capital adequacy (Basel II) requirements was undertaken along with other projects for Lloyds TSB, a long-standing customer. We secured a contract from Link to consult on the development of their next generation ATM network. We extended our relationship with Barclays into IAS and other compliance-related work, as well as involvement in the build of an anti-money-laundering system for Barclays Capital.

"Benelux revenues returned to growth sequentially in the first half with three out of our five sectors posting increases."

The telecommunications sector delivered increased revenues during the half, reflecting the greater investment in IT required to grow or defend market share in the fiercely competitive operator environment. All the major UK operators featured in our top 20 group customers for the period. We have secured major new programmes with both Vodafone Group and T-Mobile, while at mmO2 we are working on the implementation of new systems to enhance customer intimacy and reduce churn. We continue to have a major involvement in BT's billing rationalisation programme.

Benelux operations

Benelux revenues returned to growth sequentially in the first half with three out of our five sectors posting increases. Both the revenue and margin performance were assisted by improved utilisation and reduced losses in Belgium which late in the period won a contract from a major energy provider to provide the design blueprint for a major overhaul of its operational systems.

In the public sector, the Dutch government's move to combine more business into larger projects and shared service centre arrangements has strengthened LogicaCMG's competitive positioning. The contract won in 2003 at the Ministry of Defence for its ERP rationalisation programme picked up momentum and during the period we also became the selected bidder in partnership with IBM for the cross-ministry HR outsource contract now in final negotiation. In June, following much preparation, our system allowed Dutch nationals abroad to vote in the elections to the European Parliament by pc or telephone.

Benelux operations

Revenue by market sector	6 months to 30 June 2004 £'m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	46.8	6.4	9.3	24.7	15.0
Industry, distribution & transport	50.0	(9.9)	(7.2)	26.4	(17.5)
Energy & utilities	27.6	6.6	9.5	14.6	(6.8)
Financial services	51.4	3.6	6.4	27.1	3.6
Telecommunications	13.7	(7.4)	(4.9)	7.2	12.3
Total	**189.5**	**(0.2)**	**2.6**	**100.0**	**(1.7)**

	H1 04	H2 03
Operating margin*	10.3%	9.7%

* Before goodwill amortisation, restructuring charges and other exceptional items.

- LogicaCMG was awarded a three-year managed services contract in May with Microcell Solutions Inc. The arrangement will enable Microcell to offer premium services, such as messaging, to its subscribers across Canada under the Fido® brand name.
- At the 3GSM Congress in Cannes in February, LogicaCMG unveiled 19 new multimedia messaging services (MMS) deals with operators all over the world, significantly improving the company's position in the MMS market.

Industry, distribution and transport has been slowest to emerge from recession, but has recently shown some improvement. We have raised our profile substantially by our successful involvement in new technology areas that will drive future growth, notably mobile applications such as ticketing and traffic management and the use of radio frequency identification and biometrics. Our application of facial recognition techniques at football grounds to identify known troublemakers at point of entry received considerable publicity at the time of the Euro 2004 championship. During the period we secured a contract from a leading Dutch newspaper to build a new customer relationship management (CRM) system.

Energy and utilities benefited from renewed momentum in the liberalisation process where we continue to develop and support the Energy Clearing House. We also signed a major new master agreement with Gasunie. At Shell, we have benefited from rationalisation work, especially in the ERP arena, that will prepare them for future outsourcing and offshore support, some of which we already carry out from our facility in Kuala Lumpur, Malaysia.

Our strong historic position in financial services has enabled us to capitalise on the improving market environment. We have been growing our outsourcing business here in areas such as insurance back office processing and are helping major banks to prepare for future outsourcing that includes an offshore component. There is also a trend towards greater use of ERP systems, partly driven by regulatory and compliance requirements, but also through the desire to plan and manage their human resources effectively as they introduce new services and delivery models.

In telecommunications we are beginning to see some signs of a greater willingness to invest. We are, for instance, helping operators to generate additional revenues by offering applications such as personalised ring-backs.

Germany operations

The new, more experienced management team in Germany is now focused on driving the business forward in those areas that match our strategic profile and have good prospects, while rationalising those parts where lack of demand or skills mismatch have created persistent under-utilisation. A substantial number of headcount reductions and related

Germany operations

Revenue by market sector	6 months to 30 June 2004 £'m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	0.1	-	-	0.2	-
Industry, distribution & transport	24.7	(14.2)	(11.8)	53.3	(32.3)
Energy & utilities	3.5	(40.7)	(39.7)	7.6	(31.4)
Financial services	14.8	5.7	8.8	32.0	(15.4)
Telecommunications	3.2	(30.4)	(27.3)	6.9	28.0
Total	**46.3**	**(13.3)**	**(10.8)**	**100.0**	**(24.8)**

	H1 04	H2 03
Operating margin*	(21.0)%	(11.2)%

* Before goodwill amortisation, restructuring charges and other exceptional items.

"Our Australian operation had a successful period building a good platform for the second half, particularly in public sector."

overhead savings will be necessary to achieve a cost base consistent with revenues in the consulting business. We expect to implement these measures during the second half with some benefits to the cost base in the fourth quarter. The cost of achieving these savings is expected to be approximately £17 million and will be accounted for as an exceptional item during the second half. This action, which will reduce the cost base by a similar amount on an annualised basis, will be a key factor in our plan to return the German business to profitability in 2005.

As previously indicated, revenues continued to decline in Germany in the first half against a market background that gave little assistance. Greater stability in financial services was the result of regulation and compliance pressures and the outsourcing of some process elements by customers like Commerzbank and Deutsche Bank. Across all sectors outsourcing was the one significant growth factor, underlined by the €44 million contract renewal and extension with Interbrew.

France operations

Our French operation continued to develop, building on the improvements seen during the second half of 2003 and was profitable for the first half of 2004. The major outsource contract won at the start of the year with the retailer Auchan is on track and we have continued to develop major accounts such as Cegetel, Hewlett-Packard and Renault. SAP integration remains a key strength with major new contracts at Plastic Omnium, a polymer and plastic resin manufacturer, and NRJ, an international music and media enterprise. We also signed an application management contract with insurance company Mutuelles du Mans Assurances. While time and materials

France operations

Revenue by market sector	6 months to 30 June 2004 £'m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	3.3	32.0	37.5	6.5	57.1
Industry, distribution & transport	26.8	8.1	11.2	52.6	1.5
Energy & utilities	1.2	(53.8)	(52.0)	2.4	(57.1)
Financial services	15.2	(9.0)	(6.7)	29.9	(14.6)
Telecommunications	4.4	(4.3)	(2.2)	8.6	-
Total	**50.9**	**(0.6)**	**2.2**	**100.0**	**(4.9)**

	H1 04	H2 03
Operating margin*	0.8%	-

* Before goodwill amortisation, restructuring charges and other exceptional items.

- In June, LogicaCMG was awarded a US$6 million contract to implement a Code Division Multiple Access (CDMA)-based next generation short messaging solution centre (SMSC) for Tata Teleservices Ltd, one of the leading mobile telecoms operators in India.
- LogicaCMG won a multi-million euro contract in June with HTmobile of Croatia to supply enhanced interactive messaging services. The interactive messaging server gives subscribers fast access via one code (e.g. *100#) to a series of interactive menus where they can easily select premium content or self-care menus.

work remains an important part of the French market and our operation, we are continuing to move our business up the value chain.

Other mainland Europe operations
In the Nordic and Baltic region, business is dominated by ongoing work and extensions related to the Vodafone billing and CRM projects and the card payments system at Luottokunta. After a very difficult 2003, the Central & Eastern Europe operation has made substantial progress in rebuilding profitability back towards historic levels. It has secured a number of significant new contracts, including one with the National Bank of Slovakia.

Rest of World operations
Our international businesses outside of Europe had a difficult period with the exception of energy and utilities and IDT. Order taking generally improved as we came through the first half and the numbers mask some good individual performances in some countries. Our Australian operation had a successful period building a good platform for the second half, particularly in public sector. We signed a three-year extension to our outsource contract with Aurora Energy in Tasmania and a new framework agreement with leading telecommunications company Telstra. Our gas market trading system has just gone live in both Western and South Australia.

A key event in Asia was the successful ‘go live’ date for the Real Time Gross Settlement system for the Central Bank of Sri Lanka and we currently have a number of further major bids for Asian banks in progress. We continue to support and develop our international accounts through our Asian operations, notably Hewlett-Packard, Shell and Deutsche Bank for whom we are currently providing J2EE development and testing resources. We are also implementing a new billing system for SmarTone in Hong Kong.

Despite the difficult political climate, the pipeline in the Middle East has improved, primarily in the banking, energy and telecoms sectors. We secured further business from Saudi Telecom during the period to support and enhance their customer call centre, as well as SwiftNet-related business in both Saudi Arabia and the United Arab Emirates. We are implementing a currency re-denomination system for the Turkish Bankers Association.

In North America, solid progress in our key automotive accounts Ford and Daimler Chrysler was offset by continued pricing pressure. An important milestone was achieved with a contract to migrate Daimler Chrysler’s DealerConnect applications to IBM Websphere where

Other mainland Europe operations

Revenue by market sector	6 months to 30 June 2004 £’m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	0.8	60.0	100.0	4.3	33.3
Industry, distribution & transport	1.8	63.6	80.0	9.6	(10.0)
Energy & utilities	1.9	(45.7)	(44.1)	10.2	(44.1)
Financial services	6.4	12.3	16.4	34.2	(24.7)
Telecommunications	7.8	(17.0)	(14.3)	41.7	(11.4)
Total	**18.7**	**(7.4)**	**(3.6)**	**100.0**	**(19.8)**

	H1 04	H2 03
Operating margin*	8.0%	3.0%

* Before goodwill amortisation, restructuring charges and other exceptional items.

Rest of World operations

Revenue by market sector	6 months to 30 June 2004 £'m	% growth sequential	% growth at constant currency	% share	% growth on H1 2003 at constant currency
Public sector	4.1	(12.8)	(9.7)	8.1	(19.6)
Industry, distribution & transport	9.7	(4.0)	1.8	19.2	(29.2)
Energy & utilities	21.8	(3.5)	0.5	43.4	(9.9)
Financial services	11.1	(14.0)	(10.7)	22.0	14.5
Telecommunications	3.7	(36.2)	(31.7)	7.3	(38.3)
Total	**50.4**	**(10.2)**	**(5.9)**	**100.0**	**(14.1)**

	H1 04	H2 03
Operating margin*	2.4%	7.7%

Wireless networks

	EMEA		Asia Pacific		Americas		Japan		Total	
Product area	H1 2004 £'m	% change H1 04-H2 03	H1 2004 £'m	% change H1 04-H2 03	H1 2004 £'m	% change H1 04-H2 03	H1 2004 £'m	% change H1 04-H2 03	H1 2004 £'m	% change H1 04-H2 03
Messaging (SMS)	36.4	(16.3)	9.8	40.0	18.8	7.4	6.3	(46.2)	71.3	(10.5)
Multimedia/Internet	14.1	80.8	1.2	(85.9)	4.0	150.0	0.1	-	19.4	8.4
Unified comms	2.3	(36.1)	1.1	266.7	1.4	100.0	-	-	4.8	4.3
Payment/billing	11.1	(60.8)	8.8	(22.8)	1.9	(9.5)	-	-	21.8	(47.8)
Total	**63.9**	**(23.2)**	**20.9**	**(23.2)**	**26.1**	**19.2**	**6.4**	**(45.3)**	**117.3**	**(18.5)**

	H1 04	H2 03
Operating margin*	(5.5%)	6.5%

* Before goodwill amortisation, restructuring charges and other exceptional items.

the downstream support will include our first offshore delivery into the US market. Our financial messaging system went live in Commerce Bank in June.

Wireless networks

The revenue decline and consequent first half loss reported by wireless networks were as indicated at the time of our 22 July trading statement, as are the actions being taken to return the business to profitability for the full year. Our ability to flex the cost base in the second half and beyond largely derives from moving people with transferable skills onto projects within our IT services businesses.

The major short-term issue faced by our product business is that volumes are taking longer to build in new service areas such as multimedia messaging. Partly this reflects the time taken for the penetration of new camera-enabled phones to reach a level to sustain viable sub-groups interested in using the new facilities. Another factor is the work being carried out by operators behind the scenes to improve ease of set-up and

- LogicaCMG has been selected to provide its bureau payroll services to Suffolk Constabulary and Essex Police. These follow similar contracts signed with Thames Valley and Surrey Police in the last 12 months. Both services will be provided using LogicaCMG's own web-enabled payroll solution, e-Payfact, specially developed for the public sector and central government.

- LogicaCMG has become the largest supplier of outsourced payroll systems to UK central government, with a total of 52 customers representing 115 organisations and 206,000 employees.

operation for non-technical users. Perhaps most important of all, operators are still determining through research and trials the optimum business model for these new revenue streams. Whereas the text messaging market was built almost entirely on interpersonal messaging between phones that were 100% SMS-enabled, MMS volumes will be far more dependent on the aggregation and delivery of packages of content that appeal to communities of interest. Creating, branding, pricing and billing for these content packages – alongside interpersonal picture messaging – will be at the heart of the operators' service offerings.

In the major Tier 1 operators we have seen a broadening of their requirements with discussions about the supply of products being part of an overall solution, including integration of legacy and third-party elements as well as longer-term application development and support. This has extended sales cycles, exacerbated by changes of scope during the process as operators seek to set local or regional procurements in the context of their emerging global strategies for next generation services. As a result, while we have made good progress with winning business from these top tier players, the short-term revenue benefit has been smaller than we expected at the beginning of the year with delivery and consequent revenue recognition spread across multiple reporting periods. On a longer-term view, however, this trend plays to LogicaCMG's strengths as a supplier of products, services and application expertise.

Our other product areas performed largely in line with our expectations. We have now upgraded some 40 of our SMS customers to our NextGen product launched last year and have a good forward pipeline. We have also responded to the growth in application-to-person traffic, with its huge but short-duration capacity requirement, by introducing a fast routing solution as an integral part of our SMS product set.

Unified communications continues to develop slowly as a market. However, we are now becoming involved in some substantial bids, particularly in the US, where operators are focused on replacing their old voicemail systems with IP-enabled systems, as well as adding additional functionality such as visualised voicemail and videomail. We have strengthened our sales team in this area to capitalise on these opportunities.

Payments and billing revenues, while up on the same period last year, remain dependent on the timing of major new projects. The historic pre-pay voice and SMS markets provide a capacity upgrade revenue stream as mobile penetration and usage continues to grow around the world. There is growing interest in newer elements such as pre-pay MMS and intelligent charging. As operators move to IP-based network structures and ultimately 3G working, greater market segmentation and broader service offerings will require billing systems that reflect the value of content rather than size or duration. Payment by subscription will become more prevalent for post-pay customers, while pre-pay will most likely be by 'incidence of value'. Migrating to such a billing environment is a major area of concern for operators that will drive this product area in the years ahead.

Cash flow and debt

Cash flow from operating activities before restructuring costs and other exceptional items was £33.2 million (£47.3 million for the six months ended 30 June 2003), giving a cash conversion of 72% (107% for the six months ended 30 June 2003). Free cash flow after interest, taxation, capital expenditure, but before restructuring costs and other exceptional items was £12.3 million (£33.6 million for the six months ended 30 June 2003). Net debt at 30 June 2004 was £194.2 million, versus £177.4 million as at 31 December 2003.

Treasury

In order to take advantage of improved terms and to increase the Group's financial flexibility to pursue growth opportunities, the Group has refinanced its £230 million bank facility maturing in 2005 with a five-year £330 million facility. The benefit of the reduced interest rate associated with the new facility will come through in 2005. The benefit in the second half of 2004 will be offset by the write-off of the set-up fee for the previous facility.

Consolidated profit and loss account

For the 6 months ended 30 June 2004

	Note	**Unaudited 6 months ended 30 June 2004 £'m**	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m
Turnover	3	**809.2**	852.5	1,706.6
Net operating costs		**(775.0)**	(905.2)	(1,726.4)
Operating profit before restructuring costs and goodwill amortisation	3	**46.1**	44.4	111.2
Restructuring costs	4	**-**	(85.3)	(107.2)
Goodwill amortisation		**(11.9)**	(11.8)	(23.8)
Operating profit/(loss)		**34.2**	(52.7)	(19.8)
Loss on disposals of operations		**-**	-	(1.5)
Profit/(loss) on ordinary activities before interest		**34.2**	(52.7)	(21.3)
Net interest payable		**(6.9)**	(5.5)	(11.7)
Profit/(loss) on ordinary activities before tax	3	**27.3**	(58.2)	(33.0)
Tax on profit/(loss) on ordinary activities	6	**(12.9)**	6.8	(10.7)
Profit/(loss) on ordinary activities after tax		**14.4**	(51.4)	(43.7)
Equity minority interests		**(0.7)**	(1.1)	(2.4)
Profit/(loss) for the period		**13.7**	(52.5)	(46.1)
Dividends paid and proposed	7	**(16.9)**	(16.9)	(41.9)
Retained loss for the period	11	**(3.2)**	(69.4)	(88.0)

Earnings per share		**Unaudited 6 months ended 30 June 2004**	Unaudited 6 months ended 30 June 2003	Audited 12 months ended 31 December 2003
– Basic	8	**1.9p**	(7.1)p	(6.3)p
– Diluted	8	**1.9p**	(7.1)p	(6.3)p
Adjusted – before goodwill amortisation and exceptional items net of tax				
– Basic	8	**3.5p**	3.6p	9.2p
– Diluted	8	**3.5p**	3.6p	9.2p

Consolidated statement of total recognised gains and losses

For the 6 months ended 30 June 2004

	Unaudited 6 months ended 30 June 2004 £'m	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m
Profit/(loss) for the period	**13.7**	(52.5)	(46.1)
Currency translation differences on foreign currency net investments	**(8.1)**	(4.4)	(8.8)
Tax on foreign exchange differences reported through reserves	**3.8**	-	-
Total recognised gains and losses relating to the period	**9.4**	(56.9)	(54.9)

All gains and losses recognised above are based on historical cost and arise from continuing operations.

Consolidated balance sheet

30 June 2004

	Note	Unaudited 30 June 2004 £'m	As restated (note 1) Audited 31 December 2003 £'m	As restated (note 1) Unaudited 30 June 2003 £'m
Fixed assets				
Intangible assets		**339.3**	358.6	367.5
Tangible assets		**78.1**	84.1	86.7
Share of net assets of joint venture		**0.8**	1.1	1.3
Investments		**0.5**	0.5	0.5
		418.7	444.3	456.0
Current assets				
Stock		**2.3**	3.3	4.3
Debtors		**637.3**	604.8	638.1
Investments - liquid resources		**2.4**	2.3	-
Cash at bank and in hand		**106.0**	132.4	102.6
		748.0	742.8	745.0
Creditors – amounts falling due within one year				
Borrowings		**(1.1)**	(1.2)	(58.2)
Other creditors		**(432.4)**	(426.6)	(431.6)
		(433.5)	(427.8)	(489.8)
Net current assets		**314.5**	315.0	255.2
Total assets less current liabilities		**733.2**	759.3	711.2
Creditors – amounts falling due after more than one year				
Convertible debt		**(199.1)**	(208.6)	-
Other borrowings		**(102.4)**	(102.3)	(230.7)
		(301.5)	(310.9)	(230.7)
Provisions for liabilities and charges				
Deferred tax		**(5.4)**	(6.5)	-
Other		**(11.5)**	(20.1)	(38.8)
Net assets		**414.8**	421.8	441.7
Capital and reserves				
Called-up equity share capital	11	**75.0**	75.0	74.9
Share premium account	11	**706.7**	705.9	704.9
Other reserves	11	**2.6**	2.5	2.8
Profit and loss account	11	**(371.3)**	(364.1)	(341.0)
Merger reserve	11	**(1.3)**	(1.3)	(1.3)
Shareholders' funds		**411.7**	418.0	440.3
Equity minority interests		**3.1**	3.8	1.4
Total capital employed		**414.8**	421.8	441.7

Consolidated cash flow statement

For the 6 months ended 30 June 2004

	Note	**Unaudited 6 months ended 30 June 2004 £'m**	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m
Net cash inflow from trading operations	9	**33.2**	47.3	119.0
Proceeds from financing of long-term project receivables		**5.0**	-	21.2
Cash outflow related to restructuring and other exceptional items		**(8.9)**	(83.1)	(122.8)
Net cash inflow/(outflow) from operating activities		**29.3**	(35.8)	17.4
Returns on investments and servicing of finance				
Dividends paid to minority interests		**(1.3)**	(1.3)	(1.2)
Interest received		**0.8**	1.9	2.5
Interest paid		**(5.2)**	(7.9)	(13.2)
Interest element of finance lease rental payments		**-**	(0.3)	(0.2)
Net cash outflow from returns on investments and servicing of finance		**(5.7)**	(7.6)	(12.1)
Taxation		**(8.2)**	(4.7)	(16.5)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(13.6)**	(8.7)	(25.4)
Sale of tangible fixed assets		**1.6**	7.3	9.3
Net cash outflow from capital expenditure and financial investment		**(12.0)**	(1.4)	(16.1)
Acquisitions and disposals				
Purchase and disposal of businesses		**(0.5)**	(1.5)	(1.7)
Equity dividends paid		**(25.0)**	(22.0)	(38.9)
Net cash outflow before management of liquid resources and financing	10	**(22.1)**	(73.0)	(67.9)
Management of liquid resources				
Increase in cash on term deposit		**(0.2)**	-	(2.3)
Financing activities				
Proceeds from issue of shares		**0.8**	0.1	1.2
Issue of convertible bonds		**-**	-	206.8
Increase/(decrease) in other borrowings		**(0.2)**	37.6	(146.4)
Proceeds from disposal of own shares		**0.1**	-	-
Capital element of finance lease rental payments		**(0.2)**	(0.3)	(1.1)
Net cash inflow from financing activities		**0.5**	37.4	60.5
Decrease in cash in the period		**(21.8)**	(35.6)	(9.7)

Notes to the interim report

1. Basis of preparation

The interim financial statements have been prepared in accordance with the accounting policies set out in the Group's statutory accounts for the year ended 31 December 2003, except as stated below. The financial information for the six months ended 30 June 2004 and 30 June 2003 is unaudited but has been formally reviewed by the company's auditors and their report to the company is set out on page 25. The comparative figures for the year ended 31 December 2003 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended on that date, upon which the auditors gave an unqualified opinion, have been delivered to the Registrar of Companies.

The Group has adopted Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts' ('UITF 38') effective from 1 January 2004. UITF 38 requires the consideration paid by employee share ownership plan ('ESOP') trusts to acquire own shares to be deducted from shareholders' funds and that no gain or loss should be recognised on the purchase, sale, issue or cancellation of the company's own shares. Previously, own shares held by ESOP trusts were classified as a fixed asset investment. Their carrying value was reviewed periodically for impairment and any impairment losses were recorded in the profit and loss account.

Own shares held by ESOP trusts with a book value at 31 December 2003 of £18.7 million (30 June 2003: £18.5 million) have been reclassified from fixed asset investments to shareholders' funds, resulting in a corresponding reduction in the group's net assets as previously reported. Comparative figures in the balance sheet and related notes have been restated. There was no material impact on the Group's profit and losses previously reported for the six months ended 30 June 2003 and the year ended 31 December 2003.

The Group has also adopted the revised UITF Abstract 17 'Employee Share Schemes' ('UITF 17 Revised') from 1 January 2004. UITF 17 Revised requires the profit and loss account charge for share options to be determined using an option's intrinsic value on the date of grant. Previously, the charge was based on intrinsic value or, where shares were purchased by an ESOP trust, by reference to the cost of shares less any amounts payable by employees on exercise of an option. Implementation of this standard has not materially affected the Group's comparative figures.

2. Exchange rates

The most important foreign currency for the Group is the euro. The relevant exchange rates for translation to pounds sterling were:

	6 months ended 30 June 2004		6 months ended 30 June 2003		12 months ended 31 December 2003	
	Period end	**Average**	Year end	Average	Period end	Average
£1 = €	**1.49**	**1.48**	1.44	1.46	1.42	1.45

The primary reporting currency of the Group is pounds sterling. For illustrative purposes, a translation into euros has been provided on pages 22–24. The profit and loss account and cash flow statement has been translated at the average exchange rate for the period and the balance sheet has been translated at the closing rate for the period.

3. Segmental information

An analysis of turnover and profit/(loss) before tax by geographical area is given below:

	Turnover			Profit/(loss) before tax		
	Unaudited 6 months ended 30 June 2004 £'m	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m	**Unaudited 6 months ended 30 June 2004 £'m**	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m
United Kingdom	**336.1**	321.3	660.7	**39.7**	31.9	71.9
Benelux	**189.5**	195.4	385.2	**19.5**	16.7	35.2
Germany	**46.3**	62.5	115.9	**(9.7)**	(4.1)	(10.1)
France	**50.9**	54.3	105.5	**0.4**	(1.4)	(1.4)
Rest of Europe	**18.7**	24.0	44.2	**1.5**	(1.0)	(0.4)
Rest of World	**50.4**	60.5	116.6	**1.2**	3.1	7.4
IT services	**691.9**	718.0	1,428.1	**52.6**	45.2	102.6
Wireless networks*	**117.3**	134.5	278.5	**(6.5)**	(0.8)	8.6
	809.2	852.5	1,706.6	**46.1**	44.4	111.2
Goodwill amortisation	**-**	-	-	**(11.9)**	(11.8)	(23.8)
Exceptional items						
Restructuring costs	**-**	-	-	**-**	(85.3)	(107.2)
Loss on disposals of operations	**-**	-	-	**-**	-	(1.5)
	809.2	852.5	1,706.6	**34.2**	(52.7)	(21.3)
Net interest payable	**-**	-	-	**(6.9)**	(5.5)	(11.7)
	809.2	852.5	1,706.6	**27.3**	(58.2)	(33.0)

* Wireless networks is managed in the Republic of Ireland.

£7.0 million of the goodwill amortisation is attributable to the UK (six months ended 30 June 2003: £7.0 million); £0.5 million to Benelux (six months to 30 June 2003: £0.5 million); £1.7 million to Germany (six months ended 30 June 2003: £1.7 million); £nil million to France (six months to 30 June 2003: £nil); £0.2 million to Rest of Europe (six months to 30 June 2003: £0.2 million) £1.4 million to Rest of World (six months to 30 June 2003: £1.3 million), and the remaining £1.1 million of the goodwill amortisation is attributable to wireless networks (six months ended 30 June 2003: £1.1 million).

Analysis of the group's turnover by country of destination shows £62.6 million arising in the Rest of Europe (six months to 30 June 2003: £65.9 million) and £108.3 million in Rest of World (six months to 30 June 2003: £122.8 million). In other geographic areas, turnover by destination is not materially different to turnover by country of origin.

4. Exceptional items

There were no exceptional items charged in the six months to 30 June 2004.

The restructuring costs of £85.3 million charged in the six months ended 30 June 2003 related to the restructuring programme announced at the time of the merger between Logica plc and CMG plc. Of the £85.3 million, £10.4 million related to property restructuring and £74.9 million related to redundancies. The tax credit associated with the exceptional restructuring costs of £85.3 million was £18.1 million, giving an effective tax rate on these costs of 21%.

5. Employees

The average number of employees during the period was:	**Unaudited 6 months ended 30 June 2004**	Unaudited 6 months ended 30 June 2003	Audited 12 months ended 31 December 2003
United Kingdom	**6,028**	6,766	6,502
Benelux	**6,080**	6,596	6,380
Germany	**1,580**	2,053	1,922
France	**1,484**	1,854	1,755
Rest of Europe	**493**	554	521
Rest of World	**1,983**	1,861	1,896
IT services	**17,648**	19,684	18,976
Wireless networks	**1,944**	2,310	2,155
	19,592	21,994	21,131

The number of employees at the end of the period was:	**30 June 2004**	30 June 2003	31 December 2003
United Kingdom	**5,935**	6,436	6,159
Benelux	**6,017**	6,408	6,142
Germany	**1,539**	1,947	1,627
France	**1,484**	1,800	1,478
Rest of Europe	**487**	510	480
Rest of World	**2,050**	1,843	1,939
IT services	**17,512**	18,944	17,825
Wireless networks	**1,956**	2,112	1,924
	19,468	21,056	19,749

6. Taxation

The tax charge on profit before goodwill amortisation and exceptional items for the half year has been based on the estimated effective tax rate for the full year of 32.9% (six months to 30 June 2003: 29.0%). The charge includes an overseas tax credit of £0.9 million (six months to 30 June 2003: charge of £4.1 million).

7. Dividends

An interim dividend of 2.3 pence (30 June 2003 interim: 2.3 pence) per ordinary share will be paid on 22 October 2004 to shareholders on the register on 24 September 2004.

8. Earnings per share

	Unaudited 6 months ended 30 June 2004	Unaudited 6 months ended 30 June 2003	Audited 12 months ended 31 December 2003
Basic earnings			
Profit/(loss) for the period	**13.7**	(52.5)	(46.1)
- add back exceptional items, net of tax	**-**	67.2	90.2
- add back goodwill amortisation	**11.9**	11.8	23.8
Adjusted basic earnings	**25.6**	26.5	67.9
Diluted earnings			
Profit/(loss) for the period	**13.7**	(52.5)	(46.1)
- add back exceptional items, net of tax	**-**	67.2	90.2
- add back goodwill amortisation	**11.9**	11.8	23.8
- add back interest, net of tax, on convertible bonds	**-**	-	1.4
Adjusted diluted earnings	**25.6**	26.5	69.3
Number of shares (million)			
Weighted average number of shares in issue	**750.1**	749.0	749.3
Shares held by employee trusts	**(14.1)**	(14.2)	(14.2)
Shares used to calculate basic earnings per share	**736.0**	734.8	735.1
Dilutive potential ordinary shares			
- share options	**4.2**	2.3	3.7
- convertible bonds	**-**	-	16.0
Shares used to calculate diluted earnings per share	**740.2**	737.1	754.8

Basic earnings per share excludes shares held by ESOP trusts, which are treated as cancelled.

In the six months ended 30 June 2004, the effect of the convertible bonds was anti-dilutive and there was no difference between the weighted average number of shares used to calculate unadjusted and adjusted diluted earnings per share. In the six months ended 30 June 2003 and the year ended 31 December 2003, the group made a loss for the period and consequently the effects of share options and convertible bonds were anti-dilutive for the purposes of calculating unadjusted diluted earnings per share.

Earnings per share, both basic and diluted, excluding goodwill amortisation and exceptional items has also been included as the directors consider this figure to be helpful for a better understanding of the performance of the underlying business.

9. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	Unaudited 6 months ended 30 June 2004 £'m	Unaudited 6 months ended 30 June 2003 £'m	Audited 12 months ended 31 December 2003 £'m
Operating profit/(loss)	**34.2**	(52.7)	(19.8)
Goodwill amortisation	**11.9**	11.8	23.8
Depreciation of tangible fixed assets	**15.9**	18.6	36.1
Decrease in stock	**0.9**	1.5	2.3
(Increase)/decrease in debtors	**(38.4)**	(7.5)	18.3
Increase/(decrease) in creditors and provisions	**4.8**	(7.5)	(43.3)
Net cash inflow/(outflow) from operating activities	**29.3**	(35.8)	17.4
Add back: cash outflow in respect of exceptional items (see note 4)	**8.9**	83.1	122.8
Less: proceeds from financing of long-term project receivables	**(5.0)**	-	(21.2)
Net cash inflow from trading operations	**33.2**	47.3	119.0

10. Reconciliation of net cash flow to change in net debt

Net debt at beginning of period	**Unaudited 6 months ended 30 June 2004 £'m**	Unaudited 6 months ended 30 June 2003 £'m	Audited 6 months ended 31 December 2003 £'m
Cash	**132.4**	133.3	133.3
Liquid resources	**2.3**	-	-
Overdrafts and bank loans within one year	**(0.4)**	(8.8)	(8.8)
Finance lease obligations	**(2.0)**	(3.2)	(3.2)
Loans and borrowings due after more than one year	**(309.7)**	(228.4)	(228.4)
	(177.4)	(107.1)	(107.1)
Net cash outflow before use of liquid resources and financing	**(22.1)**	(73.0)	(67.9)
Shares issued	**0.8**	0.1	1.2
Other movements	**(0.9)**	(0.5)	(1.2)
Exchange differences	**5.4**	(5.8)	(2.4)
	(16.8)	(79.2)	(70.3)
Net debt at end of period			
Cash	**106.0**	102.6	132.4
Liquid resources	**2.4**	-	2.3
Overdrafts and bank loans within one year	**(0.3)**	(57.2)	(0.4)
Finance lease obligations	**(1.9)**	(2.9)	(2.0)
Loans and borrowings due after more than one year	**(300.4)**	(228.8)	(309.7)
	(194.2)	(186.3)	(177.4)

11. Group reserves

	Share capital £'m	Share premium account £'m	Other reserves £'m	Profit and loss account £'m	Merger reserve £'m	Total £'m
At 31 December 2003	75.0	705.9	2.5	(345.4)	(1.3)	436.7
Prior year adjustment (see note 1)	-	-	-	(18.7)	-	(18.7)
At 1 January 2004	75.0	705.9	2.5	(364.1)	(1.3)	418.0
Exchange differences	-	-	0.1	(4.3)	-	(4.2)
Retained loss for the period	-	-	-	(3.2)	-	(3.2)
Shares issued in the period	-	0.8	-	-	-	0.8
Net movement in own shares held by ESOP trusts	-	-	-	0.3	-	0.3
At 30 June 2004	**75.0**	**706.7**	**2.6**	**(371.3)**	**(1.3)**	**411.7**

12. Interim report

The interim report was approved by the board of directors on 31 August 2004 and copies are available from LogicaCMG plc, Stephenson House, 75 Hampstead Road, London NW1 2PL and LogicaCMG, Antareslaan 11, 2132 JE Hoofddorp, the Netherlands.

Euro translation of consolidated profit and loss account

For the 6 months ended 30 June 2004

See page 17 for the basis of translation.	**Unaudited 6 months ended 30 June 2004 €'m**	Unaudited 6 months ended 30 June 2003 €'m	Audited 12 months ended 31 December 2003 €'m
Turnover	**1,197.6**	1,244.7	2,474.6
Net operating costs	**(1,147.0)**	(1,321.6)	(2,503.3)
Operating profit before restructuring costs and goodwill amortisation	**68.2**	64.8	161.2
Restructuring costs	**-**	(124.5)	(155.4)
Goodwill amortisation	**(17.6)**	(17.2)	(34.5)
Operating profit/(loss)	**50.6**	(76.9)	(28.7)
Loss on disposals of operations	**-**	-	(2.2)
Profit/(loss) on ordinary activities before interest	**50.6**	(76.9)	(30.9)
Net interest payable	**(10.2)**	(8.0)	(16.9)
Profit/(loss) on ordinary activities before tax	**40.4**	(84.9)	(47.8)
Tax on profit/(loss) on ordinary activities	**(19.1)**	9.9	(15.5)
Profit/(loss) on ordinary activities after tax	**21.3**	(75.0)	(63.3)
Equity minority interests	**(1.0)**	(1.6)	(3.5)
Profit/(loss) for the period	**20.3**	(76.6)	(66.8)
Dividends paid and proposed	**(25.0)**	(24.7)	(60.8)
Retained loss for the period	**(4.7)**	(101.3)	(127.6)

Earnings per share	**Unaudited 6 months ended 30 June 2004**	Unaudited 6 months ended 30 June 2003	Audited 12 months ended 31 December 2003
– Basic	**€0.028**	€(0.104)	€(0.091)
– Diluted	**€0.028**	€(0.104)	€(0.091)
Adjusted – before goodwill amortisation and exceptional items net of tax			
– Basic	**€0.052**	€0.053	€0.134
– Diluted	**€0.052**	€0.053	€0.133

Euro translation of consolidated balance sheet

30 June 2004

See page 17 for basis of translation	Unaudited 30 June 2004 €'m	As restated (note 1) Audited 31 December 2003 €'m	As restated (note 1) Unaudited 30 June 2003 €'m
Fixed assets			
Intangible assets	**505.6**	509.2	529.2
Tangible assets	**116.4**	119.4	124.8
Share of net assets of joint venture	**1.2**	1.6	1.9
Investments	**0.7**	0.7	0.7
	623.9	630.9	656.6
Current assets			
Stock	**3.4**	4.7	6.2
Debtors	**949.6**	858.8	918.9
Investments – liquid resources	**3.6**	3.3	-
Cash at bank and in hand	**157.9**	188.0	147.7
	1,114.5	1,054.8	1,072.8
Creditors – amounts falling due within one year			
Borrowings	**(1.6)**	(1.7)	(83.8)
Other creditors	**(644.3)**	(605.8)	(621.5)
	(645.9)	(607.5)	(705.3)
Net current assets	**468.6**	447.3	367.5
Total assets less current liabilities	**1,092.5**	1,078.2	1,024.1
Creditors – amounts falling due after more than one year			
Convertible debt	**(296.7)**	(296.2)	-
Other borrowings	**(152.6)**	(145.3)	(332.2)
	(449.3)	(441.5)	(332.2)
Provisions for liabilities and charges			
Deferred tax	**(8.0)**	(9.2)	-
Other	**(17.1)**	(28.5)	(55.8)
Net assets	**618.1**	599.0	636.1
Capital and reserves			
Called-up equity share capital	**111.7**	106.5	107.9
Share premium account	**1,053.0**	1,002.4	1,015.1
Other reserves	**3.9**	3.6	4.0
Profit and loss account	**(553.2)**	(517.1)	(491.0)
Merger reserve	**(1.9)**	(1.8)	(1.9)
Shareholders' funds	**613.5**	593.6	634.1
Equity minority interests	**4.6**	5.4	2.0
Total capital employed	**618.1**	599.0	636.1

Euro translation of consolidated cash flow statement

For the 6 months ended 30 June 2004

See page 17 for basis of translation	**Unaudited 6 months ended 30 June 2004 €'m**	Unaudited 6 months ended 30 June 2003 €'m	Audited 12 months ended 31 December 2003 €'m
Net cash inflow from trading operations	**49.1**	69.1	172.6
Proceeds from financing of long-term project receivables	**7.4**	-	30.7
Cash outflow related to restructuring and other exceptional items	**(13.1)**	(121.3)	(178.1)
Net cash inflow/(outflow) from operating activities	**43.4**	(52.2)	25.2
Returns on investments and servicing of finance			
Dividends paid to minority interests	**(1.9)**	(1.9)	(1.7)
Interest received	**1.2**	2.7	3.6
Interest paid	**(7.7)**	(11.5)	(19.1)
Interest element of finance lease rental payments	**-**	(0.4)	(0.3)
Net cash outflow from returns on investments and servicing of finance	**(8.4)**	(11.1)	(17.5)
Taxation	**(12.1)**	(6.9)	(23.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(20.2)**	(12.7)	(36.8)
Sale of tangible fixed assets	**2.4**	10.6	13.5
Net cash outflow from capital expenditure and financial investment	**(17.8)**	(2.1)	(23.3)
Acquisitions and disposals			
Purchase and disposal of businesses	**(0.8)**	(2.2)	(2.5)
Equity dividends paid	**(37.0)**	(32.1)	(56.4)
Net cash outflow before management of liquid resources and financing	**(32.7)**	(106.6)	(98.4)
Management of liquid resources			
Increase in cash on term deposit	**(0.3)**	-	(3.3)
Financing activities			
Proceeds from issue of shares	**1.2**	0.1	1.7
Issue of convertible bonds	**-**	-	299.9
Increase/(decrease) in other borrowings	**(0.3)**	54.9	(212.4)
Proceeds from disposal of own shares	**0.1**	-	-
Capital element of finance lease rental payments	**(0.3)**	(0.4)	(1.6)
Net cash inflow from financing activities	**0.7**	54.6	87.6
Decrease in cash in the period	**(32.3)**	(52.0)	(14.1)

Independent review report to LogicaCMG plc

Independent review report to LogicaCMG plc

We have been instructed by the company to review the financial information for the six months ended 30 June 2004 which comprises consolidated profit and loss account, consolidated statement of total gains and losses, consolidated balance sheet as at 30 June 2004, consolidated cash flow statement, comparative figures and associated notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for ensuring the preparation of the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
London
1 September 2004

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Financial calendar 2005

2 March	Preliminary results announced
15 April	Annual report and AGM notice posted to shareholders
22 April	Share register closed (record date)
18 May	Annual general meeting 3:00pm London Underwriting Centre 3 Minster Court Mincing Lane London EC3R 7DD
19 May	Final dividend paid to shareholders
20 May	Informative shareholders' meeting The Netherlands
31 August	Interim results announced
23 September	Share register closed (record date)
21 October	Interim dividend paid

Information for investors:
Is provided on the Internet as part of the group's website which can be found at:
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Notes

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LogicaCMG is a major international force in IT services and wireless telecoms. It provides management and IT consultancy, systems integration and outsourcing services to clients across diverse markets including telecoms, financial services, energy and utilities, industry, distribution and transport and the public sector.

Formed in December 2002 through the merger of Logica and CMG, the company employs around 20,000 staff in offices across 34 countries and has nearly 40 years of experience in IT services. Headquartered in Europe, LogicaCMG plc is listed on both the London and Amsterdam stock exchanges (LSE: LOG; Euronext: LOG).

More information is available from www.logicacmg.com