Stock Exchange Announcement

serco

Serco Group plc – 2016 full year results

22 February 2017

Year ended 31 December	2016	2015[(1)]
Revenue – continuing and discontinued operations[(2)]	£3,047.8m	£3,514.6m
Reported Revenue (continuing operations only)	£3,011.0m	£3,177.0m
Underlying Trading Profit[(3)]	£82.1m	£95.9m
Reported Operating Profit/(Loss) (after exceptional items; continuing operations only)[(3)]	£42.2m	(£3.8m)
Underlying EPS, basic[(4)]	4.13p	3.44p
Reported EPS, basic (after exceptional items; continuing and discontinued operations)	(0.11p)	(15.47p)
Free Cash Flow[(5)]	(£33.0m)	(£35.5m)
Net Debt (including that for assets and liabilities held for sale)	£109.3m	£62.9m

- Revenue[(2)], including discontinued operations, declined 13% to £3,048m, comprising an 11% organic decline from net contract attrition and an 8% reduction from disposals, partially offset by a 6% currency benefit.
- Underlying Trading Profit[(3)] declined by £14m to £82m; discontinued operations (the exit of private sector BPO) reduced profits by £19m; net currency benefits were £9m; allowing for these, the reduction was £4m.
- Trading Profit[(3)] was £18m higher than Underlying Trading Profit due principally to £14m net reduction in future liabilities and losses on onerous contracts.
- Underlying EPS[(4)] increased 20% to 4.13p, benefitting from reduced finance costs and a lower effective tax rate.
- Reported Operating Profit up £46m, and EPS up 15.36p; operating exceptional charges on continuing operations were £56m (2015: £110m); including discontinued operations, total exceptional charges net of tax were £68m (2015: £217m).
- Free Cash Flow[(5)] was negative £33m, similar to 2015 outflow of £36m.
- Closing Net Debt increased by £46m to £109m; however, Net Debt : EBITDA leverage of 0.7x, was similar to last year and below our medium term target of 1-2x.
- Continued progress reducing burden of loss-making contracts: OCP utilisation of £84m in 2016, £30m lower than 2015.
- Order intake increased by 40% with £2.5bn total value of signed contracts; including Serco's share of the value of the AWE updated contract, order intake was £3.2bn, an increase of some 80% on the prior year; 35 contract awards were worth more than £10m each.
- Pipeline of larger new bid opportunities ended the year at £8.4bn, a year-on-year increase of £1.9bn or 30%.
- Operating costs reduced by more than £450m, and in proportion to the scale of revenue reduction; this includes overheads and shared services savings of over £50m.
- Guidance for 2017 unchanged – at current foreign exchange rates, we anticipate Revenue of approximately £3.1bn and Underlying Trading Profit of between £65m and £70m.

Rupert Soames, Serco Group Chief Executive, said: "These results show that the execution of our five-year plan remains on track. Trading in 2016 was better than we expected at the start of the year, although this was in large part due to the resolution of a number of commercial matters in the first half, which will not recur; trading in the second half was in line with the guidance we gave at the time of our half-year results.

"Operationally, we have had a busy year: across key contracts our service delivery has improved; we have reduced operating costs by some £450m whilst improving employee engagement; at year-end, the value of our pipeline of new opportunities was up 30%, notwithstanding a 40% increase in order intake; and we have cleanly exited the private sector BPO business. These are the first fruits of the "transformation" phase of our plan, which we are now about half-way through.

"Our view of likely performance in 2017 remains unchanged from previous guidance. The road back to prosperity was always going to be long and winding, with many potholes and boulders, but we are making good progress."

For further information please contact Serco:
Stuart Ford, Head of Investor Relations T +44 (0) 1256 386 227
Marcus De Ville, Head of Media Relations T +44 (0) 1256 386 226

Presentation:
A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting at 9.00am. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility is also available on +44(0)20 3427 0503 (USA: +1 646 254 3364) with participant pin code 5478230.

Notes to summary table of financial results:

(1) The results for year ended 31 December 2015 have been restated for a change in accounting policy related to foreign exchange movements on investment and financing arrangements. This provides more relevant information about the impact of underlying transactions and, within net debt, now takes account of the currency hedging in place. This is particularly relevant at a time when we have had significant currency volatility, and, helpfully, more closely aligns our reported net debt with our debt covenant definitions. This change in accounting policy has the following effects: reduces Trading and Operating Profit measures by £0.1m, with an equal and opposite impact recognised within Net Finance Costs; reduces Free Cash Flow (FCF) by £19.3m, with an equal and opposite impact recognised below FCF; and reduces closing net debt at 31 December 2015 by £14.6m, to reflect the hedging effect of derivative financial instruments designed to mitigate the effect of foreign exchange movements on our net debt. Further detail on the restatement is included in the Finance Review on page 17.

(2) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Revenue including that from discontinued operations is shown for consistency with previous guidance. Reported Revenue excludes revenue from discontinued operations of £36.8m (2015: £337.6m). Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of acquisitions or disposals. Change at constant currency is calculated by translating non-Sterling values for the year to 31 December 2016 into Sterling at the average exchange rate for the year ended 31 December 2015.

(3) Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items; it includes the impact of discontinued operations. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract and Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), as well as the beneficial treatment of depreciation and amortisation of assets held for sale, and other material one-time items such as the pension scheme settlement in the first half of 2016 and the profit on early exit from a UK local authority contract that occurred in the second half of 2015. A reconciliation of Underlying Trading Profit to Reported Operating Profit is as follows:

Year ended 31 December £m	**2016**	**2015**
Underlying Trading Profit	**82.1**	**95.9**
Include: non-underlying items		
Onerous contract and Balance Sheet Review adjustments	14.2	20.9
Benefit from non-depreciation and non-amortisation of assets held for sale	0.5	11.7
Other one-time items	3.5	9.0
Trading Profit	**100.3**	**137.5**
Amortisation and impairment of intangibles arising on acquisition	(5.1)	(4.9)
Operating Profit Before Exceptional Items (continuing and discontinued operations)	95.2	132.6
Exclude: Operating Loss/(Profit) Before Exceptional Items from discontinued operations	3.3	(26.5)
Reported Operating Profit Before Exceptional Items (continuing operations only)	98.5	106.1
Operating Exceptional Items (continuing operations only)	(56.3)	(109.9)
Reported Operating Profit (after exceptional items; continuing operations only)	**42.2**	**(3.8)**

(4) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs (including those for discontinued operations) and related tax effects.

(5) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases.

Reconciliations and further detail of financial performance are included in the Finance Review on pages 17 to 36. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 37 to 65.

Forward looking statements:

This announcement contains statements which are, or may be deemed to be, "forward looking statements" which are prospective in nature. All statements other than statements of historical fact are forward looking statements. Generally, words such as "expect", "anticipate", "may", "should", "will", "aspire", "aim", "plan", "target", "goal", "ambition" and similar expressions identify forward looking statements. By their nature, these forward looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Factors which may cause future outcomes to differ from those foreseen or implied in forward looking statements include, but are not limited to: general economic conditions and business conditions in Serco's markets; contracts awarded to Serco; customers' acceptance of Serco's products and services; operational problems; the actions of competitors, trading partners, creditors, rating agencies and others; the success or otherwise of partnering; changes in laws and governmental regulations; regulatory or legal actions, including the types of enforcement action pursued and the nature of remedies sought or imposed; the receipt of relevant third party and/or regulatory approvals; exchange rate fluctuations; the development and use of new technology; changes in public expectations and other changes to business conditions; wars and acts of terrorism; and cyber-attacks. Many of these factors are beyond Serco's control or influence. These forward looking statements speak only as of the date of this announcement and have not been audited or otherwise independently verified. Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by any applicable law or regulation, Serco expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this announcement to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based after the date of this announcement, or to keep current any other information contained in this announcement. Accordingly, undue reliance should not be placed on the forward looking statements.

Chief Executive's Review

Summary of financial performance

Revenue and Trading Profit

Reported Revenue was £3,011m (2015: £3,177m); this measure excludes Serco's share of revenue from joint ventures and associates of £481m (2015: £737m) and from discontinued operations (our private sector BPO division) of £37m (2015: £338m). Revenue including discontinued operations was £3,048m (2015: £3,515m). Net currency movements provided a £189m benefit. At constant currency and adjusting for disposals, the organic revenue decline was 11%, driven by the phased transfer of contracts such as that for the Defence Science and Technology Laboratory (DSTL), and the end of contracts for Suffolk Community Healthcare, the National Citizen Service, Thurrock Council BPO services, US National Benefits Centre and the Virginia Department of Transportation (VDOT). There was limited growth elsewhere to offset these declines.

Trading Profit was £100.3m (2015: £137.5m) and Underlying Trading Profit was £82.1m (2015: £95.9m), resulting in an Underlying Trading Profit margin of 2.7% (2015: 2.7%). The £18.2m difference between Trading Profit and Underlying Trading Profit is accounted for by three items. First, we have excluded from Underlying Trading Profit the net release of £14.2m (2015: £20.9m) of future cost provisions identified in our regular review of Onerous Contract Provisions (OCPs) and other Contract and Balance Sheet Review items. This reflects the net effect of numerous charges and releases against individual contracts and provisions; the only significant individual movements were an increased charge on the Ontario Driver Examination Services contract and a net release on the COMPASS contract for UK asylum seeker support services. While the net £14.2m release is excluded from our underlying measures, it reflects continued good progress in reducing future liabilities, with a net £9.6m related to OCPs and a net £4.6m related to other Contract and Balance Sheet Review items. The second item of difference is that we have excluded from Underlying Trading Profit the benefit of a one-time pension settlement of £3.5m negotiated as part of the early exit from the Thurrock contract. Third, and in accordance with the statutory accounting treatment of assets held for sale, depreciation and amortisation charges related to assets held for sale are excluded from the Group accounts; the positive impact of this accounting treatment of £0.5m (2015: £11.7m) has therefore been excluded from our measure of Underlying Trading Profit.

As with the comparable year, Underlying Trading Profit benefited from the utilisation of OCPs, which have the effect of neutralising losses on previously identified onerous contracts; the £84m utilised in the year was slightly lower than our expectations of around £90m at the start of the year, and was materially lower than the £114m utilised in 2015; again, this reflects progress at an operational level in reducing the level of losses on onerous contracts. The closing balance of OCPs now stands at £220m, versus the initial £447m charge two years ago.

The £14m reduction in Underlying Trading Profit reflects the £19m reduction in profits related to the exit of our private sector BPO operations, partially offset by a favourable £9m currency movement. Allowing for these items, Underlying Trading Profit was similar to the prior year, decreasing by approximately £4m. The profit performance was stronger than we initially anticipated, in large part due to the successful resolution of a number of commercial matters in the first half of the year that will not repeat.

Reported Operating Profit, including discontinued operations, and before exceptional items, was £95.2m (2015: £132.6m), which reflects Trading Profit as described above, after additionally charging amortisation and impairment of intangibles arising on acquisition of £5.1m (2015: £4.9m).

Finance, tax and exceptional costs

Pre-exceptional net finance costs, including discontinued operations, were £12.6m (2015: £31.9m). The reduction in cost arises from average net debt being some £300m lower in 2016 than in 2015, as a result of the Rights Issue in April 2015 and the BPO disposal proceeds received at the end of December 2015. As a consequence of these two fund-raising activities, we were able to redeem early £225m of US Private Placement debt in 2015 and a further £117m in February 2016. Cash net interest paid was £19.0m (2015: £32.7m).

Within net finance costs is a net credit of £4.7m (2015: £4.9m) related to the strong funding position of Serco's pension schemes; the pension scheme net balance sheet asset, before tax, increased to £133m (2015: £116m); on an estimated actuarial basis, the main Group scheme has a deficit of £34m (2015: £28m).

Pre-exceptional tax costs, including discontinued operations, were materially lower in the year at £15.9m (2015: £36.6m). Excluding the tax credit on non-underlying items of £8.5m (2015: cost of £6.1m), the underlying effective tax cost was £24.4m (2015: £30.5m) implying an underlying effective rate of 35% (2015: 48%) based upon £69.5m of Underlying Trading Profit less pre-exceptional net finance costs. The rate reflects the tax charges at locally prevailing rates in the international divisions (which tend to be higher than the UK's rate), while

in the UK there was no deferred tax credit taken against losses made in the year; the resulting effective rate was significantly lower than expectations at the start of the year given the increased proportion of Serco's profit before tax generated by consolidating our share of joint venture and associate earnings which have already been taxed. Net cash tax paid was £5.6m (2015: £2.7m).

Whilst we expect our cash tax rate to be reasonably predictable in future periods, our underlying effective tax rate is likely to be volatile until we are able to show sufficient profitability in our UK business to be able to recognise on our balance sheet the very significant UK tax asset arising from losses in 2014 and 2015 principally as a result of the Contract and Balance Sheet Review. For 2017, an underlying effective tax rate potentially reverting to approximately 50% is anticipated, reflecting predominantly the smaller proportion of joint venture and associate earnings and relatively higher UK losses. We expect future years' effective tax rate will be high until UK tax losses can be recognised.

Including discontinued operations, the Group incurred operating exceptional costs of £70.5m, exceptional finance costs of £0.4m and tax credits on exceptional items of £3.1m; in aggregate, net exceptional costs were therefore £67.8m (2015: £217.2m). The principal exceptional items were goodwill impairment of £17.8m reflecting the liabilities taken on with the purchase of a subcontractor to the COMPASS operations, a £13.9m impairment to the carrying value of a joint venture investment, restructuring costs of £18.3m and a charge of £10.7m related to the transfer of employees from the Serco defined pension scheme back to the Principal Civil Service Pension Scheme (PCSPS). The balance of operating exceptional costs reflected losses on disposals, together with the movement in the carrying value of assets held for sale and for indemnities provided on prior business disposals. The £217.2m of charges in 2015 included £168.3m impairment of goodwill and other assets, and £32.8m of exceptional finance costs relating to the Rights Issue and debt refinancing.

Reported Loss for the year

The Reported Loss for the year, as presented at the bottom of the Group's Consolidated Income Statement on page 37, was £1.1m (2015: loss of £153.1m). This reflects the measures described above: Reported Operating Profit, including discontinued operations, and before exceptional items, of £95.2m (2015: £132.6m); pre-exceptional net finance costs, including discontinued operations, of £12.6m (2015: £31.9m); pre-exceptional tax costs, including discontinued operations, of £15.9m (2015: £36.6m); and exceptional costs, net of tax, of £67.8m (2015: £217.2m).

Earnings Per Share (EPS)

Underlying EPS, which reflects the Underlying Trading Profit measure after deducting pre-exceptional finance costs (including those for discontinued operations) and related tax effects, was 4.13p (2015: 3.44p). The increase reflects the reduction in Underlying Trading Profit being more than offset by the lower finance costs and tax charge. There is a partial offset to these factors from the movement in the weighted average number of shares in issue which increased to 1,088.3m shares (2015: 986.5m shares) as a consequence of the 2015 Rights Issue. EPS before exceptional items, including those for discontinued operations, were 6.12p (2015: 6.55p); including the impact of exceptional items, Reported EPS was loss per share of 0.11p (2015: loss per share of 15.47p).

Cash Flow and Net Debt

Free Cash Flow was negative £33.0m (2015: negative £35.5m). Cash generated from Underlying Trading Profit was largely offset by the outflows related to loss-making contracts subject to Onerous Contract Provisions. These cash outflows lessened year-on-year, as reflected in the lower rate of OCP utilisation. There was a working capital outflow of £24m, largely due to a £22m reduction in the utilisation of the Group's receivables financing facility; at the end of 2015 the £30m facility was fully utilised, compared to £8m utilisation at the end of 2016. Capital expenditure was substantially lower at £32m (2015: £73m), reflecting the benefit of the disposal of the private sector BPO business, which was a substantial consumer of capital investment.

Closing net debt at 31 December 2016 increased to £109.3m, having been £62.9m at the start of the year; the increase includes the Free Cash outflow, together with a £40m cash outflow related to exceptional items, partially offset by £19m of net receipts from disposals. There was an adverse gross currency translation effect on net debt of £42m, predominantly reflecting the Group's US Private Placement debt, however this was offset by a £47m favourable movement on hedging instruments. The closing net debt of £109m compares to a daily average of £119m (2015: £444m) and a peak net debt of £183m (2015: £859m).

At the closing balance sheet date, our leverage for covenant purposes was 0.7x EBITDA, which compares with the requirement in our debt covenants to be less than 3.5x. Excluding from EBITDA non-underlying items, predominantly the benefit of the net movement on OCPs and other Contract and Balance Sheet Review items, the underlying leverage ratio was 0.8x EBITDA. This is below our medium term target range of 1-2x, but at this stage in our strategy implementation, we are content for it to be so.

Dividends

The Board is not recommending the payment of a dividend in respect of the 2016 financial year. The Board's appraisal of the appropriateness of dividend payments takes into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it believes it prudent to do so, in assessing whether we should resume dividend payments in respect of 2016, we have been mindful of the fact that our forecasts for 2017 anticipate a reduction in earnings, a free cash outflow and an increase in net debt; furthermore, we are only part-way through our recovery. In these circumstances, the Board believes that it would not be prudent to resume dividend payments in respect of 2016.

The Revenue and Trading Profit performances are described further in the Divisional Reviews. More detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

Summary of operating performance and strategy implementation

The better than anticipated financial performance in 2016 has been accompanied by improving operational delivery and good progress on implementing our strategy and transformation.

With over 500 contracts worldwide, there are always going to be some with operational issues; however, there are many fewer now than there were two years ago, and relationships with customers, particularly in the UK, have strengthened notably. Good progress has been made on our loss-making contracts, with improved operational delivery and reduced losses on several important contracts, reflected both in lower in-year OCP utilisation (£30m lower in 2016 than in 2015) and a net reduction in anticipated future losses of £9.6m. We regard our OCPs as a portfolio of exposures, and at each period end each contract and provision is carefully assessed; some contracts need additional provisions, others see releases if our assessment of future losses reduces. In 2016 there were a number of movements, both positive and negative, across the contract base. No new contracts have been judged to be materially onerous. The only two significant movements on pre-existing OCPs were on COMPASS (UK asylum seeker support services) and DES (Driver Examination Services, Ontario Canada); on COMPASS, a £33.9m OCP release resulted from the latest estimates of efficiencies, forecasts and contract terms, although this was partially offset by a £14.0m OCP recognised on acquisition of a subcontractor; on DES, there was a £29.5m increase in estimates of the future costs associated with the IT system implementation and ongoing management of this contract. Our contract supporting Lincolnshire County Council is running broadly in line with our expectations set when we took a large additional provision in 2015, and the major elements of this IT implementation are now in service. Within the other smaller movements, although the in-year losses of the Prisoner Escort and Custody Services (PECS) contract in the UK were reduced, we have changed our view of the likely contract duration, and the future-years OCP balance has been increased; OCPs with an improved view of future losses include the Armidale Class Patrol Boats (ACPB) contract in Australia, and the contracts for HMP Ashfield and the Future Provision of Marine Services (FPMS) in the UK.

Our joint venture with Abellio as operator of Northern Rail ended smoothly with the transfer of the franchise to a new provider on 31 March 2016, and the winding up of the joint venture produced a favourable financial outcome. There were also several contracts that we had expected to end early in the year but ran on longer; these included the VDOT and US Army transition assistance contracts.

We were delighted to announce that the UK Government's review of the arrangements for operating the Atomic Weapons Establishment (AWE) concluded successfully during the year, and led to an updated contract being agreed with the Ministry of Defence. The stronger performance outcome for the contract year to 31 March 2016 and later-than-expected timing of the change in joint venture shareholding arrangements also improved the profit contribution received by Serco in the year.

We achieved our target for cost savings of over £50m in 2016 from central support functions and other overheads. The programme delivered savings from reducing the number of management layers, implementing better procurement and driving greater efficiency in the operation of shared services. Within our guidance for 2017 is the expectation that we can deliver around £20m of additional savings from the next set of transformation actions.

Following the various disposals and transfers related to Serco's exit of the private sector BPO market, there were losses and stranded costs related to the residual UK onshore private sector BPO contracts. As a result of good work to mitigate the financial impact of these exits, the loss from discontinued operations at £4.6m was approximately half our original expectations, and we anticipate no material residual effect in 2017.

At the same time as we have been reducing operating costs, we have been investing in building the capability of the business. As previously reported, we are using Centres of Excellence (CoEs) to develop Group-wide propositions and capabilities in our core markets, with an initial launch of CoEs in the Health, Justice & Immigration and Transport sectors which are improving the sharing of skills, best practice and intellectual property across our businesses. The teams working directly and as part of the CoE virtual network are reporting good early progress, particularly in strengthening our proposition development and bidding, and the largest contract award during the year – Barts Health NHS Trust – drew heavily on CoE capability and support.

We have continued to invest in IT systems enhancements and improvements. During the year, we rolled out our Success Factors recruitment system which delivers world-class recruitment capability for the organisation; enhanced Finance management tools to improve balance sheet reconciliations and Treasury management; implemented new Cyber Security management systems to harden our IT networks; launched a 'guided buying' system that delivers best pricing through a standardised catalogue; and we introduced internal collaboration tools which help our newly formed CoEs share data and information globally. Our next developments include further investments in IT security, payroll and workforce management systems.

Serco employs 47,000 people, the vast majority delivering services to customers. It is often said that the customer experience will never exceed the employees' and attracting, motivating and engaging employees will be central to our success. We were therefore delighted to see the latest results of our global employee engagement survey, managed independently by Aon Hewitt, and which received over 30,000 responses. Engagement scores increased for all categories – employees, managers and leaders – and stood at the highest level since we started to measure it in 2011 and is dramatically improved from the low in 2014. It was particularly pleasing to note that the engagement score of the leadership population improved 17 percentage points year-on-year to over 70%.

Contract awards, order book, rebids and pipeline

Contract awards

As anticipated, the market was relatively quiet with few major bidding outcomes announced. Notwithstanding this, the Group signed contracts with a total value of £2.5bn during the year, an increase of 40% on 2015; as we do not consolidate our share of joint venture and associate revenue, this excludes the estimated £0.7bn value of Serco's share of the AWE updated contract for the next three years. There were 35 contract awards worth more than £10m each. The value of new business won was approximately 40% of the total value signed, with the balance represented by securing extensions or successfully rebidding existing work.

The largest new contract signed in 2016 was with Barts Health NHS Trust for facilities management services to their hospitals. Whilst the value over the maximum 10-year term is approximately £600m, we have recognised within Serco's wins and order book figures only the estimated £450m value of our initial seven-year period. The second largest new contract was for the new 'icebreaker' Antarctic Supply and Research Vessel for the Australian Department of the Environment, where Serco will project manage the four-year design and build phase and then operate and maintain the vessel for an initial ten-year period; within our order book, and future revenues, we will not include the value of the ship itself. The third largest new contract was to upgrade the High Altitude Electromagnetic Pulse (HEMP) Protection of Ballistic Missile Early Warnings Systems supporting the US Air Force at Thule Air Base in Greenland. Of the other major new bids decided during the year, we were unsuccessful in the tender to operate the Clyde and Hebrides Ferry Services on behalf of Transport Scotland, in two bids to operate UK local authority environmental services and to provide processing services to two US Departments of State. Smaller new bids won included two for the European Space Agency, transport operations support for the State of Louisiana, numerous US Navy ship and shore defence equipment modernisation task orders, and contracts for airport facilities management and defence base operational support in the Middle East.

Of rebids and extensions secured, the largest was for Acacia prison in Western Australia for a further five years, and the second largest was for two further years to continue providing defence base support services at Goose Bay, Canada. Others included: the COMPASS extension for an additional 21 months; extending our support to the UK military satellite network, the Anglia Support Partnership healthcare shared services and several environmental services contracts; and in the Middle East for our operations for Australian Defence Force logistics and base support, healthcare facilities management in Saudi Arabia and Baghdad Air Navigation Services.

Win rates by volume were over 50% for new bids and over 90% for rebids and extensions. Win rates by value saw some modest improvement to over 20% for new work given the balance of outcomes on larger bids, and approximately 80% for securing existing work.

Order book
The Group's order book, excluding the discontinued Global Services division, now stands at an estimated £9.9bn, very similar to the £10.0bn reported at the end of 2015. There is £2.5bn of revenue in the order book for 2017, equivalent to over 80% visibility of our £3.1bn revenue guidance. The secured order book is £1.7bn for 2018 and £1.3bn for 2019.

Rebids
Through to the end of 2019, across the Group there are around 50 contracts in our order book with annual revenue of over £5m where an extension or rebid will be required, representing current annual revenue of over £1.3bn in aggregate or around 40% of the Group's forecast revenue for 2017 of £3.1bn. Contracts that could potentially end at some point by the end of 2017 have aggregate annual revenue of around £200m. In 2018, this increases to around £400m, with the greater amount driven in particular by the US Affordable Care Act contract becoming due for full rebid in that year, and with the next largest being Northern Isles Ferries. In 2019, it is around £700m, with Australian immigration services, COMPASS, PECS and the Dubai Metro also all expected to become due for rebid or potential extension.

Pipeline
Our pipeline is defined as new bid opportunities with estimated Annual Contract Value (ACV) of at least £10m or a Total Contract Value (TCV) of at least £100m, and which we expect to bid and to be adjudicated within a rolling 24-month timeframe. The TCV of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities. It is therefore a relatively small proportion of the total universe of opportunities, many of which either have annual revenues less than £10m, or are likely to be decided beyond the next 24 months, or are rebids and extensions. It should also be remembered that in the Americas in particular, we have numerous arrangements which are classed as 'IDIQ' – Indefinite Delivery / Indefinite Quantity – which are essentially framework agreements under which the customer issues task orders one at a time; whilst the ultimate value of such a contract may be very large and run over many years, the value is only recorded in our order book as individual task orders are contracted, and few of them would appear in the pipeline as they tend to be individually less than £10m and contracted on short lead times.

Following several years of decline in the value of the bid pipeline, in 2015 it began to grow again from its nadir of around £5bn, increasing to £6.5bn at the end of 2015, and stood at £8.4bn at the end of 2016. During 2016, £3bn came out of the pipeline reflecting wins and losses during the year, but this has been more than offset by adding new opportunities, particularly in defence in the US and justice in Australia. There are now around 30 bids in the pipeline, with the ACV averaging approximately £30m and a contract length averaging close to 10 years. Key opportunities in the pipeline are described further in the Divisional Reviews.

While our pipeline definition reflects bid decisions due over the next 24 months, it is important to note that over 80% of the current pipeline is expected to have bids adjudicated within the next 12 months. This is an unusually high degree of "front loading", and, if customers stick to their timescales, it is unlikely that we will be able to replace the around £7bn of bids that are likely to drop out of the pipeline during the year. We therefore think it likely that the value of the reported pipeline will drop in 2017; provided we win some of the bids that are to be decided this year, this is not a matter of concern: progress on growing our pipeline should not be expected to be a smooth progression given the effects of individual timings and scales of major bids.

Risks associated with the outcome of the UK's referendum on EU membership

Serco reported a year ago on the potential risk to its business if Britain left the EU. Following the outcome of the referendum we have further considered the risks and opportunities presented by Brexit.

First, we currently have contracts worth over £100m a year with European public bodies such as the European Commission, the European Space Agency and the European Central Bank; many of these contracts are executed by our subsidiaries based in continental Europe, and tenders are subject to strict European competition and bidding rules which should give us protection against unfair discrimination. So we think that these risks are likely to be capable of mitigation.

Secondly, we must consider how Brexit might affect our business with the British Central Government, which accounts for about a quarter of our revenue. Here, the picture is hard to discern. The senior Civil Service were, even before the Brexit vote, facing a major challenge implementing an agenda of reform designed to deliver the future efficiencies required to achieve the Government's plans to balance expenditure with income by the end of the decade. In addition to these tasks, the Civil Service is facing what is probably the most significant and wide-ranging changes in policy and delivery that it has seen since the post-war Atlee government, which created the

NHS and nationalised swathes of UK industry. At the moment, the focus is on supporting the Government in its Brexit negotiations, but very quickly attention will have to turn to designing and then implementing new policy across swathes of British administration: Immigration, Customs, Agriculture, Fisheries, Food, Research, Education, Energy, Environment, to name a few. In addition, equivalent European regulatory bodies will have to be created and staffed in the UK. This is going to be a huge test for the Civil Service, and it is currently unclear how it will be delivered, or how much support they will want from the private sector in this task.

The third area of possible impact would be in terms of our labour costs. Only 3% of our employees in the UK are Continental EU nationals, so the direct impact should be minimal. However, if there are severe restrictions on EU citizens working in the UK, this may have a wider impact on labour availability and cost.

Overall, we think that Brexit offers both risks and opportunities for Serco. However, the picture is unlikely to become clear in the short term. In the meantime, our long-term contracts and our role in providing critical public services should give us some protection from short-term vicissitudes. Most importantly, our strong presence in North America, the Middle East and Australia diversify our risk and give us choices as to where we invest our resources.

Guidance and outlook

In 2016, better trading performance and currency movements in the first half of the year led us to increase full-year guidance in both our May and August updates. This reflected primarily the successful resolution of a number of commercial matters and other factors not expected to repeat in subsequent periods, together with the benefit of foreign exchange movements. In December 2016, having completed our budget review process, we updated that our expectations for 2017 were unchanged on an underlying basis from those previously described, though an adjustment was required for the potential benefit of foreign exchange movements.

At current foreign exchange rates, our 2017 budget implies revenue of approximately £3.1bn and Underlying Trading Profit of between £65m and £70m, and with a weighting to the second half. Given that the first half of 2016 benefitted from a number of non-recurring items, Underlying Trading Profit in the first half of 2017 is expected to be significantly lower than the comparator period.

In regard to our budget and guidance, we reiterate that the range of potential outcomes for 2017 is significantly wider, both to the upside and downside, given Serco's low margins and the sensitivity of our profits to even small changes in revenues or costs. Furthermore, and as described in more detail in the Divisional Reviews, the outcome of major bids in our pipeline, and the timing and nature of arrangements made for the replacement of the Affordable Care Act in the US, could have a material impact on our business both in the immediate and longer term.

The trading outlook for 2018 will clearly come more into focus as we progress through 2017 in terms of bid activity and our other transformation actions. Our guidance is for margins to reduce in 2017, but we would expect to show some modest improvement year-on-year in 2018. Our path of margin improvement reflects the lag effect of delivering the net benefit of transformation efficiencies and the time it takes for new work to begin and deliver operational leverage of the cost base.

Although our cash tax rates are reasonably predictable, our accounting effective tax rates are likely to remain volatile; in 2015 the accounting underlying effective tax rate was 48%, in 2016 35%, and we expect it could revert back to around 50% in 2017. This will depend on the precise mix of profits and losses we see by jurisdiction. Any increase in our accounting tax rates will of course have an amplifying effect on the reduction in EPS caused by the lower Underlying Trading Profit expected in 2017.

Regarding cash flows for 2017, we expect our Underlying Trading Profit forecast will be broadly offset by the cash outflow on onerous contracts, given OCP utilisation budgeted of approximately £80m. With cash outflows for interest and tax forecast to be broadly similar to 2016, this would result in a Free Cash outflow at similar levels to the £33m seen in 2016, assuming all other cash effects are neutral such as the effect of joint ventures, capital expenditure versus depreciation, and of course working capital. The outcomes of new bids and rebids, and the associated timing of any change in operations, would impact these assumptions, particularly working capital. There will also continue to be a level of cash outflow on exceptional costs, potentially at a similar level to 2016, given further restructuring to support our transformation. In all, we therefore estimate that closing net debt at the end of 2017 could increase to between £150m and £200m, equivalent to leverage for covenant purposes of between 1.2x and 1.7x EBITDA.

Concluding thoughts

We continue to make good progress implementing our strategy through the three stages of our plan to 'Stabilise - Transform - Grow' which we set out in detail in early 2015. Our overarching objective is to make Serco a world-class international supplier of services to Government in our chosen sectors of Defence, Justice & Immigration, Transport, Health and Citizen Services. We completed the stabilisation of the business in 2014 and 2015. Since then, we have been transforming the business: reducing our operating costs, investing in systems, processes and people, building compelling service propositions and improving the quality of our operational delivery to customers. We start 2017 with a very healthy pipeline of new opportunities, but also with a lot of work yet to be done to successfully complete the 'Transform' stage of our plan. Armed with a strong balance sheet, skilled and committed colleagues, and a good track record of delivery against our objectives over the last two years, I remain confident that we are heading in the right direction.

Rupert Soames
Group Chief Executive Officer
Serco – and proud of it.

serco

Divisional Reviews

Serco's continuing operations are reported as five divisions: UK Central Government (CG); UK & Europe Local & Regional Government (LRG); the Asia Pacific region (AsPac); the Middle East; and the Americas. The Global Services division consists of Serco's residual private sector BPO operations, which for statutory reporting purposes are classified as discontinued operations following the previously announced strategic exit from this market and the subsequent disposal in December 2015 of the Intelenet business. Serco presents alternative measures to include the Revenue and Trading Profit of these discontinued operations for consistency with previous guidance. Reflecting statutory reporting, Serco's share of revenue from its joint ventures and associates is not included in revenue, while Serco's share of joint ventures and associates' profit after interest and tax is included in Trading Profit. As previously disclosed and for consistency with guidance, Serco's Underlying Trading Profit measure excludes Contract and Balance Sheet Review adjustments (principally OCP releases or charges), the benefit from not depreciating and amortising assets held for sale, and other one-time items such as those related to the early exit from the Thurrock contract.

Year ended 31 December 2016 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**678.6**	**696.5**	**619.7**	**324.8**	**691.4**	**-**	**3,011.0**	**36.8**	**3,047.8**
Change	*(9%)*	*(23%)*	*+14%*	*+11%*	*0%*	*-*	*(5%)*	*(89%)*	*(13%)*
Change at constant currency	*(9%)*	*(25%)*	*+2%*	*(1%)*	*(11%)*	*-*	*(11%)*	*(89%)*	*(19%)*
Organic change at constant currency	*(9%)*	*(25%)*	*+4%*	*(1%)*	*(11%)*	*-*	*(11%)*	*n/a*	*n/a*
Discontinued operations adjustment*	-	-	-	-	-	-	-	(36.8)	(36.8)
Revenue	**678.6**	**696.5**	**619.7**	**324.8**	**691.4**	**-**	**3,011.0**	**-**	**3,011.0**
Underlying Trading Profit/(Loss)	**52.2**	**(6.5)**	**24.9**	**16.6**	**43.0**	**(43.5)**	**86.7**	**(4.6)**	**82.1**
Change	*(2%)*	*n/a*	*+110%*	*(12%)*	*(3%)*	*(15%)*	*+6%*	*n/a*	*(14%)*
Change at constant currency	*(2%)*	*n/a*	*+85%*	*(20%)*	*(13%)*	*(15%)*	*(4%)*	*n/a*	*(23%)*
Margin	*7.7%*	*(0.9%)*	*4.0%*	*5.1%*	*6.2%*	*n/a*	*2.9%*	*(12.5%)*	*2.7%*
Contract and Balance Sheet Review adjustments	42.7	(7.4)	9.3	2.2	(36.6)	3.2	13.4	0.8	14.2
Benefit from not depreciating and amortising assets held for sale	-	-	-	-	-	-	-	0.5	0.5
Other one-time items	-	3.5	-	-	-	-	3.5	-	3.5
Trading Profit/(Loss)	**94.9**	**(10.4)**	**34.2**	**18.8**	**6.4**	**(40.3)**	**103.6**	**(3.3)**	**100.3**
Amortisation of intangibles arising on acquisition	(0.3)	-	(2.0)	-	(2.8)	-	(5.1)	-	(5.1)
Discontinued operations adjustment*	-	-	-	-	-	-	-	3.3	3.3
Operating profit/(loss) before exceptionals	**94.6**	**(10.4)**	**32.2**	**18.8**	**3.6**	**(40.3)**	**98.5**	**-**	**98.5**

* Statutory reporting only includes the post-tax result of discontinued operations as a single line in the Consolidated Income Statement.

Year ended 31 December 2015 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**742.1**	**905.8**	**544.7**	**291.4**	**693.0**	**-**	**3,177.0**	**337.6**	**3,514.6**
Discontinued operations adjustment*	-	-	-	-	-	-	-	(337.6)	(337.6)
Revenue	**742.1**	**905.8**	**544.7**	**291.4**	**693.0**	**-**	**3,177.0**	**-**	**3,177.0**
Underlying Trading Profit/(Loss)	**53.1**	**4.7**	**11.9**	**18.9**	**44.3**	**(51.3)**	**81.6**	**14.3**	**95.9**
Margin	*7.2%*	*0.5%*	*2.2%*	*6.5%*	*6.4%*	*n/a*	*2.6%*	*4.2%*	*2.7%*
Contract and Balance Sheet Review adjustments	7.1	(28.2)	46.9	8.5	(17.3)	3.3	20.3	0.6	20.9
Benefit from not depreciating and amortising assets held for sale	-	-	-	-	-	-	-	11.7	11.7
Other one-time items	-	9.0	-	-	-	-	9.0	-	9.0
Trading Profit/(Loss)	**60.2**	**(14.5)**	**58.8**	**27.4**	**27.0**	**(48.0)**	**110.9**	**26.6**	**137.5**
Amortisation of intangibles arising on acquisition	-	(1.1)	(1.2)	-	(2.5)	-	(4.8)	(0.1)	(4.9)
Discontinued operations adjustment*	-	-	-	-	-	-	-	(26.5)	(26.5)
Operating profit/(loss) before exceptionals	**60.2**	**(15.6)**	**57.6**	**27.4**	**24.5**	**(48.0)**	**106.1**	**-**	**106.1**

* Statutory reporting only includes the post-tax result of discontinued operations as a single line in the Consolidated Income Statement.

The trading performances and outlook are described for each division on the following pages. Reconciliations and further detail of financial performance are included in the Finance Review on pages 17 to 36. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 37 to 65.

UK Central Government

The UK Central Government division includes our UK operations in Defence, Justice & Immigration and Transport.

Revenue for 2016 was £678.6m (2015: £742.1m), a decline of 9%; reported revenue excludes that from our joint venture and associate holdings at AWE, Merseyrail and previously Northern Rail, with these representing the vast majority of the Group's activity in joint ventures and associates. The principal driver of the revenue reduction was the phased transfer back of services that Serco had previously been providing to the Defence Science and Technology Laboratory (DSTL), together with the end of the Defence Business Services arrangement, the loss of two small defence support contracts, and the ending of transitional support provided in 2015 regarding the supply of Electronic Monitoring equipment. There was limited growth elsewhere to offset contract attrition, with the largest being higher revenue on the COMPASS programme relating to increased numbers of asylum seekers under our care and the full-year impact of the Caledonian Sleeper contract which Serco began operating on 31 March 2015.

Underlying Trading Profit was £52.2m (2015: £53.1m), representing an implied margin of 7.7% (2015: 7.2%). Trading Profit includes the profit contribution (from which tax and interest have already been deducted) of joint ventures and associates; if the £439m proportional share of revenue from joint ventures and associates was also included and if the £7.3m share of interest and tax cost was excluded, the overall divisional margin would have been 5.3% (2015: 4.1%). The joint venture and associate profit contribution of £31.3m was £2.5m lower than 2015, reflecting the end of the Northern Rail franchise in March 2016 and the lower shareholding of AWE from the second half of the year. Outside of joint ventures and associates, Underlying Trading Profit increased by 8% to £20.9m, with the profit impact from contract attrition more than offset by increased profitability on continuing contracts and reductions in overheads. Within Underlying Trading Profit there was £37m of OCP utilisation (2015: £57m), which served to offset the Division's loss-making contracts principally COMPASS, Caledonian Sleeper and PECS. The reduced level of OCP utilisation reflects improving operational and financial performance on each of these loss-making contracts.

Contract and Balance Sheet Review adjustments resulted in a £42.7m net release, arising from reductions in our estimates of future liabilities. This was driven by a release of £34m for COMPASS, reflecting updated forecasts and the terms of the contract extension; this was partially offset by the OCP arising on the acquisition of sub-contractor operations. Other releases included those related to further improvements on the FPMS contract, the transfer of the secure escorting services contract for the Youth Justice Board which removed future losses, and the outcome of the re-pricing of the HMP Ashfield contract. Partially offsetting these was a charge to increase the PECS OCP to reflect an updated assumption that the customer will exercise one of three extension years, and some increased cost assumptions on the Caledonian Sleeper contract. After the Contract and Balance Sheet Review adjustments, Trading Profit was £94.9m (2015: £60.2m).

UK Central Government represented around £300m of the Group's aggregate total value of signed contracts during the year, which was driven by rebids and extensions including the 21-month COMPASS extension, the successful rebid to continue operating the London Cycle Hire scheme for at least a further five years, and smaller awards such as the Skynet 5 secure military satellite communications network contract and our testing support for the German Air Force fleet of Eurofighters. The only major new bid pipeline decision during the year was the tender to operate the Clyde and Hebrides Ferries Services; Serco was unsuccessful in this competition, with the operations remaining with the incumbent CalMac Ferries Limited.

An updated contract was also agreed in March 2016 between the Ministry of Defence and the joint venture partners of AWE Management Limited (AWE ML), setting out a framework through to 2025 and the programme of activity and pricing through to 2019. This followed the conclusion of the UK Government's review of the efficiency, effectiveness and value for money of the operations and contracting model for AWE. As part of the arrangements, the joint venture partners agreed that Lockheed Martin would take a majority shareholding in the joint venture, and the shareholdings of both Jacobs and Serco reduced accordingly from 33.3% to 24.5% from the beginning of September 2016. If Serco's new share of associate revenue were consolidated, the agreement for the next three year's pricing would be equivalent to an additional signed contract value for Serco of approximately £700m.

For 2017, we expect a low-to-mid single digit revenue decline based upon the net effect of known contract wins and losses and other assumed revenue movements. There will be a significantly greater reduction in profitability, reflecting the end of the Northern Rail joint venture and the commercial settlement benefits that arose from this in 2016, and the reduction in the contributions from AWE.

Of existing work where an extension or rebid will be required at some point before the end of 2019, there are ten contracts with annual revenue of over £5m within the UK Central Government division; in aggregate, these represent approximately 30% of the current level of annual revenue for the division. The largest of these are the

Northern Isles Ferries operations that would become due for potential extension or rebid in 2018, PECS which is now assumed to be rebid in 2019 if further extension options are not exercised by the customer, and COMPASS also in 2019.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes the Defence Fire & Risk Management Organisation, the operation of an immigration removal centre, immigration escorting for the Home Office, and the Hades Programme to provide various support services to the Ministry of Defence. Over the longer term, we continue to expect reform and improvement to the prison system, and for further opportunities in Defence and other areas to emerge as the UK Government continues its efforts to save cost and improve public services.

UK & Europe Local & Regional Government

The UK & Europe Local & Regional Government division (LRG) includes our UK Health and UK and European Citizen Services sectors. The Health business provides primarily non-clinical support services to hospitals; the Citizen Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to Local Authorities, and IT services to European institutions.

Revenue for 2016 was £696.5m (2015: £905.8m), a decline of 23%. At constant currency, the organic decline was 25%. The principal drivers of the revenue reduction were: the end of the Suffolk Community Healthcare and National Citizen Services contracts which had previously been heavily loss-making and were not rebid; changes to two health procurement contracts which are continuing but where we no longer recognise as revenue the cost of goods purchased on behalf of our customers; the full-year impact of the early exit from the Thurrock BPO services contract; the ending of certain infrastructure support services to private sector customers; and the reducing scale of the Child Maintenance Group operations. There was limited in-year revenue growth elsewhere to offset the effect of these planned contract ends and reductions.

There was an Underlying Trading Loss of £6.5m (2015: profit of £4.7m), representing a margin of -0.9% (2015: +0.5%). There was a reduction in profit contribution from contract attrition, and certain areas of cost investment to deliver longer term efficiencies more than offset other contract profitability improvements and cost savings during the year. In addition, there were £3m of impairments and write-downs on a European agency contract. Within Underlying Trading Profit there was £23m of OCP utilisation (2015: £11m non-exceptional), with the increase reflecting the losses on the Lincolnshire County Council operations as costs peaked with the implementation of the new ERP system; the contract is running broadly in line with expectations and the major elements of the IT implementation are now in service.

Contract and Balance Sheet Review adjustments resulted in a £7.4m net charge, reflecting a number of small adjustments in assumptions on OCP contracts. Separately, there was a one-time profit of £3.5m arising from a pension scheme settlement relating to the early exit from the Thurrock Council services in the previous year. After these adjustments and one-time profit, the Trading Loss was £10.4m (2015: Trading Loss of £14.5m).

LRG represented around £750m of the Group's aggregate total value of signed contracts during the year. The largest award reflects the initial seven-year value, estimated at £450m, for new services to Barts Health NHS Trust to deliver facilities management services across their hospitals. Of other major new bid pipeline decisions during the year, Serco was unsuccessful on a smaller health facilities management opportunity and two bids for environmental services. Other new but smaller wins included contact centre services for the Department of Work & Pensions. Successful rebids or extensions included: the Anglia Support Partnership healthcare shared services operations; environmental services for Woking Borough, Charnwood Borough and Canterbury City councils; regional employment support services for the Skills Funding Agency; contact centre and digital services support for Public Health England; and our support to institutions such as the European Space Agency and CERN.

For 2017, we expect a low-to-mid single digit revenue decline based upon the net effect of known contract wins and losses and other revenue movements including the change to the two health procurement contracts. Growth from the start of the major new contract for Barts is expected to be offset by other reductions. We expect that the division should though make progress on its profitability in 2017, as we see more benefits start to come through from actions to secure sustainable longer term improvements in efficiencies.

Of existing work where an extension or rebid will be required at some point before the end of 2019, there are 12 contracts with annual revenue of over £5m within the LRG division; in aggregate, these represent approximately 20% of the current level of annual revenue for the division; this excludes Glasgow ACCESS which is an assumed expiry in March 2018.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes further tenders for environmental services and hospital facilities management bids. We continue to evaluate developments in the other sectors of operation within LRG, including other Citizen Services work and to expand our European business providing various operational support to government agencies.

AsPac

Operations in the Asia Pacific division include Justice, Immigration, Defence, Health, Transport and Citizen Services in Australia, New Zealand and Hong Kong. Serco's operations in Australia are by far the largest element of the division; the country represents approximately 20% of total Revenue for the Group.

Revenue for 2016 was £619.7m (2015: £544.7m), an increase of 14%. In Australian dollars, the main currency for operations of the division, revenue for the year was equivalent to approximately A$1,140m (2015: A$1,106m). The movements in local currencies against Sterling increased revenue by £64m or 12%, while the impact of disposals (the Great Southern Rail business disposed in May 2015) reduced revenue by £10m or 2%; the organic growth at constant currency was therefore 4%. There were some increases in revenue in relation to the renegotiation of the Armidale Class Patrol Boat (ACPB) contract as well as scope increases to existing services such as Citizen Services contact centre operations and the expansion of Acacia prison. Revenue from Australian immigration services was broadly flat.

Underlying Trading Profit was £24.9m (2015: £11.9m), representing a margin of 4.0% (2015: 2.2%). The improvement in profitability included: a favourable currency movement of £3m; a loss on the Mount Eden Correctional Facility contract in 2015 that was offset in 2016 by the subsequent OCP; and progress on cost efficiencies that more than offset other cost and margin pressures. Within Underlying Trading Profit there was £12m of OCP utilisation (2015: £20m), with significantly lower losses on the ACPB contract partially offset by increased utilisation on the Mount Eden contract.

Contract and Balance Sheet Review adjustments resulted in a £9.3m net release, driven by revised assumptions on the residual period of operation of the ACPB contract, which concludes in 2017. After these adjustments, Trading Profit was £34.2m (2015: £58.8m).

AsPac represented around £600m of the Group's aggregate total value of signed contracts during the year. The largest new order, valued at approximately £160m, was to project manage the design and build phase, and subsequently operate, the new 'icebreaker' Antarctic Supply and Research Vessel for the Australian Department of the Environment. There was also the extension of two corrections contracts with the Queensland and Western Australian governments, valued in total at approximately £200m, and the successful rebid of hospital facilities management services in Hong Kong.

For 2017, our expectations are an approximate 10% revenue decline on an organic basis, based upon the net effect of known contract wins and losses and other assumed revenue movements. This is driven by the loss of the ACPB, Mount Eden and Western Australia Court Security and Custodial Services contracts. The estimated currency benefit based on current exchange rates would largely offset the forecast organic decline.

Of existing work where an extension or rebid will be required at some point before the end of 2019, there are seven contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent approximately 50% of the current level of annual revenue for the division; this high proportion reflects that the Australia onshore immigration services contract requires rebid or extension at the end of 2019, with this accounting for over 30% of current divisional revenue.

Our pipeline of major new bid opportunities due for decision within the next 24 months now includes three prison bids and additional opportunities in case management and defence support services. Looking beyond, further potential opportunities in Justice, Citizen Services, Defence, Transport and non-clinical health services are expected to be developed over time.

Middle East

Operations in the Middle East division include Transport, Defence, Health and Citizen Services.

Revenue for 2016 was £324.8m (2015: £291.4m), an increase of 11%. The strengthening of local currencies against Sterling provided growth of £36m or 12%; the organic decline at constant currency was 1%. There was revenue growth from increased volumes on a defence logistics contract, expanded healthcare support services and at the Dubai Metro; these were broadly offset by reduced revenue on the Dubai Air Navigation Services contract and a small number of other operations reducing in scope or ending.

Underlying Trading Profit was £16.6m (2015: £18.9m), representing a margin of 5.1% (2015: 6.5%). There was some improvement in profitability from higher defence logistics volumes and the £1.4m favourable currency movement; these were more than offset by the impact of other contract scope reductions and attrition, together with significant investment in business development and bidding the major rail opportunities in the region. Within Underlying Trading Profit, OCP utilisation was immaterial.

Contract and Balance Sheet Review adjustments resulted in a £2.2m net release. After these adjustments, Trading Profit was £18.8m (2015: £27.4m).

The Middle East represented over £200m of the Group's aggregate total value of signed contracts during the year. Although no major new bid pipeline decisions were due, smaller awards included a new contract to maintain and support a large part of Dubai Airport buildings and infrastructure, and further contracts for defence base support and healthcare facilities management in the region. Amongst rebids and extensions secured were further extensions for Middle East Logistics and Base Support (MELABS) to the Australian Defence Force in the region, healthcare facilities management in Saudi Arabia and Abu Dhabi, and Baghdad Air Navigation Services.

For 2017, there is a relatively modest net effect expected from already known contract wins and losses. However, progress on retaining existing work, and particularly the cost to progress and the outcomes of the major new bid opportunities in the region, will ultimately determine financial performance in the coming year.

Of existing work where an extension or rebid will be required at some point before the end of 2019, there are ten contracts with annual revenue of over £5m within the Middle East division; in aggregate, these represent more than half of the current level of annual revenue for the division. There is a high proportion of work to secure in 2019, when the Dubai Metro, MELABS and Cleveland Clinic Abu Dhabi contracts each require extending or rebidding.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes three major light rail and tram operations in the region; in aggregate, these represent approximately 30% of the value of the Group's pipeline. There are other smaller opportunities in defence training and support services and in non-clinical health facilities management support in the current pipeline, and the Transport, Defence, Health and other Citizen Services including integrated facilities management continue to be potentially high growth markets in the region.

Americas

Our Americas division provides professional, technology and management services focused on Defence, Transport, and Citizen Services. The US federal government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to some US state and municipal governments.

Revenue for 2016 at £691.4m was broadly flat (2015: £693.0m). In US dollars, the main currency for operations of the division, revenue for the year was equivalent to approximately US$944m (2015: US$1,061m). The strengthening of local currencies against Sterling increased revenue by £74m or 11%, with the organic decline at constant currency also being 11%. The principal drivers of the revenue reduction were the loss of the rebid for record processing at the National Benefits Centre and the transition back to the customer of the VDOT operations, together with a number of other smaller contract ends, or reductions in the volume of workload or task orders. There was limited growth elsewhere to offset these reductions.

Underlying Trading Profit was £43.0m (2015: £44.3m), representing a margin of 6.2% (2015: 6.4%). The decline was driven by contract attrition and areas of cost investment, which was only partially offset by a £4.6m favourable currency movement and other cost efficiencies. Within Underlying Trading Profit there was £9m (2015: £10m) of OCP utilisation on the completed VDOT contract and the Ontario Driver Examination Services contract.

Contract and Balance Sheet Review adjustments resulted in a £36.6m net charge. This was driven by the £29.5m revision to estimates of future costs and foreign exchange impacts associated with the existing OCP for the IT systems implementation and ongoing management of the Ontario Driver Examination Services contract; in addition to the increase in the OCP there was an £8.8m charge reflecting a reduction in the accrued revenue balance for the contract. After the Contract and Balance Sheet Review adjustments, Trading Profit was £6.4m (2015: £27.0m).

Americas represented over £600m of the Group's aggregate total value of signed contracts during the year. Awards for new work included a US Air Force High Altitude Electromagnetic Pulse (HEMP) Protection of Ballistic Missile Early Warnings Systems radar facility upgrade contract at Thule Air Base in Greenland, and a support contract for the US State of Louisiana Department of Transportation (LADOT) Motorist Assistance Program. Defence task orders awarded during the year, driven by our ship and shore/base modernisation services, totalled over US$260m, which includes expanding our recently awarded support services to the US Naval Facilities Engineering Command (NAVFAC). Our bids to support passport processing for the Department of State and data reporting for the Department of Health and Human Services were unsuccessful. Amongst rebids, Serco secured its operations to continue providing site support services at the 5 Wing Canadian Forces Base in Goose Bay, Canada, valued at C$115m for the initial two-year period.

For 2017, our expectations are low-to-mid single digit revenue growth on an organic basis, based upon the net effect of known contract wins and losses and other assumed revenue movements. The estimated currency benefit based on current exchange rates would increase this to potentially 10-15% growth. The outcome for 2017 could however materially change depending on developments affecting our contract supporting the US Affordable Care Act (ACA); these operations accounted for approaching 30% of divisional revenue in 2016, and we currently forecast them to be broadly flat in 2017; whilst margins on this contract are lower than the average for the Division, the contract recovers a material amount of overhead costs and large reductions in chargeable direct labour could create challenges to reduce overheads in line with revenues. At the time of reporting, apart from knowing that under the new Administration changes will be made, there is no consensus in either Congress or the Administration as to what form these changes will take, and what provision will be made for the more than 24 million people who have received health insurance coverage through the ACA.

Of existing work where an extension or rebid will be required at some point before the end of 2019, there are eight contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent around 50% of the current level of annual revenue for the division; this high proportion reflects that our contract supporting the ACA requires the final option year to be exercised though to 30 June 2018 and then would be required to be rebid; the Global Installation Contract covering areas of our defence ship modernisation work also requires securing in 2019.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes important opportunities to provide various support functions to the US Navy, as well as other bids in transport operational support, Citizen Services processing and immigration services that have been added over the year. Whilst particular uncertainty exists with regard to the future of the ACA potentially in 2017 and more so beyond, under the new US administration other areas of public service support may generate further improvement in market conditions over time.

Dan Allen, Chief Executive Officer of the Americas division, has informed the business of his intention to retire from work in mid-2017. Dan joined Serco in 2013 and we thank him for the successful leadership and direction he has provided, and wish him well for the future.

Corporate Costs

Corporate costs relate to typical central function costs of running the Group, including executive, governance and support functions such as HR, finance and IT. Where appropriate, these costs are stated after allocation of recharges to operating divisions. The costs of Group-wide programmes and initiatives are also incurred centrally.

Corporate costs in 2016, before Contract and Balance Sheet Review adjustments, were £43.5m (2015: £51.3m), with the 15% reduction including the benefit of actions taken to deliver savings and improve the efficiency of our overall operating model.

Contract and Balance Sheet Review adjustments resulted in a £3.2m net release. After these adjustments, Corporate Costs within Trading Profit were £40.3m (2015: £48.0m).

Global Services (discontinued operations)

The Global Services division consists of Serco's private sector BPO business, performing middle and back office functions across customer contact, transaction and financial processing. As part of Serco's previously announced strategy to exit non-core markets and to focus on the provision of public services, Serco has been exiting these operations. On 31 December 2015, the transaction to dispose of the majority of the offshore private sector BPO operations was completed; the businesses sold contributed over £300m of revenue and £23m of Underlying Trading Profit in 2015, and were sold for a gross consideration of approximately £250m. There were two smaller associated transactions relating to operations in the Middle East, both of which were completed in 2016. The remaining private sector operations, which are predominantly UK onshore operations, are being exited either by further disposals, transfers, early termination or running-off the contracts over their remaining contractual period.

For statutory reporting purposes, the Global Services division is classified as discontinued operations, therefore only the post-tax result of these operations is included as a single line in the reporting of the Group's Income Statement. However, for consistency with previous guidance, Serco's underlying measures include the Revenue and Trading Profit of these discontinued operations.

Revenue was £36.8m (2015: £337.6m), with the decline reflecting the disposals and exits in 2015 and 2016.

The Underlying Trading Loss for 2016 was £4.6m (2015: Underlying Trading Profit of £14.3m). The loss in 2016 reflects the residual contract losses up to the point of exit together with the effect of 'stranded' shared service centre costs and other overheads previously absorbed by the Global Services division. Within Underlying Trading Profit, there was £3m of OCP utilisation.

Contract and Balance Sheet Review adjustments resulted in a £0.8m net release. As the division included assets designated as held for sale, there is a benefit of not charging depreciation and amortisation of £0.5m. After these Contract and Balance Sheet Review adjustments and held for sale benefits, the Trading Loss was £3.3m.

Over the course of 2016, we ran ahead of our plans to mitigate the losses and stranded costs, which were initially anticipated to be approximately £10m in 2016. The Freeman Grattan Holdings and BrightHouse contracts together with the associated Sheffield facilities were transferred to a new provider during the first half of the year; the Aegon contract together the associated Lytham St Annes facilities were transferred in the second half. Our only remaining contract is that for direct home shopping company JD Williams. For 2017, no material residual financial effect is therefore forecast.

Finance Review

For the year ended 31 December	2016 £m	2015 (restated*) £m
Revenue from continuing and discontinued operations	**3,047.8**	3,514.6
Exclude revenue from discontinued operations	**(36.8)**	(337.6)
Reported Revenue (continuing activities only)	**3,011.0**	3,177.0
Underlying Trading Profit*	**82.1**	95.9
Onerous contract and Balance Sheet Review adjustments	**14.2**	20.9
Benefit from non-depreciation and non-amortisation of assets held for sale	**0.5**	11.7
Other one-time items	**3.5**	9.0
Trading Profit on continuing and discontinued operations*	**100.3**	137.5
Other expenses – amortisation and impairment of intangibles arising on acquisition	**(5.1)**	(4.9)
Operating profit before exceptional items on continuing and discontinued operations*	**95.2**	132.6
Exclude operating loss / (profit) before exceptional items arising on discontinued operations	**3.3**	(26.5)
Operating profit before exceptional items*	**98.5**	106.1
Exceptional profit / (loss) on disposal of subsidiaries and operations	**2.9**	(2.6)
Other exceptional operating items	**(59.2)**	(107.3)
Exceptional operating items	**(56.3)**	(109.9)
Reported operating profit / (loss)*	**42.2**	(3.8)
Investment revenue	**9.3**	6.1
Finance costs*	**(21.9)**	(38.9)
Exceptional finance costs	**-**	(32.8)
Total net finance costs*	**(12.6)**	(65.6)
Profit / (loss) before tax	**29.6**	(69.4)
Tax on profit before exceptional items	**(15.8)**	(17.9)
Tax on exceptional items	**3.1**	0.4
Tax charge	**(12.7)**	(17.5)
Profit / (loss) for the year from continuing operations	**16.9**	(86.9)
Loss for the year from discontinued operations	**(18.0)**	(66.2)
Loss for the year	**(1.1)**	(153.1)

* As explained below, profit measures down to reported operating profit have been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements, including them instead in net finance costs.

For the year ended 31 December	2016	2015
Underlying trading margin from continuing and discontinued operations	**2.7%**	2.7%
Underlying earnings per share from continuing and discontinued operations	**4.13p**	3.44p
Earnings per share before exceptional items from continuing and discontinued operations	**6.12p**	6.55p
Loss per share from continuing and discontinued operations	**(0.11p)**	(15.47p)

Change in accounting policy for foreign exchange movements on investment and financing activities

In order to provide more relevant information about the impact of the underlying transactions of trading operations, the accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements has been changed. These movements are now excluded from Trading Profit and included instead within net finance costs. As a result of this change in accounting policy, the prior year income statement and cash flow statement have been restated, together with the definition of Net Debt which now includes derivatives relating to Net Debt components. The impact of this restatement has been to decrease Trading Profit in the year by £1.2m (2015: decrease by £0.1m), with an equal and opposite impact recognised within net finance costs, decrease Free Cash Flow by £47.0m (2015: decrease by £19.3m), with an equal and opposite impact recognised below Free Cash Flow, and decrease Net Debt by £18.1m (2015: decrease by £14.6m).

Alternative Performance Measures (APMs) and other related definitions

APMs used by the Group are reviewed below to provide a definition and reconciliation from each non-IFRS APM to its IFRS equivalent, and to explain the purpose and usefulness of each APM.

In general, APMs are presented externally to meet investors' requirements for further clarity and transparency of the Group's financial performance. The APMs are also used internally in the management of our business performance, budgeting and forecasting, and for determining Directors' remuneration and that of other management throughout the business.

APMs are non-IFRS measures. Where additional revenue is being included in an APM, this reflects revenues presented elsewhere within the reported financial information, except where amounts are recalculated to reflect constant currency. Where items of profits or costs are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual profits or costs of the Group. As a result, APMs allow investors and other readers to review different kinds of revenue, profits and costs and should not be used in isolation. Other commentary within the preliminary announcement, including the other sections of this Finance Review, as well as the Condensed Consolidated Financial Statements and their accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

The methodology applied to calculating the APMs has not changed during the year for any measure, but the APMs do reflect the impact of the prior year restatement.

Reported Revenue at constant currency

Reported Revenue, as shown on the Group's Condensed Consolidated Income Statement on page 37, reflects revenue translated at the average exchange rates. In order to provide a comparable movement on the previous year's results, Reported Revenue is recalculated by translating non-Sterling values for the year to 31 December 2016 into Sterling at the average exchange rate for the year ended 31 December 2015.

For the year ended 31 December	2016 £m
Reported Revenue at constant currency (continuing activities only)	**2,823.0**
Foreign exchange differences	**188.0**
Reported Revenue at reported currency (continuing activities only)	**3,011.0**

Organic Revenue at constant currency

Reported Revenue may include revenue generated by businesses acquired during a particular year and/or generated by businesses sold during a particular year up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals on the previous year's results, Reported Revenue is recalculated by excluding the impact of any acquisitions or disposals. For 2016, no adjustment is required as no acquisitions generated third party revenues and all disposals are included in discontinued operations. Therefore organic revenue growth is calculated by comparing Reported Revenue at constant currency with Prior Year Organic Revenue at reported currency.

Prior Year Organic Revenue at reported currency is calculated as follows:

For the year ended 31 December	2015 £m
Organic Revenue at reported currency	3,166.6
Impact of any acquisitions or disposals on reported revenue at reported currency	10.4
Reported Revenue at reported currency (continuing activities only)	3,177.0

Revenue from continuing and discontinued operations

Reported Revenue, as shown on the Group's Condensed Consolidated Income Statement on page 37, reflects only that from continuing operations, with the post tax result of discontinued operations consolidated as a single line at the bottom of the Condensed Consolidated Income Statement. Discontinued operations reflect the former Global Services division which consisted of our private sector BPO operations. The alternative measure includes discontinued operations for the benefit of consistency with previously reported results and to reflect the overall change in scale of the Group's operations. The alternative measure allows the performance of the discontinued

operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post tax result.

For the year ended 31 December	2016 £m	2015 £m
Revenue from continuing and discontinued operations	**3,047.8**	3,514.6
Exclude revenue from discontinued operations	**(36.8)**	(337.6)
Reported Revenue (continuing activities only)	**3,011.0**	3,177.0

Revenue from continuing operations, including share of joint ventures and associates

Reported Revenue, as shown on the Group's Condensed Consolidated Income Statement on page 37, excludes the Group's share of revenue from joint ventures and associates, with Serco's share of profits in joint ventures and associates (net of interest and tax) consolidated within Reported Operating Profit as a single line further down the Condensed Consolidated Income Statement. The alternative measure includes the share of joint ventures and associates for the benefit of reflecting the overall change in scale of the Group's ongoing operations, which is particularly relevant for evaluating Serco's presence in market sectors such as Defence and Transport. The alternative measure allows the performance of the joint venture and associate operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post tax result.

For the year ended 31 December	2016 £m	2015 £m
Revenue from continuing operations, including share of joint ventures and associates	**3,491.8**	3,914.2
Exclude share of revenue from joint ventures and associates	**(480.8)**	(737.2)
Reported Revenue (continuing activities only)	**3,011.0**	3,177.0

Trading Profit

The Group uses Trading Profit as an alternative measure to Reported Operating Profit, as shown on the Group's Condensed Consolidated Income Statement on page 37, by making three adjustments. Trading Profit is a metric used to determine the performance and remuneration of the Executive Directors.

Firstly, Trading Profit excludes exceptional items, being those considered material, non-recurring and outside of the normal operating practice of the Company to be suitable of separate presentation and detailed explanation.

Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgements about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice.

Thirdly, the Trading Profit of discontinued operations is included, since as with our alternative measure of revenue, this benefits from consistency with previously reported results, reflects the overall change in scale of the Group's operations and takes account of the performance of the discontinued operations themselves. This allows their impact on the Group as a whole to be evaluated on measures other than just the post tax result.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Underlying Trading Profit*	**82.1**	95.9
Include OCP charges and releases	**9.6**	(3.0)
Include Contract and Balance Sheet Review adjustments	**4.6**	23.9
Include benefit from non-depreciation and amortisation of assets held for sale	**0.5**	11.7
Include other one-time items	**3.5**	9.0
Trading Profit*	**100.3**	137.5
Include operating exceptional items (continuing operations only)	**(56.3)**	(109.9)
Include amortisation and impairment of intangibles arising on acquisition	**(5.1)**	(4.9)
Exclude Trading Loss / (Profit) from discontinued operations	**3.3**	(26.5)
Reported Operating Profit / (Loss) (continuing activities only)*	**42.2**	(3.8)

* Profit measures down to Reported Operating Profit have been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements, including them instead in net finance costs.

Underlying Trading Profit (UTP)

The Group uses a further alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur within Trading Profit and remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current year. For 2016 and 2015 there were four items excluded from UTP.

Firstly, the releases and charges on all OCPs are excluded. OCP charges and releases reflect the future multiple year cost of delivering onerous contracts and do not relate to the current year cost of operating the contract. It should be noted that, as for Reported Operating Profit, UTP benefits from OCP utilisation (of £84.2m in 2016 and £114.1m in 2015) which neutralises the in-year losses on previously identified onerous contracts, therefore it is only the initial or subsequent charges or releases of OCPs that are adjusted for.

Secondly, those items relating to Contract and Balance Sheet Review are excluded as they arise from changing estimates on the outcome of historical issues which were originally identified during the 2014 review. Both OCP adjustments and Contract and Balance Sheet Review adjustments are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items. Contract and Balance Sheet Review adjustments are expected to be insignificant in future periods and will no longer be reported separately in 2017 and beyond unless they are individually material.

Thirdly, the benefit of depreciation and amortisation charges not being taken in the Group accounts in relation to assets held for sale are excluded. Such charges are still being taken in the subsidiary accounts to reflect the reduction in value of the underlying assets, and we consider it relevant to show the effect this would have on the Group performance measure.

Finally, any other significant items that have a one-time financial impact are excluded, which for the periods under review are the benefit of a profit on early exit of a UK local authority contract in 2015 and the associated one-time pension settlement in 2016. These one-time items are distinct from exceptional items in that they have arisen from normal contract exit conditions. However, consistent with the treatment of the gain from early contract exit recorded in 2015, these items are adjusted through UTP to provide a comparable measure.

Underling trading margin is calculated as UTP divided by revenue from continuing and discontinued operations.

UTP at constant currency

UTP disclosed above has been translated at the in-year average foreign exchange rates. In order to provide a comparable movement on the previous year's results, UTP is recalculated by translating non-Sterling values for the year to 31 December 2016 into Sterling at the average exchange rate for the year ended 31 December 2015.

For the year ended 31 December	2016 £m
Underlying Trading Profit at constant currency	**73.4**
Foreign exchange differences	**8.7**
Underlying Trading Profit at reported currency	**82.1**

Earnings Per Share (EPS) from continuing and discontinued operations before exceptional items

EPS from continuing and discontinued operations, as shown on the Group's Condensed Consolidated Income Statement on page 37, includes exceptional items charged or credited to the income statement in the year. EPS before exceptional items aids consistency with historical results and is a metric used in assessing the performance and remuneration of the Executive Directors.

For the year ended 31 December	2016 pence	2015 pence
EPS from continuing and discontinued operations before exceptional items	**6.12**	6.55
Impact of exceptional items	**(6.23)**	(22.02)
Reported EPS from continuing and discontinued operations, basic	**(0.11)**	(15.47)

Underlying EPS from continuing and discontinued operations

Reflecting the same adjustments made to Reported Operating Profit to calculate UTP as described above, and including the related tax effects of each adjustment, an alternative measure of EPS is presented below. This aids consistency with historical results, and enables performance to be evaluated before the unusual or one-time effects described above.

For the year ended 31 December	2016 earnings £m	2016 per share	2015 earnings (restated*) £m	2015 per share (restated*)
Underlying Trading Profit*	**82.1**	**7.54p**	95.9	9.72p
Investment revenue, continuing and discontinued operations	**9.3**	**0.85p**	8.2	0.83p
Finance costs, continuing and discontinued operations*	**(21.9)**	**(2.01p)**	(40.1)	(4.07p)
Tax on underlying profit after finance costs	**(24.4)**	**(2.24p)**	(30.5)	(3.09p)
Non-controlling interests	**(0.1)**	**(0.01p)**	0.5	0.05p
Underlying EPS, basic	**45.0**	**4.13p**	34.0	3.44p
Include OCP charges and releases	**9.6**	**0.88p**	(3.0)	(0.30p)
Include Contract and Balance Sheet Review adjustments	**4.6**	**0.42p**	23.9	2.42p
Include benefit from non-depreciation and amortisation of assets held for sale	**0.5**	**0.05p**	11.7	1.19p
Include other one-time items	**3.5**	**0.32p**	9.0	0.92p
Include amortisation and impairment of intangibles arising on acquisition	**(5.1)**	**(0.47p)**	(4.9)	(0.50p)
Include tax impact of non-underlying items	**8.5**	**0.78p**	(6.1)	(0.62p)
Remove impact of exceptional items, net of tax	**(67.8)**	**(6.23p)**	(217.2)	(22.02p)
Reported loss per share from continuing and discontinued operations, basic	**(1.2)**	**(0.11p)**	(152.6)	(15.47p)

* Profit measures down to Reported Operating Profit have been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements, including them instead in net finance costs.

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect net cash inflow from operating activities before exceptional items, which is the measure shown on the Condensed Consolidated Cash Flow Statement on page 41, but adjusting this IFRS measure to include dividends we receive from joint ventures and associates and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases. FCF is considered relevant to reflect the cash performance of business operations after meeting usual obligations of financing and tax. It is therefore a measure that is before all other remaining cash flows, being those related to exceptional items, acquisitions and disposals, other equity-related and debt-related funding movements, and foreign exchange impacts on financing and investing activities. FCF is therefore a measure to assess the cash flow generated by the business and aids consistency for comparison to historical results. FCF is a metric used to determine the performance and remuneration of the Executive Directors.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Free Cash Flow*	**(33.0)**	(35.5)
Exclude dividends from joint ventures and associates	**(40.0)**	(32.5)
Exclude net interest paid	**18.7**	31.3
Exclude capitalised finance costs paid	**0.3**	1.4
Exclude purchase of intangible and tangible assets net of proceeds from disposal	**31.6**	72.5
Cash flow from operating activities before exceptional items*	**(22.4)**	37.2
Exceptional operating cash flows	**(39.9)**	(56.6)
Cash flow from operating activities*	**(62.3)**	(19.4)

* Free Cash Flow has been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements.

UTP cash conversion

FCF as defined above includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UTP, Trading Cash Flow is derived from the FCF by excluding tax and interest items. UTP cash conversion therefore provides a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Free Cash Flow*	**(33.0)**	(35.5)
Add back:		
Tax paid	**5.6**	2.7
Non-cash R&D expenditure	**0.4**	0.7
Interest received	**(1.4)**	(3.4)
Interest paid	**20.1**	34.7
Capitalised finance costs paid	**0.3**	1.4
Trading Cash Flow*	**(8.0)**	0.6
Underlying Trading Profit*	**82.1**	95.9
Underlying Trading Profit cash conversion* **	**N/A**	0.6%

* As explained above, FCF and UTP have been restated, resulting in a restatement of Trading Cash Flow and the Underlying Trading Profit cash conversion.
** No Underlying Trading Profit cash conversion is given in 2016 as a negative Trading Cash Flow has arisen.

Net Debt including assets held for sale

We present an alternative measure to bring together the various funding sources that are included on the Group's Condensed Consolidated Balance Sheet on page 40 and the accompanying notes regarding loans receivable and funding sources within assets held for sale. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt like items, including any derivatives entered into in order to manage risk exposures on these items.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Cash and cash equivalents	**177.8**	323.6
Loans receivable	**22.9**	19.9
Loans payable	**(299.9)**	(381.9)
Obligations under finance leases	**(28.2)**	(43.8)
Derivatives relating to Net Debt	**18.1**	14.6
Net Debt (excluding assets and liabilities held for sale)*	**(109.3)**	(67.6)
Net Debt balances within assets held for sale	**-**	4.7
Net Debt (including that for assets and liabilities held for sale)*	**(109.3)**	(62.9)

* Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt.

Pre-tax Return on Invested Capital (ROIC)

ROIC for the year ended 31 December 2016 is a measure used to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UTP and Trading Profit using the Income Statement for the year and a two point average of the opening and closing balance sheets. The composition of Invested Capital and calculation of ROIC are summarised in the table below.

For the year ended 31 December	2016 £m	2015 (restated*) £m	2014 £m
Non-current assets			
Goodwill	**577.9**	509.9	541.5
Other intangible assets	**83.6**	89.8	118.8
Property, plant and equipment	**69.3**	73.2	38.4
Interest in joint ventures and associates	**14.4**	13.8	1.6
Trade and other receivables	**44.4**	50.2	38.1
Current assets			
Inventory	**22.4**	26.4	31.2
Trade and other receivables	**543.5**	519.7	498.8
Assets classified as held for sale		39.8	564.7
Total invested capital assets	**1,355.5**	1,322.8	1,833.1
Current liabilities			
Trade and other payables	**(524.5)**	(548.8)	(581.9)
Assets classified as held for sale		(32.5)	(219.9)
Non-current liabilities			
Trade and other payables	**(16.8)**	(18.3)	(29.7)
Total invested capital liabilities	**(541.3)**	(599.6)	(831.5)
Invested capital	**814.2**	723.2	1,001.6
Two point average of opening and closing invested capital	**768.7**	862.4	
Trading Profit*	**100.3**	137.5	
ROIC%*	**13.0%**	15.9%	
Underlying Trading Profit*	**82.1**	95.9	
Underlying ROIC%*	**10.7%**	11.1%	

* Profit measures have been restated following the change in accounting policy to include foreign exchange movements on investment and financing arrangements in net finance costs. As a result, TP, ROIC, UTP and Underlying ROIC have been restated.

Overview of financial performance

Revenue

Reported Revenue declined by 5% in the year to £3,011.0m (2015: £3,177.0m), an 11% reduction in constant currency.

Revenue including that arising from operations classified as discontinued declined by 13% in the year to £3,047.8m (2015: £3,514.6m). Commentary on the revenue performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Trading Profit

Trading Profit for the year was £100.3m (2015 restated: £137.5m), a 27% reduction year-on-year which includes the Trading Loss arising on discontinued operations of £3.3m (2015: profit of £26.6m). Commentary on the trading performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Underlying Trading Profit

UTP was £82.1m (2015 restated: £95.9m), down 14%. At constant currency UTP was £22.5m lower than 2015 at £73.4m, with a movement of £18.9m relating to the results of discontinued operations. Commentary on the underlying performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Excluded from UTP were net releases from OCPs of £9.6m (2015: net charges of £3.0m) following the annual reassessment undertaken as part of the budgeting process. Also excluded from UTP were net releases of £4.6m (2015: net releases of £23.9m) relating to other provisions and accruals for items identified during the 2014 Contract and Balance Sheet Review. UTP also excludes the benefit arising from the non-depreciation of assets classified as held for sale. In 2016, depreciation and amortisation of £0.4m and £0.1m respectively (2015: £10.0m and £1.7m) was not charged to Reported Operating Profit on assets held for sale.

Other one-time items excluded from UTP relate to the early exit of a UK Local Authority contract in 2015 in lieu of anticipated profits in future years, net of direct costs, impairments and other charges. During 2016 the other one-time profit recorded relates to a pension scheme settlement in respect of the same contract that was agreed in the year.

Discontinued operations

The Global Services division, representing private sector BPO operations, was classified as a discontinued operation in 2015. The completion of the sale of the majority of the offshore private sector BPO business occurred in December 2015. Disposal of one of the two remaining elements of the offshore business was completed in March 2016 and the final element completed in December 2016. The residual UK onshore private sector BPO operations have been sold, or have been exited early with the exception of one business where completion is expected within the next twelve months.

The results of discontinued operations were as follows:

For the year ended 31 December	2016 £m	2015 £m
Revenue	**36.8**	337.6
Underlying Trading (Loss) / Profit	**(4.6)**	14.3
Onerous contract and Balance Sheet Review adjustments	**0.8**	0.6
Benefit from non-depreciation and non-amortisation of assets held for sale	**0.5**	11.7
Trading (Loss) / Profit	**(3.3)**	26.6
Amortisation and impairment of intangibles arising on acquisition	**-**	(0.1)
Operating (loss) / profit before exceptional items	**(3.3)**	26.5
Exceptional (loss) / gain on disposal of subsidiaries and operations	**(2.8)**	5.4
Other exceptional operating items	**(11.4)**	(83.0)
Exceptional operating items	**(14.2)**	(77.6)
Operating loss	**(17.5)**	(51.1)
Investment revenue	**-**	2.1
Finance costs	**-**	(1.2)
Exceptional finance costs	**(0.4)**	-
Total net finance costs	**(0.4)**	0.9
Loss before tax	**(17.9)**	(50.2)
Tax on (loss) / profit before exceptional items	**(0.1)**	(18.7)
Tax on exceptional items	**-**	2.7
Tax charge	**(0.1)**	(16.0)
Net loss on discontinued operations (attributable to equity owners of the Company) as presented in the income statement	**(18.0)**	(66.2)

Joint ventures and associates – share of results

In 2016 the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited, Merseyrail Services Holding Company Limited and Northern Rail Holdings Limited, with dividends of £19.6m (2015: £17.8m), £7.3m (2015: £7.2m) and £10.0m (2015: £5.9m) respectively received from these companies. Total revenues generated by these three businesses were £968.1m (2015: £978.3m), £150.3m (2015: £155.1m) and £132.7m (2015: £585.3m) respectively. The Northern Rail franchise ended on 31 March 2016. From September 2016 there was a change in the AWE Management Limited shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% by way of a return of shares, for which the Group was paid an amount equal to the reduction in the net investment held of £1.6m and therefore no profit or loss on disposal was made.

While the revenues and individual line items are not consolidated in the Group's Condensed Consolidated Income Statement, summary financial performance measures for our proportion of the aggregate of all joint ventures and associates are set out below for information purposes.

For the year ended 31 December	2016 £m	2015 £m
Revenue	**480.8**	737.2
Operating profit	**40.7**	42.6
Net investment finance costs	**(0.6)**	(0.4)
Income tax expense	**(6.7)**	(5.2)
Profit after tax	**33.4**	37.0
Dividends received from joint ventures and associates	**40.0**	32.5

Exceptional items

Exceptional items are non-recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the performance of the Group. A number of small items also arose in 2016 following changes in estimates to items historically treated as exceptional.

Exceptional items have arisen on both the continuing and discontinued operations of the Group. Exceptional items arising on discontinued operations are disclosed on the face of the Condensed Consolidated Income Statement within the profit or loss attributable to discontinued operations. Those arising on continuing operations are disclosed on the face of the Condensed Consolidated Income Statement within exceptional operating items.

For the year ended 31 December	2016 £m	2015 £m
Exceptional items arising on continuing operations		
Exceptional profit / (loss) on disposal of subsidiaries and operations	**2.9**	(2.6)
Other exceptional operating items on continuing operations		
Impairment of goodwill	**(17.8)**	(87.5)
Restructuring costs	**(17.2)**	(19.7)
Aborted transaction costs	**(0.1)**	(1.7)
Costs associated with UK Government review	**(0.1)**	(1.2)
Release of UK frontline clinical health contract provisions	**0.6**	2.8
Settlement of defined benefit pension obligations	**(10.7)**	-
Impairment of interest in joint venture and related loan balances	**(13.9)**	-
Other exceptional operating items	**(59.2)**	(107.3)
Exceptional operating items arising on continuing operations	**(56.3)**	(109.9)
Exceptional items arising on discontinued operations		
Exceptional (loss) / gain on disposal of subsidiaries and operations	**(2.8)**	5.4
Other exceptional operating items on discontinued operations		
Restructuring costs	**(1.1)**	(2.2)
Impairment of goodwill	**-**	(65.9)
Movements in indemnities provided on business disposals	**(13.7)**	-
Movement in the fair value of assets transferred to held for sale	**3.4**	(14.9)
Other exceptional operating items	**(11.4)**	(83.0)
Exceptional operating items arising on discontinued operations	**(14.2)**	(77.6)
Exceptional operating items arising on continuing and discontinued operations	**(70.5)**	(187.5)
Exceptional finance costs – continuing	**-**	(32.8)
Exceptional finance costs – discontinued	**(0.4)**	-
Total exceptional finance costs in continuing and discontinued operations	**(0.4)**	(32.8)
Tax credit of exceptional items – continuing	**3.1**	0.4
Tax credit on exceptional items – discontinued	**-**	2.7
Total tax impact of exceptional items in continuing and discontinued operations	**3.1**	3.1
Total operating and financing exceptional items in continuing and discontinued operations	**(67.8)**	(217.2)

Exceptional loss on disposals of continuing operations
There were no material disposals of continuing operations in the year. The profit on disposal of £2.9m mainly relates to a net credit of £2.5m on transactions completed in prior years, which includes cash of £4.5m as a result of deferred consideration payments received which had previously been provided for.

Other exceptional operating items arising on continuing operations
In 2016, goodwill of £17.8m arose following the acquisition of Orchard & Shipman (Glasgow) Limited, the Group's subcontractor on the COMPASS contract, providing accommodation to asylum seekers in Scotland and Northern Ireland on behalf of the Home Office. This goodwill was then immediately impaired as the CGU is forecast to be loss making and therefore the asset cannot be supported. The annual impairment testing of CGUs has identified no other impairment of goodwill. In 2015, the Americas CGU was impaired by £87.5m, due primarily to a higher level of contract attrition than previously forecast and the associated impact on future cash flows. Given the significant size of the impairment charge and that it is not part of the normal trading performance of the business it was considered appropriate to treat as exceptional in the year.

In 2016, a charge of £17.2m (2015: £19.7m) arose in relation to the restructuring programme resulting from the Strategy Review. This included redundancy payments, provisions, external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation stage of our Strategy Review, the incremental costs associated with this programme were considered to be exceptional in the prior year and have been treated consistently in 2016. Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the year totalled £6.7m (2015: £13.8m).

The disposal of the Environmental and Leisure businesses was aborted in 2015 and during 2016 costs related to the aborted transaction were finalised, resulting in a charge of £0.1m (2015: £1.7m).

In 2016 there were exceptional costs totalling £0.1m (2015: £1.2m) associated with the UK Government reviews and the programme of Corporate Renewal, reflecting the related external costs. These costs were treated as exceptional when the matter first arose and consistent treatment is applied in the current year.

In 2016 there were releases of provisions of £0.6m (2015: £2.8m) which were previously charged through exceptional items in relation to the exit of the UK Frontline Clinical Health contracts.

Following the finalisation of the Revised Fair Deal, a number of employees are being transferred from the Serco Pension and Life Assurance Scheme (SPLAS) back to the Principal Civil Service Pension Scheme. This transfer was finalised in December 2016 at which point all obligations of SPLAS to pay retirement benefits for these individuals were eliminated and as a result a settlement charge of £10.7m arose. This has been treated as an exceptional item in the year as a result of the transaction being material in size and nature and being outside of the normal course of business. The charge of £10.7m is an accounting charge only, the cash impact of the settlement which will be paid in future periods, is estimated at £3.0m and is offset by future savings in contributions resulting from the transfer.

A review of a joint venture's cash flow projections has led to the impairment of certain equity interests and associated receivables balances, totalling £13.9m. The impairment is outside of the normal course of business and of a significant value, and is therefore considered to be an exceptional item.

Exceptional profit or loss on disposal of discontinued operations

The loss on disposal of discontinued operations of £2.8m (2015: profit of £5.4m) relates to the sale of offshore and UK onshore private sector BPO operations. The majority of the offshore BPO operations were sold in 2015 with the separate disposal of operations in the Middle East completing in 2016. The UK onshore business has been sold or transferred to various different purchasers with a final element remaining at the year end which is expected to be sold in 2017.

Other exceptional operating items arising on discontinued operations

In 2016 a charge of £1.1m (2015: £2.2m) has arisen in discontinued operations in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, provisions and other charges relating to the exit of the UK private sector BPO business, external advisory fees and other incremental costs.

During 2015, an impairment test of the Global Services business was conducted based on the fair value measurement, with reference to offers received less costs of disposal. The impairment testing identified a non-cash exceptional impairment of goodwill relating to discontinued operations of £65.9m.

A charge of £13.7m has arisen in 2016 in relation to the movement in the value of indemnities provided on business disposals made in previous years. This relates to changes in exchange rates where indemnities were provided in foreign currencies, and increases to provisions for interest and penalties on any indemnities. The original disposal of the business was treated as exceptional and these revisions have been treated on a consistent basis.

The value of assets held for sale increased by £3.4m in 2016, reflecting the changing estimate of the likely proceeds and movements of the assets held for sale since the prior balance sheet date. In 2015 the held for sale assets were impaired by £14.9m through exceptional items.

Exceptional finance costs

A charge of £0.4m was incurred as a result of early payments to the US Private Placement (USPP) Noteholders following the disposal of the offshore private sector BPO business. These charges are treated as exceptional finance costs as they are directly linked to the restructuring resulting from the Strategy Review. Similar charges

arose in 2015 which, together with the costs related to the preservation of the Group's existing finance facilities, totalled £32.8m.

Tax impact of exceptional items
The tax impact of exceptional items in continuing and discontinued operations was a tax credit of £3.1m (2015: £3.1m).

Pre exceptional finance costs and investment revenue on continuing and discontinued operations

Investment revenue of £9.3m (2015: £8.2m) includes interest accruing on net retirement benefit assets of £4.7m (2015: £4.9m), interest earned on deposits and other receivables of £3.6m (2015: £3.2m) and the movement in discounting of other receivables of £1.0m (2015: £0.1m).

Finance costs of £21.9m (2015 restated: £40.1m) includes interest incurred on the USPP loans and the Revolving Credit Facility of £15.6m (2015: £24.7m), facility fees and other charges of £3.5m (2015: £7.2m), interest payable on finance leases of £1.6m (2015: £2.5m), the movement in discount on provisions of £2.4m (2015: £5.6m) and a credit for foreign exchange on financing activities of £1.2m (2015: £0.1m). The last of these items was previously included in Reported Operating Profit and therefore represents a restatement on the previously reported results.

Tax charge

In 2016, we recognised a total tax charge of £12.8m (2015: £33.5m), being £12.7m (2015: £17.5m) on continuing operations profit of £29.6m (2015: loss of £69.4m) and £0.1m (2015: £16.0m) on discontinued operations losses of £17.9m (2015: £50.2m). Of this amount, a £3.1m credit (2015: £0.4m credit) arises on exceptional items on continuing operations.

In respect of the results of our continuing operations, the profit on pre-exceptional items of £98.5m (2015: £106.1m) less pre-exceptional finance costs of £12.6m (2015: £32.8m) is £85.9m (2015: £73.3m), which suffers a tax charged of £15.8m (2015: £17.9m), giving a tax rate of 18.4% (2015: 24.4%).

The principal reasons why the tax rate on profit before exceptional items and tax from continuing operations at 18.4% is lower than the UK standard corporation tax rate of 20% are due to higher rates of tax on profits arising on our international operations, together with the absence of any deferred tax credit for losses incurred in the UK (which includes the result of UK divisions and the majority of corporate costs) offset by the impact of our joint ventures whose post-tax results are included in our pre-tax profit.

The tax charge on discontinued operations' losses and the tax credit on exceptional losses of £70.8m have only attracted small amounts of tax because these costs and losses are largely generated in the UK, where deferred tax assets are not being recognised due to insufficient UK taxable profits in the foreseeable future.

For the year ended 31 December	**Pre exceptional 2016 £m**	Pre exceptional 2015 £m
Underlying Trading Profit	**82.1**	95.9
Net finance costs from continuing operations	**(12.6)**	(32.8)
Net finance costs from discontinued operations	**-**	0.9
Total net finance costs from continuing and discontinued operations	**(12.6)**	(31.9)
Underlying Trading Profit less net finance costs from continuing and discontinued operations	**69.5**	64.0
Tax charge on Underlying Trading Profit less net finance costs from continuing and discontinued operations	**(24.4)**	(30.5)
Underlying effective tax rate	**35.2%**	47.7%

The tax charge on an underlying basis, reflecting Underlying Trading Profit of £82.1m net of finance costs of £12.6m, was £24.4m, representing an underlying effective tax rate of 35.2% (2015: 47.7%).

The effective tax rate in 2016 (35.2%) is lower than 2015 (47.7%) at an Underlying Trading Profit less finance costs level. This is primarily due to reduced UK finance expenses during this period which have not given rise to a tax credit as no UK deferred tax asset was recognised on them.

Our tax charge in future years will continue to be materially impacted by our accounting for UK deferred taxes. To the extent that future UK tax losses are incurred and are not recognised, our effective tax rate will be higher than prevailing standard corporation tax rates as we will not be able to recognise the associated tax benefits arising. When our UK business returns to sustainable profitability our existing UK tax losses will be recognised or utilised, and the effective rate will be reduced.

Contingent tax assets

At 31 December 2016, the Group has gross estimated unrecognised deferred tax assets of £1.04bn (£187m net), which are potentially available to offset against future taxable profits. These principally relate to tax losses of £824m. Of these tax losses, £697m have arisen in the UK business (net £118m).

A £10.0m UK tax asset has been recognised at 31 December 2016 (2015: £10.5m) on the basis of forecast utilisation against future taxable profits.

Taxes paid

Net corporate income tax of £10.5m was paid during the year, relating primarily to our operations in AsPac (£5.8m), Europe (£2.3m), Middle East (£1.5m) and Americas (£0.9m). The Group's UK operations have transferred tax losses to its profitable joint ventures and associates in return for cash payments from the joint ventures and associates giving a cash tax inflow in the UK of £4.8m. In addition there were small cash tax refunds where we have overpaid tax in previous periods. This results in an overall tax paid figure in our cash flow statement of £5.6m.

The amount of tax paid (£5.6m) differs from the tax charge in the period (£12.8m) mainly due to the effect of future expected cash tax outflows for which a charge has been taken in the current period and the impact of the time lag on receipts of cash from joint ventures and associates for losses transferred to them.

Further detail is shown below of taxes that have been paid during the year.

Total tax contribution

Our tax strategy of paying the appropriate amount of tax in the countries in which we operate means that we pay a variety of taxes across the globe. In order to increase the transparency of our tax profile, we have shown below the cash taxes that we have paid across our regional markets.

In total during 2016, Serco globally contributed £586.6m of tax to governments in the jurisdictions in which we operate.

Taxes by category For the year ended 31 December 2016	Taxes borne £m	Taxes collected £m	Total £m
Total of corporate income tax	**10.5**	**0.1**	**10.6**
Total of VAT and similar	**8.1**	**161.7**	**169.8**
Total of people taxes	**109.6**	**294.6**	**404.2**
Total other taxes	**1.9**	**0.1**	**2.0**
Total	**130.1**	**456.5**	**586.6**

Taxes by region For the year ended 31 December 2016	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	**76.1**	**252.8**	**328.9**
AsPac	**24.2**	**122.2**	**146.4**
North Americas	**27.2**	**79.4**	**106.6**
Middle East	**2.6**	**2.1**	**4.7**
Total	**130.1**	**456.5**	**586.6**

Corporation tax, which has historically been the only cost to be separately disclosed in our Financial Statements, is only one element of our tax contribution. For every £1 of corporate tax paid directly by the group (tax borne), we bear £11.35 in other business taxes. The largest proportion of these is in connection with employing our people.

In addition, for every £1 of tax that we bear, we collect a further £3.50 on behalf of national governments (taxes collected). This amount is directly impacted by the people that we employ and the sales that we make.

Dividends

The Board is not recommending the payment of a dividend in respect of the 2016 financial year. The Board's appraisal of the appropriateness of dividend payments takes into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it believes it prudent to do so, in assessing whether we should resume dividend payments in respect of 2016, we have been mindful of the fact that our forecasts for 2017 anticipate a reduction in earnings, a free cash outflow and an increase in net debt; furthermore, we are only part-way through our recovery. In these circumstances, the Board believes that it would not be prudent to resume dividend payments in respect of 2016.

Share count and earnings per share

The weighted average number of shares for EPS purposes was 1,088.3m at 31 December 2016 (2015: 986.5m). EPS before exceptional items from both continuing and discontinued operations was 6.12p per share (2015: 6.55p), including the impact of exceptional items EPS was a loss of 0.11p (2015: loss of 15.47p). Underlying EPS was 4.13p per share (2015: 3.44p).

Cash flows

The UTP of £82.1m (2015: £95.9m) converts into a trading cash outflow of £8.0m (2015: inflow of £0.6m). UTP reduced by £13.8m and led to an £8.6m reduction in Trading Cash Flows. The low conversion was primarily due to the cash outflows arising on the utilisation of contract provisions of £84.2m which is excluded from UTP but included in Trading Cash Flows.

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the year was an outflow of £33.0m compared to an outflow of £35.5m in 2015 (restated). Commentary on the FCF performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

The movement in Net Debt including assets and liabilities held for sale is an increase of £46.4m in 2016 compared to a decrease of £608.6m for 2015, arising from three key areas:

- The proceeds from the Rights Issue of £530.3m in 2015.
- A reduction of the net cash inflows from acquisitions and disposals of subsidiaries of £165.7m to £19.2m due to a significant portion of the private sector business disposal completing in 2015.
- An offsetting reduction in the cash outflows on exceptional items of £48.2m to £40.2m in 2016, due primarily to the payment of exceptional finance costs of £31.8m in 2015. The majority of the exceptional cash payments in 2016 relate to the break and exit costs of the residual UK private sector BPO operations and restructuring claims and costs arising on the implementation of the outcome of the Strategy Review.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Operating profit / (loss) on continuing operations*	**42.2**	(3.8)
Operating loss on discontinued operations	**(17.5)**	(51.1)
Remove exceptional items	**70.5**	187.5
Operating profit before exceptional items on continuing and discontinued	**95.2**	132.6
Less: profit from joint ventures and associates	**(33.4)**	(37.0)
Movement in provisions	**(118.4)**	(116.0)
Other non-cash movements*	**63.9**	83.6
Operating cash inflow before movements in working capital, exceptional items and tax*	**7.3**	63.2
Working capital movements	**(23.7)**	(22.6)
Tax paid	**(5.6)**	(2.7)
Non-cash R&D expenditure	**(0.4)**	(0.7)
Cash flow from operating activities before exceptional items*	**(22.4)**	37.2
Dividends from joint ventures and associates	**40.0**	32.5
Interest received	**1.4**	3.4
Interest paid	**(20.1)**	(34.7)
Capitalised finance costs paid	**(0.3)**	(1.4)
Purchase of intangible and tangible assets net of proceeds from disposals	**(31.6)**	(72.5)
Free Cash Flow*	**(33.0)**	(35.5)
Net cash inflow on acquisition and disposal of subsidiaries	**19.2**	184.9
Proceeds from Rights Issue	**-**	530.3
Purchase of own shares net of share option proceeds	**-**	4.4
Other movements on investment balances	**0.7**	(1.3)
Capitalisation and amortisation of loan costs	**(0.7)**	(0.6)
Unwind of discounting and capitalisation of interest on loans receivable	**2.9**	–
Non-recourse loan disposals, repayments and advances	**-**	24.0
New, acquired and disposed finance leases	**(0.5)**	0.5
Exceptional items	**(40.2)**	(88.4)
Cash movements on hedging instruments*	**47.0**	19.3
Foreign exchange loss on Net Debt*	**(41.8)**	(29.0)
Movement in Net Debt including assets and liabilities held for sale*	**(46.4)**	608.6
Assets held for sale movement in Net Debt	**4.7**	(44.2)
Net Debt at 1 January*	**(67.6)**	(632.0)
Net Debt at 31 December*	**(109.3)**	(67.6)
Net Debt at 1 January including assets and liabilities held for sale*	**(62.9)**	(671.5)
Net Debt at 31 December including assets and liabilities held for sale*	**(109.3)**	(62.9)

* Operating profit, other non-cash movements, cash movements on hedging instruments, foreign exchange loss on Net Debt and Net Debt have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements and the change in definition of Net Debt to include derivative financial instruments that relate to other components of Net Debt. The sub totals including Free Cash Flow have changed as a result.

Net Debt

As at 31 December	**Including assets and liabilities held for sale 2016 £m**	Including assets and liabilities held for sale (restated*) 2015 £m
Cash and cash equivalents	**177.8**	328.8
Loans receivable	**22.9**	19.9
Other loans	**(299.9)**	(381.9)
Obligations under finance leases	**(28.2)**	(44.3)
Derivatives relating to Net Debt components*	**18.1**	14.6
Net Debt	**(109.3)**	(62.9)

* As explained above, Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt.

Average Net Debt as calculated on a daily basis for the year ended 31 December 2016 was £119.4m (2015 restated: £444.1m, pre Rights Issue impact), compared with the opening and closing positions of £62.9m and £109.3m respectively. Peak Net Debt was £182.9m (2015 restated: £858.6m, pre rights issue impact).

Treasury operations and risk management

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised treasury function whose principal role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise and that the financial risk arising from the Group's underlying operations is effectively identified and managed.

Treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for hedging purposes - speculation is not permitted. A monthly report is provided to senior management outlining performance against the treasury policy and the treasury function is subject to periodic internal audit review.

Liquidity and funding

As at 31 December 2016, the Group had committed funding of £770m, comprising £290m of private placement notes and a £480m revolving credit facility with a syndicate of banks which was undrawn. In addition, the Group had a receivables financing facility of £30.0m of which £7.7m was utilised at the year end (2015: £30.0m).

Following the disposal of the majority of the private sector BPO business, the Group was required to offer the net disposal proceeds to the debt holders in prepayment. As a result of this process, £117m ($167m) of private placement notes were repaid at par on 16 February 2016.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our treasury policies require us to maintain a minimum proportion of fixed rate debt as a proportion of overall Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2016, more than 100% of the Group's Net Debt was at fixed rates. Interest on the revolving credit facility is at floating rate, however it was undrawn.

Foreign exchange risk

The Group is subject to currency exposure on the translation to Sterling of its net investments in overseas subsidiaries. The Group manages this risk where appropriate by borrowing in the same currency as those investments. Group borrowings are predominantly denominated in Sterling and US Dollar. The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate to hedge net currency flows.

Credit risk

Cash deposits and in-the-money financial instruments give rise to credit risk on the amounts due from counterparties. The Group manages this risk by adhering to counterparty exposure limits based on external credit ratings of the relevant counterparty.

Debt covenants

The principal financial covenant ratios are consistent across the private placement loan notes, receivables financing facility and the Group's £480m revolving credit facility, with a maximum Consolidated Total Net Borrowings (CTNB) to covenant EBITDA of 3.5 times and minimum covenant EBITDA to net finance costs of 3.0 times, tested semi-annually. A reconciliation of the basis of calculation is set out in the table below.

For the year ended 31 December	2016 £m	2015 (restated*) £m
Operating profit before exceptional items on continuing and discontinued operations*	**95.2**	132.6
Remove:		
Joint venture and associate post-tax profits	**(33.4)**	(37.0)
Foreign exchange credit on investing and financing arrangements*	**1.2**	0.1
Add:		
Dividends from joint ventures and associates	**40.0**	32.5
Amortisation and impairment of other intangible assets	**26.9**	40.5
Depreciation of property, plant and equipment	**24.8**	28.9
Impairment of property, plant and equipment	**0.7**	2.1
Share based payment expense	**9.7**	9.8
Covenant EBITDA	**165.1**	209.5
Net finance costs on continuing and discontinued operations*	**12.6**	31.9
Add: Foreign exchange credit on investing and financing arrangements*	**1.2**	0.1
Other adjustments	**3.3**	(0.6)
Covenant net finance costs	**17.1**	31.4
Recourse Net Debt (including assets and liabilities held for sale)*	**109.3**	62.9
Loans receivable, foreign exchange adjustments and other items	**5.5**	28.8
CTNB	**114.8**	91.7
CTNB / covenant EBITDA (not to exceed 3.5x)	**0.7x**	0.4x
Covenant EBITDA / Covenant net finance costs (at least 3.0x)	**9.7x**	6.7x

* As explained above, operating profit and net finance costs have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. These adjustments have been reversed in order to maintain the definition of EBITDA and net finance costs per the covenant. CTNB is consistent with the new definition of Net Debt and is unaffected by the change in accounting policy.

Net assets summary

As at 31 December	2016 £m As reported*	2015 £m Including assets held for sale	2015 £m Adjustment for assets held for sale	2015 £m As reported
Non-current assets				
Goodwill	**577.9**	517.7	(7.8)	509.9
Other intangible assets	**83.6**	90.2	(0.4)	89.8
Property, plant and equipment	**69.3**	74.1	(0.9)	73.2
Other non-current assets	**73.0**	72.0	(0.2)	71.8
Deferred tax assets	**50.8**	42.2	-	42.2
Retirement benefit assets	**150.4**	127.1	-	127.1
	1,005.0	923.3	(9.3)	914.0
Current assets				
Inventories	**22.4**	26.4	-	26.4
Trade and other current assets	**548.4**	549.7	(20.6)	529.1
Current tax	**11.0**	11.3	(4.7)	6.6
Cash and cash equivalents	**177.8**	328.8	(5.2)	323.6
	759.6	916.2	(30.5)	885.7
Assets classified as held for sale	**-**	-	39.8	39.8
Total current assets	**759.6**	916.2	9.3	925.5
Total assets	**1,764.6**	1,839.5	-	1,839.5
Current liabilities				
Trade and other current liabilities	**(525.1)**	(558.6)	7.4	(551.2)
Current tax liabilities	**(25.9)**	(14.3)	0.1	(14.2)
Provisions	**(172.3)**	(191.2)	22.6	(168.6)
Obligations under finance leases	**(12.3)**	(16.3)	0.5	(15.8)
Loans	**(9.7)**	(132.2)	-	(132.2)
	(745.3)	(912.6)	30.6	(882.0)
Amounts classified as held for sale	**-**	-	(32.5)	(32.5)
Total current liabilities	**(745.3)**	(912.6)	(1.9)	(914.5)
Non-current liabilities				
Other non-current liabilities	**(16.8)**	(18.3)	-	(18.3)
Deferred tax liabilities	**(30.5)**	(22.3)	-	(22.3)
Provisions	**(249.4)**	(315.0)	1.9	(313.1)
Obligations under finance leases	**(15.9)**	(28.0)	-	(28.0)
Loans	**(290.2)**	(249.7)	-	(249.7)
Retirement benefit obligations	**(17.7)**	(11.5)	-	(11.5)
	(620.5)	(644.8)	1.9	(642.9)
Total liabilities	**(1,365.8)**	(1,557.4)	-	(1,557.4)
Net assets	**398.8**	282.1	-	282.1

* No amounts were included in held for sale as at 31 December 2016.

The breakdown of the Group's net assets is summarised above, showing the impact of the assets and liabilities held for sale for each line item in the prior year.

At 31 December 2016 the balance sheet had net assets of £398.8m, a movement of £116.7m from the closing net asset position of £282.1m as at 31 December 2015. The increase in net assets is mainly due to the following movements:

- An increase in goodwill by £68.0m caused by movements in foreign exchange rates. Total goodwill of £401.2m relates to non-UK cash generating units.
- A decrease in provisions of £60.0m. Further details on the provision balance is provided below.

- An increase in trade and other current assets and liabilities of £45.4m due in part to the unwinding of the forfeiting facility of £22.3m and other working capital movements, including foreign exchange movements in non-UK businesses.
- An increase in Net Debt of £46.4m due to the working capital movements noted above offset by cash generated from operations.
- An increase in the assets reflecting the Group's retirement benefit obligations of £17.1m, due to the performance of liability driven investments.

Provisions

The total of current and non-current provisions, excluding provisions related to businesses held for sale, has decreased by £60.0m since 31 December 2015. The movement is due to a decrease in contract provisions of £81.9m offset by an increase in non-contract provisions of £21.9m. The increase in non-contract provisions is primarily due to the provision for the exceptional defined benefit scheme settlement cost of £10.7m and an £8.7m increase in employee provisions due to the ongoing Strategic Review restructuring programme.

Movements in contract provisions, including those related to businesses held for sale since the 31 December 2015 balance sheet date, are as follows:

	Onerous Contract Provisions £m	Other Contract Provisions £m	**Total contract provisions including assets held for sale £m**	Held for sale adjustment £m	**Total contract provisions as reported £m**
At 1 January 2016	(299.9)	(13.2)	**(313.1)**	11.0	**(302.1)**
Arising on acquisition	(14.0)	-	**(14.0)**	-	**(14.0)**
Charged to income statement - trading	(56.1)	(0.5)	**(56.6)**	-	**(56.6)**
Charged to income statement - exceptional	(0.6)	-	**(0.6)**	0.6	**-**
Released to income statement - trading	65.7	7.6	**73.3**	(8.4)	**64.9**
Released to income statement - exceptional	0.6	-	**0.6**	-	**0.6**
Utilised during the year	84.2	0.9	**85.1**	(3.1)	**82.0**
Unwinding of discount	(2.4)	-	**(2.4)**	-	**(2.4)**
FX	(11.6)	0.3	**(11.3)**	(0.1)	**(11.4)**
Transfer to trade payables	11.5	-	**11.5**	-	**11.5**
Reclassifications	2.4	4.9	**7.3**	-	**7.3**
At 31 December 2016	(220.2)	-	**(220.2)**	-	**(220.2)**

The balance of OCPs at 31 December 2016 was £220.2m (2015: £299.9m). Our OCP balances are subject to ongoing review and a full bottom-up assessment of the forecasts that form the basis of the OCPs is conducted as part of the annual budgeting process. The overall net release of OCPs was £9.6m in 2016 and utilisation was £84.2m.

In 2016, additional charges have been made in respect of future losses on a number of onerous contracts totalling £56.7m. This increase related to revisions to existing OCPs of £53.2m and new provisions raised on two contracts totalling £3.5m, with the new provisions relating to contracts which have been operating for a number of years. Of the total charge, £0.6m relates to contracts included in the held for sale businesses and are included within exceptional items, consistent with previous treatment. No further exceptional OCP charges or releases are expected in the future.

Included within additional charges made to existing OCPs was £29.5m relating to our Ontario Driver Examination Services contract. This contract is to provide multiple services, including administering driver examinations and the implementation and roll out of an IT system across multiple locations. The contract was initially identified as onerous during the 2014 Contract and Balance Sheet Review. In 2016 delays and cost overruns relating to the IT system implementation have resulted in higher forecast implementation costs. Furthermore, the future performance of the system has also been reassessed and this has resulted in a reduction to the expected future

operational efficiencies and savings forecast to be achieved following the system implementation. These factors combined have increased the expected total future losses of the contact, resulting in both the increase to the OCP of £29.5m and an additional in year charge of £8.8m arising from the cost overruns and programme delays experienced during the year.

An additional £7.1m in respect of the Prisoner Escort and Custody Services (PECS) contract has been charged. It was previously anticipated that the contract, which has up to three extension years, would not be extended in its current form but our expectation now is that it will be extended for one of the potential three extension years.

There was also an additional £6.8m charge in the year in respect of updating the assumptions regarding the operational and maintenance costs of running the Caledonian Sleepers contract.

In 2016, releases to the income statement from OCPs totalling £66.3m were made, including £0.6m in respect of provisions previously charged to exceptional items.

Included within the releases in the year was £33.9m in respect of the COMPASS contract that reflected the updated forecast assumptions around service user volumes and accommodation costs, and the impact from the terms agreed with the customer as part of the contract extension. We had previously included assumptions for the impact of the extension in the COMPASS OCP and the updated view of reduced losses on this contract reflect the improved terms under which we will operate under the extension. On 1 December 2016 Serco acquired Orchard & Shipman (Glasgow) Limited, a subcontractor on the COMPASS contract that provided services to the Scotland and Northern Ireland regions. On acquisition an OCP of £14.0m was recognised as part of the opening balance sheet of Orchard & Shipman, which following the acquisition is included in the provision for future losses to be incurred by the Group.

In the year, a £11.9m release was recorded in respect of the contract to operate and maintain the fleet of Armidale Class Patrol Boats (ACPB) for the Royal Australian Navy. This release arose following both better than forecast trading under the contract as re-negotiated in November 2015, and the latest assessment of any post contract costs after the operations are transferred to the new contractor on 30 June 2017.

There were also a number of other smaller releases, notably in respect of HMP Ashfield and the Future Provision of Marine Services contract.

During the year a settlement was reached with the customer in respect of HMAS Bundaberg, the vessel operating under the ACPB contract which was destroyed by fire in 2014. The provision relating to this claim was transferred to creditor and debtor balances within working capital, given that the amounts owed to the customer and the associated insurance receivable are more certain and therefore did not meet the criteria to be included within the provisions balance.

Contract and Balance Sheet Review items

There were adjustments arising in 2016 on items identified during the Contract and Balance Sheet Review in 2014. These adjustments relate to a number of items including:

- The releases of other provisions and accruals of £13.4m where liabilities have either been settled for less than the amount provided or accrued, or have lapsed due to the passage of time.
- A charge of £8.8m reflecting a reduction in the accrued revenue for the Ontario Driver Examination Services contract resulting from the impact of long term contract accounting.

The overall net improvement to Trading Profit from OCPs and Contract and Balance Sheet Review adjustments was £14.2m in 2016. The cumulative net improvement to Trading Profit from OCPs and other Contract and Balance Sheet Review items from 2015 and 2016 is £35.1m which represents 5% of the original total taken through Trading Profit.

Angus Cockburn
Chief Financial Officer
22 February 2017

Financial Statements

Condensed consolidated income statement

For the year ended 31 December 2016

Continuing operations	2016 £m	2015 (restated*) £m
Revenue	**3,011.0**	3,177.0
Cost of sales	**(2,767.6)**	(2,849.1)
Gross profit	**243.4**	327.9
Administrative expenses		
General and administrative expenses*	**(173.2)**	(254.0)
Exceptional profit / (loss) on disposal of subsidiaries and operations	**2.9**	(2.6)
Other exceptional operating items	**(59.2)**	(107.3)
Other expenses – amortisation and impairment of intangibles arising on acquisition	**(5.1)**	(4.8)
Total administrative expenses	**(234.6)**	(368.7)
Share of profits in joint ventures and associates, net of interest and tax	**33.4**	37.0
Operating profit / (loss)*	**42.2**	(3.8)
Operating profit before exceptional items*	**98.5**	106.1
Investment revenue	**9.3**	6.1
Finance costs*	**(21.9)**	(38.9)
Exceptional finance costs	**-**	(32.8)
Total net finance costs*	**(12.6)**	(65.6)
Profit / (loss) before tax	**29.6**	(69.4)
Tax on profit / (loss) before exceptional items	**(15.8)**	(17.9)
Tax credit on exceptional items	**3.1**	0.4
Tax charge	**(12.7)**	(17.5)
Profit / (loss) for the year from continuing operations	**16.9**	(86.9)
Loss for the year from discontinued operations	**(18.0)**	(66.2)
Loss for the year	**(1.1)**	(153.1)
Attributable to:		
Equity owners of the Company	**(1.2)**	(152.6)
Non controlling interests	**0.1**	(0.5)
Earnings per share (EPS)		
Basic EPS from continuing operations	**1.55p**	(8.78p)
Diluted EPS from continuing operations	**1.50p**	(8.78p)
Basic EPS from discontinued operations	**(1.66p)**	(6.69p)
Diluted EPS from discontinued operations	**(1.66p)**	(6.69p)
Basic EPS from continuing and discontinued operations	**(0.11p)**	(15.47p)
Diluted EPS from continuing and discontinued operations	**(0.11p)**	(15.47p)

* General and administrative expenses and net finance costs have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. See note 1.

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £m	2015 £m
Loss for the year	**(1.1)**	(153.1)
Other comprehensive income for the year:		
Items that will not be reclassified subsequently to profit or loss:		
Net actuarial gain / (loss) on defined benefit pension schemes*	**9.0**	(15.8)
Actuarial gain / (loss) on reimbursable rights*	**2.9**	(0.4)
Tax relating to items not reclassified*	**(1.7)**	4.1
Share of other comprehensive income in joint ventures and associates	**14.8**	5.0
Items that may be reclassified subsequently to profit or loss:		
Net exchange gain / (loss) on translation of foreign operations**	**80.3**	(40.9)
Fair value gain on cash flow hedges during the year**	**2.3**	2.2
Share of other comprehensive income in joint ventures and associates	**1.0**	2.6
Total other comprehensive income / (expense) for the year	**108.6**	(43.2)
Total comprehensive income / (expense) for the year	**107.5**	(196.3)
Attributable to:		
Equity owners of the Company	**107.1**	(195.9)
Non controlling interest	**0.4**	(0.4)

* Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

** Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

Condensed consolidated statement of changes in equity

	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 shareholders' equity £m	Non controlling interest £m
At 1 January 2015	11.0	327.9	0.1	(306.0)	(89.0)	71.4	(64.5)	(18.9)	(68.0)	1.8
Total comprehensive expense for the year	-	-	-	(145.0)	(12.1)	-	-	(38.8)	(195.9)	(0.4)
Issue of share capital*	11.0	-	-	519.3	-	-	-	-	530.3	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.3)	4.7	-	4.4	-
Transfer on disposal	-	-	-	0.2	(0.2)	-	-	-	-	-
Expense in relation to share based payments	-	-	-	-	-	9.8	-	-	9.8	-
Change in non controlling interest	-	-	-	-	-	-	-	-	-	0.1
At 31 December 2015	**22.0**	**327.9**	**0.1**	**68.5**	**(101.3)**	**80.9**	**(59.8)**	**(57.7)**	**280.6**	**1.5**
Total comprehensive income for the year	**-**	**-**	**-**	**14.6**	**10.2**	**-**	**-**	**82.3**	**107.1**	**0.4**
Shares transferred to option holders on exercise of share options	**-**	**-**	**-**	**-**	**-**	**(7.7)**	**7.7**	**-**	**-**	**-**
Expense in relation to share based payments	**-**	**-**	**-**	**-**	**-**	**9.7**	**-**	**-**	**9.7**	**-**
Change in non controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.5)**
At 31 December 2016	**22.0**	**327.9**	**0.1**	**83.1**	**(91.1)**	**82.9**	**(52.1)**	**24.6**	**397.4**	**1.4**

* During the prior year the Group raised £530.3m via a Rights Issue. A cash box structure was used in such a way that merger relief was available under Companies Act 2006, section 612 and thus no share premium needed to be recorded. As the redemption of the cash box entity's preference shares was in the form of cash, the transaction was treated as qualifying consideration and the premium is therefore considered to be a realised profit.

Condensed consolidated balance sheet

At 31 December	2016 £m	2015 £m
Non-current assets		
Goodwill	**577.9**	509.9
Other intangible assets	**83.6**	89.8
Property, plant and equipment	**69.3**	73.2
Interests in joint ventures and associates	**14.4**	13.8
Trade and other receivables	**44.4**	50.2
Derivative financial instruments	**14.2**	7.8
Deferred tax assets	**50.8**	42.2
Retirement benefit assets	**150.4**	127.1
	1,005.0	914.0
Current assets		
Inventories	**22.4**	26.4
Trade and other receivables	**543.5**	519.7
Current tax assets	**11.0**	6.6
Cash and cash equivalents	**177.8**	323.6
Derivative financial instruments	**4.9**	9.4
	759.6	885.7
Assets classified as held for sale	**-**	39.8
	759.6	925.5
Total assets	**1,764.6**	1,839.5
Current liabilities		
Trade and other payables	**(524.5)**	(548.8)
Derivative financial instruments	**(0.6)**	(2.4)
Current tax liabilities	**(25.9)**	(14.2)
Provisions	**(172.3)**	(168.6)
Obligations under finance leases	**(12.3)**	(15.8)
Loans	**(9.7)**	(132.2)
	(745.3)	(882.0)
Liabilities directly associated with assets classified as held for sale	**-**	(32.5)
	(745.3)	(914.5)
Non-current liabilities		
Trade and other payables	**(16.8)**	(18.3)
Deferred tax liabilities	**(30.5)**	(22.3)
Provisions	**(249.4)**	(313.1)
Obligations under finance leases	**(15.9)**	(28.0)
Loans	**(290.2)**	(249.7)
Retirement benefit obligations	**(17.7)**	(11.5)
	(620.5)	(642.9)
Total liabilities	**(1,365.8)**	(1,557.4)
Net assets	**398.8**	282.1
Equity		
Share capital	**22.0**	22.0
Share premium account	**327.9**	327.9
Capital redemption reserve	**0.1**	0.1
Retained earnings	**83.1**	68.5
Retirement benefit obligations reserve	**(91.1)**	(101.3)
Share based payment reserve	**82.9**	80.9
Own shares reserve	**(52.1)**	(59.8)
Hedging and translation reserve	**24.6**	(57.7)
Equity attributable to owners of the Company	**397.4**	280.6
Non-controlling interest	**1.4**	1.5
Total equity	**398.8**	282.1

Condensed consolidated cash flow statement

For the year ended 31 December 2016

	2016 £m	2015 (restated*) £m
Net cash (outflow) / inflow from operating activities before exceptional items*	**(22.4)**	37.2
Exceptional items	**(39.9)**	(56.6)
Net cash outflow from operating activities*	**(62.3)**	(19.4)
Investing activities		
Interest received	**1.4**	3.4
(Decrease) / increase in security deposits	**(0.4)**	0.3
Dividends received from joint ventures and associates	**40.0**	32.5
Proceeds from disposal of property, plant and equipment	**0.6**	0.8
Proceeds from disposal of intangible assets	**0.1**	0.9
Proceeds on disposal of subsidiaries and operations	**19.4**	165.6
Acquisition of subsidiaries, net of cash acquired	**(0.2)**	(0.2)
Purchase of other intangible assets	**(15.1)**	(37.5)
Purchase of property, plant and equipment	**(17.2)**	(36.7)
Net cash inflow from investing activities	**28.6**	129.1
Financing activities		
Interest paid	**(20.1)**	(34.7)
Exceptional finance costs paid	**(0.3)**	(31.8)
Capitalised finance costs paid	**(0.3)**	(1.4)
Repayment of loans	**(135.5)**	(447.0)
Decrease / (increase) in loans to joint ventures and associates	**1.1**	(1.6)
Capital element of finance lease repayments	**(17.0)**	(18.8)
Cash gains from hedging instruments*	**47.0**	19.3
Rights Issue net proceeds	**-**	530.3
Proceeds from issue of other share capital and exercise of share options	**-**	4.4
Net cash (outflow) / inflow from financing activities*	**(125.1)**	18.7
Net (decrease) / increase in cash and cash equivalents	**(158.8)**	128.4
Cash and cash equivalents at beginning of year	**323.6**	180.1
Net exchange gain / (loss)	**7.8**	(2.1)
Cash reclassified to assets held for sale	**5.2**	17.2
Cash and cash equivalents at end of year	**177.8**	323.6

* Net cash outflow from operating activities and net cash (outflow) / inflow from financing activities have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. See note 1.

Notes to the Consolidated Financial Statements

1. General information, going concern and accounting policies

The basis of preparation in this preliminary announcement is set out below.

The financial information in this announcement does not constitute the Company's statutory accounts as defined in section 434 of the Companies Act 2006 for the years ended 31 December 2016 or 2015, but is derived from these accounts. The auditors' report on the 2015 and 2016 accounts contained no emphasis of matter and did not contain statements under S498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS). Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Group and parent company only financial statements that comply with IFRS and FRS101 respectively, in March 2017.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as stated below.

Prior year restatement: Change in accounting policy

In order to provide more relevant information about the impact of the underlying transactions of trading operations, the accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements has been changed. The new policy is to include foreign exchange movements on investment and financing arrangements within investment revenue or finance costs as relevant. Such transactions include foreign exchange movements on non Sterling cash and financing arrangements, related derivative financial instruments and any income or costs associated with such balances. As a result of this change in accounting policy, the prior year income statement and cash flow statement have been restated, together with the Net Debt definition which has been changed to include derivative financial instruments that relate to other components of Net Debt. No restatement is required to the balance sheet as a result of the change in policy.

The impact on the relevant line items in the consolidated financial statements and Net Debt for the year ended 31 December 2015 is as follows:

Consolidated income statement	2015 as previously stated £m	Adjustment £m	2015 as restated £m
General and administrative expenses	(253.9)	(0.1)	(254.0)
Finance costs	(39.0)	0.1	(38.9)

Consolidated cash flow statement	2015 as previously stated £m	Adjustment £m	2015 as restated £m
Net cash outflow from operating activities	(0.1)	(19.3)	(19.4)
Net cash (outflow) / inflow from financing activities	(0.6)	19.3	18.7

Analysis of Net Debt	At 31 December 2015 as previously stated £m	Adjustment £m	At 31 December 2015 as restated £m
Cash and cash equivalents	323.6	-	323.6
Loan receivables	19.9	-	19.9
Loans payable	(381.9)	-	(381.9)
Obligations under finance leases	(43.8)	-	(43.8)
Derivatives relating to Net Debt	-	14.6	14.6
	(82.2)	14.6	(67.6)

Going concern

The Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

In assessing the basis of preparation of the financial statements for the year ended 31 December 2016, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures. The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts. In order to satisfy themselves that they have adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities. The Group's current principal debt facilities at the year end comprised a £480m revolving credit facility, and £290m of US private placement notes. As at 31 December 2016, the Group had £770m of committed credit facilities and committed headroom of £647m.

In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 30 June 2018.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Prior year restatement: Change in accounting policy
The accounting policy regarding the classification of foreign exchange movements in relation to investment and financing arrangements was changed in the year. Judgement was applied in reaching the conclusion that it provides more relevant financial results to exclude these amounts from the underlying transactions of trading operations.

Use of Alternative Performance Measures: Operating profit before exceptional items
IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material, non-recurring and outside of the normal operating practice of the company to be suitable for separate presentation.

The segmental analysis of continuing operations in note 3 includes the additional performance measure of Trading Profit on continuing operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those we consider material, non-recurring and outside of the normal operating practice of the company to be suitable of separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgments about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice. The CODM reviews the segmental analysis for continuing operations together with discontinued operations.

Provisions for onerous contracts
Determining whether provisions are required for loss making contracts requires significant judgements to be made regarding the ability of the company to maintain or improve operational performance. Judgements can also be made regarding the outcome of matters dependent on the behaviour of the customer in question or other parties involved in delivering the contract.

The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery.

In the current year material revisions have been made to historic provisions, which have led to a charge to contract provisions of £56.6m and releases of £65.5m. All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

The individual provisions are discounted where the impact is assessed to be material. Discount rates used are calculated based on the estimated risk free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision. Rates applied are in the range of 1.16% and 3.30%.

Impairment of assets
Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate. The total value of assets which are covered by this assessment process (after previous impairments) is £1,340.9m, which is the maximum exposure related to this judgement. We mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates are performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS 36 *Impairment of Assets* we calculate a pre tax rate based on post tax targets.

A key area of focus in recent years has been in the impairment testing of goodwill as a result of the pressure on the results of the Group. While no further impairment of pre existing goodwill was noted in 2016, an impairment charge of £17.8m did arise following the acquisition of a business in the year.

Deferred tax
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

As at the balance sheet date, the Group has unused tax losses of £893.5m (2015: £890.1m) available for offset against future profits. A deferred tax asset has been recognised in respect of £69.1m (2015: £59.9m) of such losses of which £58.8m (net £10.0m) relates to losses incurred in the UK and £10.3m (net £0.3m) which relates to other jurisdictions.

Recognition has been based on forecast future taxable profits. No deferred tax asset has been recognised in respect of the remaining losses (net £147.0m) as it is not probable that there will be future taxable profits available.

Current tax
Liabilities for tax contingencies require management judgement and estimates in respect of tax audits and also tax exposures in each of the jurisdictions in which we operate. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences that arise as a consequence of different accounting and tax treatments. Key judgement areas include the correct allocation of profits and losses between the countries in which we operate and the pricing of intercompany services. Where management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the current information available.

These liabilities can be built up over a long period of time but the ultimate resolution of tax exposures usually occurs at a point in time, and given the inherent uncertainties in assessing the outcomes of these exposures, these estimates are prone to change in future periods. It is not currently possible to estimate the timing of potential cash outflows, but on resolution, to the extent this differs from the liability held, this will be reflected through the tax charge/(credit) for that year. Each potential liability and contingency is revisited on an annual basis and adjusted to reflect any changes in positions taken by the company, local tax audits, the expiry of the statute of limitations following the passage of time and any change in the broader tax environment. The total current tax liability at December 2016 was £25.9m (2015: £14.2m).

On the basis of the currently available information, the Group does not anticipate a material change to the estimated liability in the coming year.

Retirement benefit obligations
Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates. The value of net retirement benefit obligations at the balance sheet date is an asset of £132.7m (2015: £115.6m).

In accounting for the defined benefit schemes, the Group has applied the following principles:

- Asset recognised for SPLAS is based on the assumption that the full surplus will ultimately be available to the Group as a future refund of surplus.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.
- No pension assets are invested in the Group's own financial instruments or property.

2. Discontinued operations

The Global Services division, representing UK onshore and offshore private sector BPO operations, was classified as a discontinued operation in 2015. The completion of the sale of the majority of the offshore private sector BPO business occurred on 31 December 2015. Disposal of one of the two remaining elements of the offshore business was completed in March 2016 and the final element completed in December 2016. The UK onshore private sector BPO businesses have been sold, or have been exited early with the exception of one business where the sale process is ongoing and completion is expected within the next twelve months.

The results of the discontinued operations were as follows:

For the year ended 31 December	2016 £m	2015 £m
Revenue	**36.8**	337.6
Expenses	**(40.1)**	(311.1)
Operating (loss) / profit before exceptional items	**(3.3)**	26.5
Exceptional (loss) / profit on disposal of subsidiaries and operations	**(2.8)**	5.4
Other exceptional operating items	**(11.4)**	(83.0)
Operating loss	**(17.5)**	(51.1)
Investment revenue	**-**	2.1
Finance costs	**-**	(1.2)
Exceptional finance costs	**(0.4)**	-
Loss before tax	**(17.9)**	(50.2)
Tax charge on loss before exceptional items	**(0.1)**	(18.7)
Tax credit on exceptional items	**-**	2.7
Net loss attributable to discontinued operations presented in the income statement	**(18.0)**	(66.2)
Attributable to:		
Equity owners of the Company	**(18.1)**	(66.0)
Non controlling interests	**0.1**	(0.2)

Included above are items classified as exceptional as they are considered to be material, non recurring and outside of the normal course of business. These are summarised as follows:

For the year ended 31 December	2016 £m	2015 £m
Exceptional items arising on discontinued operations		
Exceptional (loss) / profit on disposal	**(2.8)**	5.4
Other exceptional operating items		
Restructuring costs	**(1.1)**	(2.2)
Impairment of goodwill	**-**	(65.9)
Movements in indemnities provided on business disposals	**(13.7)**	-
Movement in the fair value of assets transferred to held for sale	**3.4**	(14.9)
Other exceptional operating items	**(11.4)**	(83.0)
Exceptional operating items arising on discontinued operations	**(14.2)**	(77.6)

In 2016 a charge of £1.1m (2015: £2.2m) has arisen in discontinued operations in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, provisions and other charges relating to the exit of the UK private sector BPO business, external advisory fees and other incremental costs.

During 2015, an impairment test of the Global Services business was conducted based on a level 3 fair value measurement, with reference to offers received less costs of disposal. The impairment testing identified a non cash exceptional impairment of goodwill relating to discontinued operations of £65.9m.

A charge of £13.7m has arisen in 2016 in relation to the movement in the value of indemnities provided on business disposals made in previous years. This relates to changes in exchange rates where indemnities were provided in foreign currencies and increases to provisions for interest and penalties on any indemnities.

The value of assets held for sale increased by £3.4m in 2016, reflecting the changing estimate of the likely proceeds and movements of the assets held for sale since the prior balance sheet date. In 2015 the held for sale assets were impaired by £14.9m.

A charge of £0.4m was incurred as a result of early payments to the US Private Placement (USPP) Noteholders following the disposal of the offshore private sector BPO business. These charges are treated as exceptional finance costs as they are directly linked to the restructuring resulting from the Strategy Review. Similar charges arose in 2015 which, together with the costs related to the preservation of the Group's existing finance facilities, totalled £32.8m.

The net assets at the date of disposal of discontinued operations were:

	Offshore £m	UK onshore £m
Goodwill	**8.0**	**-**
Property, plant and equipment	**1.0**	**-**
Trade and other receivables	**3.8**	**2.5**
Cash and cash equivalents	**5.6**	**-**
Trade and other payables	**(4.2)**	**1.2**
Minority interest disposed	**(0.5)**	**-**
Net assets disposed	**13.7**	**3.7**

The loss on disposal of discontinued operations is calculated as follows:

	Offshore £m	UK onshore £m	Total £m
Consideration	**15.2**	**3.5**	**18.7**
Less:			
Net assets disposed	**(13.7)**	**(3.7)**	**(17.4)**
Disposal related costs	**(0.5)**	**(1.4)**	**(1.9)**
Loss on disposal of discontinued operations prior to reserve recycling	**1.0**	**(1.6)**	**(0.6)**
Recycling of gains on translation of foreign operations	**(2.2)**	**-**	**(2.2)**
Exceptional loss on disposal	**(1.2)**	**(1.6)**	**(2.8)**

The net cash inflow arising on disposal of discontinued operations and the impact on Net Debt is as follows:

	Offshore £m	UK onshore £m	Total £m
Cash consideration	**15.2**	**2.0**	**17.2**
Less:			
Cash and cash equivalents disposed	**(5.6)**	**-**	**(5.6)**
Disposal related costs	**(0.5)**	**(1.4)**	**(1.9)**
Net cash flow on disposal and movement in net debt	**9.1**	**0.6**	**9.7**

The net cash flows resulting from the discontinued operations were as follows:

For the year ended 31 December	**2016 £m**	2015 £m
Net cash inflow from operating activities before exceptional items	**5.5**	67.7
Exceptional items	**-**	(1.5)
Net cash inflow from operating activities	**5.5**	66.2
Net cash inflow from investing activities	**12.5**	93.5
Net cash outflow from financing activities	**(11.4)**	(26.5)
Net increase in cash and cash equivalents attributable to discontinued operations	**6.6**	133.2

3. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2016 under IFRS 8 *Operating Segments* are as set out below.

Reportable segments	Operating segments
UK Central Government	Services for sectors including Defence, Justice & Immigration and Transport delivered to UK Government and devolved authorities;
UK & Europe Local & Regional Government	Services for sectors including Health and Citizen Services delivered to UK & European public sector customers;
AsPac	Services for sectors including Defence, Justice & Immigration, Transport, Health and Citizen Services in the Asia Pacific region including Australia, New Zealand and Hong Kong;
Middle East	Services for sectors including Defence, Transport and Health in the Middle East region;
Americas	Services for sectors including Defence, Transport and Citizen Services delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government; and
Corporate	Central and head office costs.

Each operating segment is focused on a narrow group of customers in a specific geographic region and is run by a local management team which report directly to the CODM on a regular basis. As a result of this focus, the sectors in each region have similar economic characteristics and are aggregated at the operating segment level in these financial statements. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Geographic information

Year ended 31 December	**Revenue 2016 £m**	**Non current assets* 2016 £m**	Revenue 2015 £m	Non current assets* 2015 £m
United Kingdom	**1,244.9**	**444.7**	1,529.2	259.2
United States	**632.9**	**309.1**	632.0	347.7
Australia	**593.1**	**146.0**	514.7	125.5
Middle East	**324.8**	**19.7**	291.3	16.2
Other countries	**215.3**	**20.4**	209.8	34.0
Total	**3,011.0**	**939.9**	3,177.0	782.6

* Non current assets exclude financial instruments, deferred tax assets and loans to joint ventures and associates and include held for sale assets. There are no held for sale items in 2016. 2015 includes held for sale assets of £1.2m.

Revenues from external customers are attributed to individual countries on the basis of the location of the customer.

Information about major customers

The Group has three major governmental customers which each represent more than 10% of Group revenues. The customers' revenues were £1,233.7m for the UK Government across the UK Central Government and UK & Europe Local & Regional Government segments, £623.1m for the US Government within the Americas segment, and £581.4m for the Australian Government within the AsPac segment.

In 2015 the Group had two major governmental customers which each represented more than 10% of Group revenues. The customers' revenues were £1,480.9m for the UK Government across the UK Central Government and UK & Europe Local & Regional Government segments, and £558.5m for the US Government within the Americas segment.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2016	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	**678.6**	**696.5**	**619.7**	**324.8**	**691.4**	**-**	**3,011.0**
Result							
Trading profit / (loss) from continuing operations	**94.9**	**(10.4)**	**34.2**	**18.8**	**6.4**	**(40.3)**	**103.6**
Amortisation and impairment of intangibles arising on acquisition	**(0.3)**	**-**	**(2.0)**	**-**	**(2.8)**	**-**	**(5.1)**
Operating profit / (loss) before exceptional items	**94.6**	**(10.4)**	**32.2**	**18.8**	**3.6**	**(40.3)**	**98.5**
Exceptional profit / (loss) on disposal of subsidiaries and operations	**(0.1)**	**4.5**	**0.4**	**-**	**-**	**(1.9)**	**2.9**
Other exceptional operating items	**(11.1)**	**(14.8)**	**(0.9)**	**-**	**-**	**(32.4)**	**(59.2)**
Operating profit / (loss)	**83.4**	**(20.7)**	**31.7**	**18.8**	**3.6**	**(74.6)**	**42.2**
Investment revenue							**9.3**
Finance costs							**(21.9)**
Profit before tax							**29.6**
Tax charge							**(15.8)**
Tax on exceptional items							**3.1**
Profit for the year from continuing operations							**16.9**
Supplementary information							
Share of profits in joint ventures and associates, net of interest and tax	**31.3**	**-**	**2.0**	**-**	**-**	**0.1**	**33.4**
Depreciation of plant, property and equipment	**(2.1)**	**(12.9)**	**(4.5)**	**(0.9)**	**(3.1)**	**(1.3)**	**(24.8)**
Impairment of plant, property and equipment	**(0.3)**	**-**	**(0.4)**	**-**	**-**	**-**	**(0.7)**
Total depreciation and impairment of plant, property and equipment	**(2.4)**	**(12.9)**	**(4.9)**	**(0.9)**	**(3.1)**	**(1.3)**	**(25.5)**
Amortisation of intangible assets arising on acquisition	**(0.3)**	**-**	**(1.3)**	**-**	**(2.8)**	**-**	**(4.4)**
Impairment and write down of intangible assets arising on acquisition	**-**	**-**	**(0.7)**	**-**	**-**	**-**	**(0.7)**
Amortisation of other intangible assets	**(0.1)**	**(0.5)**	**(3.3)**	**(0.7)**	**(1.5)**	**(15.7)**	**(21.8)**
Total amortisation and impairment of intangible assets	**(0.4)**	**(0.5)**	**(5.3)**	**(0.7)**	**(4.3)**	**(15.7)**	**(26.9)**
Segment assets							
Interests in joint ventures and associates	**12.3**	**-**	**1.7**	**0.4**	**-**	**-**	**14.4**
Other segment assets	**168.7**	**298.3**	**252.1**	**108.7**	**428.8**	**228.6**	**1,485.2**
Total segment assets	**181.0**	**298.3**	**253.8**	**109.1**	**428.8**	**228.6**	**1,499.6**
Unallocated assets							**265.0**
Consolidated total assets							**1,764.6**
Segment liabilities							
Segment liabilities	**(279.1)**	**(163.8)**	**(182.8)**	**(79.3)**	**(140.7)**	**(139.7)**	**(985.4)**
Unallocated liabilities							**(380.4)**
Consolidated total liabilities							**(1,365.8)**

Year ended 31 December 2015 (restated*)	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	742.1	905.8	544.7	291.4	693.0	–	3,177.0
Result							
Trading profit / (loss) from continuing operations* **	60.2	(14.5)	58.8	27.4	27.0	(48.0)	110.9
Amortisation and impairment of intangibles arising on acquisition	–	(1.1)	(1.2)	–	(2.5)	–	(4.8)
Operating profit / (loss) before exceptional items*	60.2	(15.6)	57.6	27.4	24.5	(48.0)	106.1
Exceptional profit / (loss) on disposal of subsidiaries and operations	0.5	0.3	(2.6)	–	–	(0.8)	(2.6)
Other exceptional operating items	(0.2)	(1.7)	(1.3)	(1.8)	(87.5)	(14.8)	(107.3)
Operating profit / (loss)*	60.5	(17.0)	53.7	25.6	(63.0)	(63.6)	(3.8)
Investment revenue							6.1
Finance costs*							(71.7)
Loss before tax							(69.4)
Tax charge							(17.9)
Tax on exceptional items							0.4
Loss for the year from continuing operations							(86.9)

* Administrative expenses included within Trading Profit and operating profit has been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements which has also resulted in a restatement of finance costs. See note 1.

** Trading profit / (loss) is defined as operating (loss) / profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Supplementary information	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Share of profits in joint ventures and associates, net of interest and tax	33.8	1.5	0.8	–	0.1	0.8	37.0
Depreciation of plant, property and equipment	(1.9)	(13.3)	(5.4)	(1.1)	(3.0)	(1.4)	(26.1)
Impairment of plant, property and equipment	(1.6)	–	–	–	(0.4)	–	(2.0)
Total depreciation and impairment of plant, property and equipment	(3.5)	(13.3)	(5.4)	(1.1)	(3.4)	(1.4)	(28.1)
Amortisation of intangible assets arising on acquisition	–	(1.1)	(1.2)	–	(2.5)	–	(4.8)
Amortisation of other intangible assets	(0.4)	(2.0)	(1.5)	(0.7)	(1.1)	(18.0)	(23.7)
Impairment and write down of other intangible assets	–	(9.0)	–	–	–	–	(9.0)
Total amortisation and impairment of intangible assets	(0.4)	(12.1)	(2.7)	(0.7)	(3.6)	(18.0)	(37.5)
Segment assets							
Interests in joint ventures and associates	4.4	6.5	2.3	0.4	0.2	–	13.8
Other segment assets	173.5	306.1	379.3	232.5	100.3	196.6	1,388.3
Total segment assets	177.9	312.6	381.6	232.9	100.5	196.6	1,402.1
Unallocated assets, including assets held for sale							437.4
Consolidated total assets							1,839.5
Segment liabilities							
Segment liabilities	(340.0)	(188.9)	(108.6)	(194.1)	(74.7)	(154.0)	(1,060.3)
Unallocated liabilities, including liabilities held for sale							(497.1)
Consolidated total liabilities							(1,557.4)

4. Joint ventures and associates

The Group has certain arrangements where control is shared equally with one or more parties and accounts for these arrangements as joint ventures. AWE Management Limited (AWEML) was formerly a joint venture but in August 2016 there was a change in the AWEML shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% by way of a return of shares and Lockheed Martin taking a majority holding. The Group was compensated for the reduction in share ownership of 8.8% through receipt of a dividend of the same amount which existed at the date of reduction. Subsequent to the change in share ownership AWEML has been accounted for as an associate as we continue to have significant influence, and therefore continue to account for the investment through equity accounting. The remainder of the arrangements are each a separate legal entity and legal ownership and control are equal with all other parties, there are no significant judgements required.

AWEML, Merseyrail Services Holding Company Limited (MSHCL) and Northern Rail Holdings Limited (NRHL) were the only equity accounted entities which were material to the Group during the year. Dividends of £19.6m (2015: £17.8m), £7.2m (2015: £7.2m) and £10.0m (2015: £5.9m) respectively were received from these companies in the year. The Northern Rail franchise ended on 31 March 2016.

Summarised financial information of AWEML, MSHCL, NRHL and an aggregation of the other equity accounted entities in which the Group has an interest is as follows:

31 December 2016

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	968.1	150.3	132.7	437.5	43.3	480.8
Operating profit	72.9	18.9	13.2	37.4	3.3	40.7
Net investment revenue / (finance costs)	0.2	(1.3)	0.1	(0.5)	(0.1)	(0.6)
Income tax (charge) / credit	(11.3)	(3.7)	(3.4)	(6.8)	0.1	(6.7)
Profit from continuing operations	61.8	13.9	9.9	30.1	3.3	33.4
Other comprehensive income	-	34.0	0.8	17.4	(1.6)	15.8
Total comprehensive income	61.8	47.9	10.7	47.5	1.7	49.2
Non-current assets	1,097.0	12.5	-	275.1	3.2	278.3
Current assets	149.3	32.8	14.2	60.1	16.0	76.1
Current liabilities	(133.9)	(31.9)	(10.7)	(54.2)	(14.0)	(68.2)
Non-current liabilities	(1,095.2)	(0.9)	-	(268.7)	(3.1)	(271.8)
Net assets	17.2	12.5	3.5	12.3	2.1	14.4
Proportion of group ownership	33% / 24.5%	50%	50%	-	-	-
Carrying amount of investment	4.2	6.3	1.8	12.3	2.1	14.4

	AWEML (100% of results) £m	MSHCL (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	72.4	10.5	14.5	35.4	4.7	40.1
Current financial liabilities excluding trade and other payables and provisions	(7.0)	(2.3)	(0.5)	(3.1)	(0.9)	(4.0)
Non current financial liabilities excluding trade and other payables and provisions	-	(0.6)	-	(0.3)	(3.0)	(3.3)
Depreciation and amortisation	-	(2.3)	(1.7)	(2.1)	(1.0)	(3.1)
Interest income	0.2	-	0.1	0.2	-	0.2
Interest expense	-	(1.3)	-	(0.6)	(0.1)	(0.7)

* Total results of the joint ventures and associates multiplied by the respective proportion of Group ownership.

The financial statements of MSHCL are for a period which is different from that of the Group, being for the 52 week period ended 7 January 2017. The 52 week period reflects the joint venture's internal reporting structure and is sufficiently close so as to not require adjustment to match that of the Group. The results of NRHL reflect the period of trading to the end of the franchise on 31 March 2016, together with the results from the ongoing post contract negotiations.

Excluded from the amounts disclosed in this note is an exceptional impairment of £13.9m of the equity interest and associated receivables balances of a joint venture.

Certain employees of the groups headed by AWEML and MSHCL are members of sponsored defined benefit pension schemes. Given the significance of the schemes to understanding the position of the entities the following key disclosures are made:

Main assumptions: 2016	AWEML £m	MSHCL £m
Rate of salary increases (%)	2.3%	2.3%
Inflation assumption (CPI %)	2.3%	2.3%
Discount rate (%)	2.7%	2.7%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	22.8	N/A
Future male industrial pensioners at 65 (years)	24.9	N/A

Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,556.0)	(275.7)
Fair value of scheme assets	1,460.9	171.1
Net amount recognised	(1,095.1)	(104.6)
Members' share of deficit	-	62.8
Franchise adjustment*	-	41.8
Related asset, right to reimbursement	1,095.1	-
Net retirement benefit obligation	-	-

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

AWEML is not liable for any deficiency in the defined benefit pension scheme under current contractual arrangements. The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

31 December 2015

Summarised financial information	AWEML (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	978.3	585.3	618.7	118.5	737.2
Operating profit	61.2	19.4	30.1	12.5	42.6
Net investment revenue / (finance costs)	0.4	0.4	0.3	(0.7)	(0.4)
Income tax expense	(5.9)	(3.5)	(3.7)	(1.5)	(5.2)
Profit from continuing operations	55.7	16.3	26.7	10.3	37.0
Other comprehensive income	–	11.9	5.9	1.7	7.6
Total comprehensive income	55.7	28.2	32.6	12.0	44.6
Non current assets	464.2	10.3	159.9	17.3	177.2
Current assets	358.8	97.2	168.2	35.7	203.9
Current liabilities	(342.6)	(93.4)	(160.9)	(32.7)	(193.6)
Non current liabilities	(461.7)	(3.8)	(155.8)	(17.9)	(173.7)
Net assets	18.7	10.3	11.4	2.4	13.8
Proportion of group ownership	33%	50%	–	–	–
Carrying amount of investment	6.2	5.2	11.4	2.4	13.8

Supplementary material	AWEML (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	111.4	44.9	59.6	21.1	80.7
Current financial liabilities excluding trade and other payables and provisions	(5.6)	(4.3)	(4.0)	(2.2)	(6.2)
Non current financial liabilities excluding trade and other payables and provisions	(0.1)	(1.3)	(0.7)	(3.3)	(4.0)
Depreciation and amortisation	–	(4.6)	(2.2)	(2.3)	(4.5)
Interest income	0.4	0.5	0.4	0.1	0.5
Interest expense	–	(0.1)	(0.1)	(0.8)	(0.9)

* Total results of the joint ventures and associates multiplied by the respective proportion of Group ownership.

The financial statements of NRHL are for the 52 week period ended 9 January 2016.

Key disclosures with respect of the defined benefit pension schemes of material joint ventures and associates:

Main assumptions: 2015	AWEML	NRHL
Rate of salary increases (%)	2.2%	3.0%
Inflation assumption (CPI %)	2.2%	2.1%
Discount rate (%)	4.0%	3.9%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	22.7	N/a
Future male industrial pensioners at 65 (years)	25.4	N/a

Retirement benefit funding position (100% of results)	AWEML £m	NRHL £m
Present value of scheme liabilities	(1,649.6)	(918.3)
Fair value of scheme assets	1,188.0	682.6
Net amount recognised	(461.6)	(235.7)
Members' share of deficit	–	94.3
Franchise adjustments*	–	141.3
Related asset, right to reimbursement	461.6	–
Net retirement benefit obligation	–	(0.1)

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

The Northern Rail defined benefit pension scheme used a mortality rate multiplier of 98% based on the S1 normal males (heavy) table, adjusted for the geographic location of members.

5. Acquisitions

On 1 December 2016 the Group acquired 100% of the issued share capital of Orchard & Shipman (Glasgow) Limited for £1, obtaining full control. Orchard & Shipman (Glasgow) Limited was a financially distressed subcontractor on our COMPASS contract and the business was acquired with the sole purpose of ensuring the continued delivery of this essential service to asylum seekers in Scotland and Northern Ireland.

The amounts recognised in respect of the identifiable assets acquired and the liabilities assumed are as set out in the table below:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Property, plant and equipment	0.2	(0.2)	-
Trade and other receivables	0.8	-	0.8
Cash and cash equivalents	0.1	-	0.1
Trade and other payables	(4.2)	-	(4.2)
Onerous contract provisions	(1.4)	(12.6)	(14.0)
Property provisions	(0.5)	-	(0.5)
Total identifiable assets	(5.0)	(12.8)	(17.8)
Goodwill			17.8
Acquisition date fair value of consideration transferred			-

Goodwill represents the premium associated with preventing a disruption to our service users and the financial impact of penalties associated with that disruption, taking into account the pre-existing onerous contract held by O&S for services provided to Serco, which will now be performed by Serco up to the expected contract end date. All of the service users in the region are housed in properties leased by Orchard & Shipman (Glasgow) Limited and the only way of guaranteeing control of those leases was by means of the acquisition of the legal entity. As the contract is loss making no value is ascribed to these lease arrangements and all goodwill arising on acquisition is immediately impaired. The onerous contract provision (OCP) of £14.0m included in the fair value of the acquisition net assets represents the best estimate of Orchard & Shipman (Glasgow) Limited's contractual obligations up to the expected contract end date. An element of this provision was previously included in the Group's existing OCP and an amount of £3.6m is included in amounts released in the year.

No acquisition related costs were incurred.

Orchard & Shipman (Glasgow) Limited contributed no external income to the Group's revenue for the year between the date of acquisition and the balance sheet date as the prime contract with the customer exists in another Group company, and therefore Group revenue would have been no higher if the acquisition had been completed on the first day of the financial year. As the business relates entirely to a loss making contract, the existence of the onerous contract provision results in no profit or loss in the period since acquisition and no profit or loss would have arisen had the acquisition taken place on 1 January 2016.

6. Exceptional items

Exceptional items are non recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

In the year exceptional items have arisen on both the continuing and discontinued operations of the Group. Exceptional items arising on discontinued operations are disclosed on the face of the income statement within the loss attributable to discontinued operations, those arising on continuing operations are disclosed on the face of the income statement within exceptional operating items. Further information regarding the exceptional items arising on discontinued operations can be seen in note 2.

Exceptional gain / (loss) on disposal of subsidiaries and operations

There were no material disposals of continuing operations in the year. Disposals relating to discontinued operations are included in note 2.

During the year the Group surrendered 8.8% of the share capital of AWEML, resulting in a reduction in interests in joint ventures and associates of £1.6m in return for equal consideration.

The profit on disposal of £2.9m arose from a profit of £0.4m on the disposal of a 10% investment sold as it was no longer required to be held under the terms of the relevant contract, and a profit of £2.5m relating to transactions completing in prior years, including cash of £4.5m as a result of deferred consideration payments received which had previously been impaired.

Other exceptional operating items arising on continuing operations

For the year ended 31 December	**2016 £m**	2015 £m
Impairment of goodwill	**(17.8)**	(87.5)
Restructuring costs	**(17.2)**	(19.7)
Aborted transaction costs	**(0.1)**	(1.7)
Costs associated with UK Government review	**(0.1)**	(1.2)
Release of UK frontline clinical health contract provisions	**0.6**	2.8
Settlement of defined benefit pension obligations	**(10.7)**	-
Impairment of interest in joint ventures and associates, and related loan balances	**(13.9)**	-
Other exceptional operating items	**(59.2)**	(107.3)

Goodwill is tested for impairment annually or more frequently if there are indications that there is a risk that it could be impaired. The recoverable amount of each cash generating unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions, the Group's strategy and key risks. These forecasts include an estimated level of new business wins and contract attrition and an assumption that the final year forecast continues into perpetuity at a CGU specific terminal growth rate. The terminal growth rates are provided by external sources and are based on the long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets.

In 2016, goodwill of £17.8m arose following the acquisition of Orchard & Shipman (Glasgow) Limited, the Group's subcontractor on the COMPASS contract providing accommodation to asylum seekers in Scotland and Northern Ireland on behalf of the Home Office. This goodwill was immediately impaired as the CGU is forecast to be loss making and therefore the asset cannot be supported. The annual impairment testing of CGUs has identified no other impairment of goodwill. In 2015 the Americas CGU was impaired by £87.5m, due primarily to a higher level of contract attrition than previously forecast and the associated impact on future cash flows. Given the significant

size of the impairment charge and that it is not part of the normal trading performance of the business it was considered appropriate to treat as exceptional in the year.

In 2016, a charge of £17.2m (2015: £19.7m) arose in relation to the restructuring programme resulting from the Strategy Review. This included redundancy payments, provisions, external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation phase of the Strategy Review the incremental costs associated with this programme were considered to be exceptional in the prior year and have been treated consistently in 2016. Non exceptional restructuring charges are incurred by the business as part of normal operational activity totalled £6.7m in the year (2015: £13.8m).

The disposal of the Environmental and Leisure businesses was aborted in December 2015 and during the current period costs related to the aborted transaction were finalised, resulting in a charge of £0.1m (2015: £1.7m).

In 2016 there were exceptional costs totalling £0.1m (2015: £1.2m) associated with the UK Government review and the programme of Corporate Renewal, reflecting the related external costs. This reflected external costs related to this review and the Corporate Renewal Programme, which were treated as exceptional when the matter first arose and consistent treatment has been applied in the current year.

In 2016 there were releases of provisions of £0.6m (2015: £2.8m) which were previously charged through exceptional items in relation to the exit of the UK Frontline Clinical Health contracts.

Following the finalisation of the Revised Fair Deal, a number of employees are being transferred from SPLAS back to the Principal Civil Service Pension Scheme. This transfer was finalised in December 2016 at which point all obligations of SPLAS to pay retirement benefits for these individuals were eliminated and as a result a settlement charge of £10.7m arose. This has been treated as an exceptional item in the year as a result of the transaction being material in size and nature and being outside of the normal course of business. The charge of £10.7m is an accounting charge only, the cash impact of the settlement which will be paid in future periods, is estimated as £3.0m and is offset by future savings in contributions resulting from the transfer.

A review of a joint venture's cash flow projections has led to the impairment of £13.9m of the equity interest and associated receivables balances. The impairment is outside of the normal course of business and of a significant value, and is therefore considered to be an exceptional item.

The exceptional finance costs charged in 2015 of £32.8m arose as a result of costs being incurred in 2015 to preserve the existing finance facilities, after an agreement was reached in December 2014 for the Group to defer its December 2014 covenant test until May 2015. In addition, payments were made to the US Private Placement (USPP) Noteholders as a result of early settlement following the Group refinancing. Total charges of £32.8m had been treated as exceptional items as they were outside of the normal financing arrangement of the Group and were significant in size.

The tax impact of these exceptional items was a tax credit of £3.1m (2015: £0.4m).

7. Investment revenue

Year ended 31 December	**2016 £m**	2015 £m
Interest receivable on other loans and deposits	**3.6**	1.1
Net interest receivable on retirement benefit obligations	**4.7**	4.9
Movement in discount on other debtors	**1.0**	0.1
	9.3	6.1

8. Finance costs

Year ended 31 December	**2016 £m**	2015 (restated*) £m
Interest payable on obligations under finance leases	**1.6**	2.5
Interest payable on other loans	**15.6**	24.7
Facility fees and other charges	**3.5**	6.2
Movement in discount on provisions	**2.4**	5.6
	23.1	39.0
Foreign exchange on financing activities*	**(1.2)**	(0.1)
	21.9	38.9

* Finance costs have been restated as a result of the change in treatment of foreign exchange items on investing and financing items as explained in note 1.

9. Tax

In 2016, we recognised a total tax charge of £12.8m (2015: £33.5m), being £12.7m (2015: £17.5m) on continuing operations profit of £29.6m (2015: loss of £69.4m) and £0.1m (2015: £16.0m) on discontinued operations losses of £17.9m (2015: £50.2m). Of this amount, a £3.1m credit (2015: £0.4m credit) arises on exceptional items on continuing operations.

In respect of the results of our continuing operations, the profit on pre-exceptional items of £98.5m (2015: £106.1m) less pre-exceptional finance costs of £12.6m (2015: £32.8m) is £85.9m (2015: £73.3m), which suffers a tax charged of £15.8m (2015: £17.9m), giving a tax rate of 18.4% (2015: 24.4%).

The principal reasons why the tax rate on profit before exceptional items and tax from continuing operations at 18.4% is lower than the UK standard corporation tax rate of 20% are due to higher rates of tax on profits arising on our international operations, together with the absence of any deferred tax credit for losses incurred in the UK (which includes the result of UK divisions and the majority of corporate costs) offset by the impact of our joint ventures whose post-tax results are included in our pre-tax profit.

The tax charge on discontinued operations' losses and the tax credit on exceptional losses of £70.8m have only attracted small amounts of tax because these costs and losses are largely generated in the UK, where deferred tax assets are not being recognised due to insufficient UK taxable profits in the foreseeable future.

At 31 December 2016, the Group has gross estimated unrecognised deferred tax assets of £1.04bn (£187m net), which are potentially available to offset against future taxable profits. These principally relate to tax losses of £824m. Of these tax losses, £697m have arisen in the UK business (net £118m).

A £10.0m UK tax asset has been recognised at 31 December 2016 (2015: £10.5m) on the basis of forecast utilisation against future taxable profits.

10. Earnings per share

Basic and diluted EPS have been calculated in accordance with IAS 33 *Earnings per Share*.

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

Number of shares	**2016 millions**	2015 millions
Weighted average number of ordinary shares for the purpose of basic EPS	**1,088.3**	986.5
Effect of dilutive potential ordinary shares: Share options	**37.3**	–
Weighted average number of ordinary shares for the purpose of diluted EPS	**1,125.6**	986.5

At 31 December 2016 options over 246,818 (2015: 560,060) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

The dilutive shares of 37.3m (2015: 26.5m) are applied in the continuing only EPS calculation. Due to the loss making position of continuing and discontinued combined, and discontinued only, the dilutive impact has not been calculated in 2016 and 2015, nor for 2015 continuing.

Earnings per share continuing and discontinued

Basic EPS	**Earnings 2016 £m**	**Per share amount 2016 pence**	Earnings 2015 £m	Per share amount 2015 pence
Earnings for the purpose of basic EPS	**(1.2)**	**(0.11)**	(152.6)	(15.47)
Effect of dilutive potential ordinary shares	**-**	**-**	–	–
Diluted EPS	**(1.2)**	**(0.11)**	(152.6)	(15.47)

Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	**(1.2)**	**(0.11)**	(152.6)	(15.47)
Add back exceptional items	**70.9**	**6.51**	220.3	22.33
Add back tax on exceptional items	**(3.1)**	**(0.28)**	(3.1)	(0.31)
Earnings excluding exceptional operating items for the purpose of basic EPS	**66.6**	**6.12**	64.6	6.55

Earnings per share continuing

Basic EPS	**Earnings 2016 £m**	**Per share amount 2016 pence**	Earnings 2015 £m	Per share amount 2015 pence
Earnings for the purpose of basic EPS	**16.9**	**1.55**	(86.6)	(8.78)
Effect of dilutive potential ordinary shares	**-**	**(0.05)**	–	–
Diluted EPS	**16.9**	**1.50**	(86.6)	(8.78)

Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	**16.9**	**1.55**	(86.6)	(8.78)
Add back exceptional items	**56.3**	**5.17**	142.7	14.47
Add back tax on exceptional items	**(3.1)**	**(0.28)**	(0.4)	(0.04)
Earnings excluding exceptional operating items for the purpose of basic EPS	**70.1**	**6.44**	55.7	5.65

Earnings per share discontinued

Basic EPS	**Earnings 2016 £m**	**Per share amount 2016 pence**	Earnings 2015 £m	Per share amount 2015 pence
Earnings for the purpose of basic EPS	**(18.1)**	**(1.66)**	(66.0)	(6.69)
Effect of dilutive potential ordinary shares	**-**	**-**	–	–
Diluted EPS	**(18.1)**	**(1.66)**	(66.0)	(6.69)

Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	**(18.1)**	**(1.66)**	(66.0)	(6.69)
Add back exceptional items	**14.6**	**1.34**	77.6	7.87
Add back tax on exceptional items	**-**	**-**	(2.7)	(0.28)
Earnings excluding exceptional operating items for the purpose of basic EPS	**(3.5)**	**(0.32)**	8.9	0.90

11. Goodwill

The value of each CGU is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions and key risks. These forecasts include an estimate of new business wins and an assumption that the final year forecast continues on into perpetuity at a CGU specific growth rate.

Goodwill is required to be tested for impairment at least once every financial year, irrespective of whether there is any indication of impairment. The annual impairment review typically takes place in the final quarter of the year. However, if there are indicators of impairment a review is also required.

Sensitivity analysis has been performed for each key assumption, a 1% movement in discount rates and a 1% movement in terminal growth rates are considered to be reasonably possible. The only CGU impacted by a reasonably possible change in a key assumption is Health. The breakeven point of Health goodwill impairment is a 0.2% increase in discount rate or a 0.3% decrease in terminal growth rate.

Serco operates a contract supporting the US Affordable Care Act (ACA) with eligibility processing services to those seeking health insurance. These operations accounted for nearly 30% of the Americas divisional revenue in 2016, and we currently forecast them to be broadly flat in 2017. The contract requires the final option year to be exercised in H1 of 2017 in order to extend through to 30 June 2018 at which point we would be required to rebid the contract. Particular uncertainty exists with regard to the future of the ACA. At the time of reporting, apart from knowing that under the new US President's Administration changes will be made to the ACA, there is no consensus in neither Congress nor the Administration as to what form these changes will take, and what provision will be made for the more than 24 million people who have received their health insurance coverage through the ACA. Whilst margins on this contract are lower than the average for the Americas division, the contract recovers a material amount of overhead costs and large reductions in chargeable direct labour could create challenges to reduce overheads in line with revenues. The timing and nature of arrangements made for the replacement of the Affordable Care Act in the US could therefore have a material impact on the business both in the immediate and longer term. However, at present, the impact on future revenues and profitability cannot be reliably estimated.

12. Analysis of Net Debt

	At 1 January 2016 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions** £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2016 £m
Cash and cash equivalents	**323.6**	**(153.7)**	**-**	**0.1**	**-**	**7.8**	**-**	**177.8**
Loan receivables	**19.9**	**-**	**-**	**-**	**-**	**0.1**	**2.9**	**22.9**
Loans payable	**(381.9)**	**135.8**	**-**	**-**	**-**	**(52.8)**	**(1.0)**	**(299.9)**
Obligations under finance leases	**(43.8)**	**16.7**	**(0.2)**	**-**	**-**	**(0.4)**	**(0.5)**	**(28.2)**
Derivatives relating to Net Debt	**14.6**	**-**	**-**	**-**	**-**	**3.5**	**-**	**18.1**
	(67.6)	**(1.2)**	**(0.2)**	**0.1**	**-**	**(41.8)**	**1.4**	**(109.3)**

	At 1 January 2015 (restated*) £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions** £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2015 (restated*) £m
Cash and cash equivalents	180.1	128.8	17.2	–	(0.4)	(2.1)	–	323.6
Loan receivables	1.0	(0.6)	–	–	–	–	19.5	19.9
Loans payable	(797.3)	449.0	(0.8)	–	–	(30.8)	(2.0)	(381.9)
Obligations under finance leases	(26.5)	9.3	(26.7)	–	–	–	0.1	(43.8)
Derivatives relating to Net Debt*	10.7	-	-	-	-	3.9	-	14.6
	(632.0)	586.5	(10.3)	–	(0.4)	(29.0)	17.6	(67.6)

* Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt. See note 1.

** Acquisitions represent the net cash / (debt) acquired on acquisition.

Total net debt held amounts to £109.3m (2015: £62.9m) of which £109.3m (2015: £67.6m) is shown above and £nil (2015: £4.7m (asset)) is included within amounts held for sale on the balance sheet.

13. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2016	**36.4**	**18.3**	**302.1**	**124.9**	**481.7**
Acquisitions	**-**	**0.6**	**14.0**	**-**	**14.6**
Reclassified to trade and other payables	**-**	**-**	**(11.5)**	**(8.3)**	**(19.8)**
Charged to income statement – exceptional	**0.4**	**-**	**-**	**22.7**	**23.1**
Charged to income statement – other	**25.6**	**4.4**	**56.6**	**23.7**	**110.3**
Released to income statement – exceptional	**(0.2)**	**-**	**(0.6)**	**-**	**(0.8)**
Released to income statement – other	**(5.3)**	**(0.3)**	**(64.9)**	**(17.2)**	**(87.7)**
Utilised during the year	**(17.5)**	**(6.2)**	**(82.0)**	**(17.7)**	**(123.4)**
Reclassification	**-**	**(2.9)**	**(7.3)**	**4.9**	**(5.3)**
Transfer from assets held for sale	**-**	**-**	**-**	**3.3**	**3.3**
Eliminated on disposal of subsidiary	**-**	**-**	**-**	**(1.7)**	**(1.7)**
Unwinding of discount	**-**	**0.1**	**2.4**	**-**	**2.5**
Exchange differences	**5.7**	**1.2**	**11.4**	**6.6**	**24.9**
At 31 December 2016	**45.1**	**15.2**	**220.2**	**141.2**	**421.7**
Analysed as:					
Current	**13.7**	**4.3**	**79.2**	**75.1**	**172.3**
Non current	**31.4**	**10.9**	**141.0**	**66.1**	**249.4**

Total provisions held by the Group at 31 December 2016 amount to £421.7m (2015: £506.2m) and include £421.7m (2015: £481.7m) shown above and £nil (2015: £24.5m) included within amounts held for sale on the balance sheet.

Contract provisions relate to onerous contracts which will be utilised over the life of each individual contract, up to a maximum of 8 ¼ years from the balance sheet date. The present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material. Discount rates used are calculated based on the estimated risk free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision. Rates applied are in the range of 1.16% and 3.30%. A full analysis is performed at least annually of the future profitability of all contracts with marginal performances and of the balance sheet items directly linked to these contracts.

Due to the significant size of the balance and the inherent level of uncertainty over the amount and timing of the related cash flows upon which onerous contract provisions are based, if the expected operational performance varies from the best estimates made at the year end, a material change in estimate may be required. The key drivers behind operational performance is the level of activity required to be serviced, which is often directed by the actions of the UK Government, and the efficiency of Group employees and resources.

Employee related provisions are for long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the future. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due, with the longest running lease ending in April 2039.

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period, in respect of past events. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances, with the majority expecting to be settled by 31 December 2021.

14. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures and associates up to a maximum value of £20.4m (2015: £21.1m). The actual commitment outstanding at 31 December 2016 was £17.9m (2015: £20.8m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2016 was £252.1m (2015: £211.8m).

As we have disclosed before, we are under investigation by the Serious Fraud Office. In November 2013, the UK's Serious Fraud Office announced that it had opened an investigation, which remains ongoing, into the Group's Electronic Monitoring Contract.

We are cooperating fully with the Serious Fraud Office's investigation but it is not possible to predict the outcome. However, disclosed in the Principal Risks and Uncertainties in this Report is a description of the range of possible outcomes in the event that the Serious Fraud Office decides to prosecute the individuals and /or the Serco entities involved.

The Group is aware of other claims and potential claims which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

15. Defined benefit schemes

The costs related to defined benefit pension schemes included within operating profit in the year amount to £11.7m (2015: £11.6m). Included in investment income and finance costs is a credit of £4.7m (2015: £4.9m) relating to the net interest income on our consolidated pension schemes. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2015 and resulted in an actuarially assessed deficit of £4.0m.

The assets and liabilities of the schemes at 31 December are:

Scheme assets at fair value	Contract specific 2016 £m	Non contract specific 2016 £m	Total 2016 £m
Equities	**3.3**	**43.3**	**46.6**
Bonds except LDI	**0.7**	**20.2**	**20.9**
Liability driven investments (LDI)	**-**	**1,390.6**	**1,390.6**
Gilts	**-**	**72.4**	**72.4**
Property	**0.6**	**-**	**0.6**
Cash and other	**1.2**	**4.2**	**5.4**
Annuity policies	**-**	**20.0**	**20.0**
Fair value of scheme assets	**5.8**	**1,550.7**	**1,556.5**
Present value of scheme liabilities	**(12.0)**	**(1,418.0)**	**(1,430.0)**
Net amount recognised	**(6.2)**	**132.7**	**126.5**
Franchise adjustment*	**3.7**	**-**	**3.7**
Members' share of deficit	**2.5**	**-**	**2.5**
Net retirement benefit asset	**-**	**132.7**	**132.7**
Net pension liability	**-**	**(17.7)**	**(17.7)**
Net pension asset	**-**	**150.4**	**150.4**
Deferred tax liabilities	**-**	**(17.6)**	**(17.6)**
Net retirement benefit asset (after tax)	**-**	**115.1**	**115.1**

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

Scheme assets at fair value	Contract specific 2015 £m	Non contract specific 2015 £m	Total 2015 £m
Equities	2.8	39.1	41.9
Bonds except LDI	0.3	–	0.3
Liability driven investments (LDI)	–	1,144.4	1,144.4
Gilts	–	68.1	68.1
Property	0.6	–	0.6
Cash and other	0.9	30.7	31.6
Annuity policies	–	22.0	22.0
Fair value of scheme assets	4.6	1,304.3	1,308.9
Present value of scheme liabilities	(7.7)	(1,188.7)	(1,196.4)
Net amount recognised	(3.1)	115.6	112.5
Franchise adjustment*	1.9	–	1.9
Members' share of deficit	1.2	–	1.2
Net retirement benefit asset	–	115.6	115.6
Net pension liability	–	(11.5)	(11.5)
Net pension asset	–	127.1	127.1
Deferred tax liabilities	–	(20.8)	(20.8)
Net retirement benefit asset (after tax)	–	94.8	94.8

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

Key pension assumptions:

Main assumptions	**2016 %**	2015 %
Rate of salary increases	**2.80**	2.80
Rate of increase in pensions in payment	**2.30 (CPI) and 3.30 (RPI)**	2.00 (CPI) and 3.00 (RPI)
Rate of increase in deferred pensions	**2.30 (CPI) and 3.30 (RPI)**	2.10 (CPI) and 3.10 (RPI)
Inflation assumption	**2.30 (CPI) and 3.30 (RPI)**	2.10 (CPI) and 3.10 (RPI)
Discount rate	**2.70**	3.80

Post retirement mortality	**2016 years**	2015 years
Current pensioners at 65 – male	**22.5**	22.6
Current pensioners at 65 – female	**25.0**	25.1
Future pensioners at 65 – male	**24.2**	24.4
Future pensioners at 65 – female	**26.9**	27.1

Pension assumption sensitivities:

	2016 £m	2015 £m
Discount rate - 0.5% increase	**(116.5)**	(98.6)
Discount rate - 0.5% decrease	**132.5**	111.3
Inflation - 0.5% increase	**106.1**	97.4
Inflation - 0.5% decrease	**(87.6)**	(88.2)
Rate of salary increase - 0.5% increase	**7.8**	10.4
Rate of salary increase - 0.5% decrease	**(7.4)**	(10.0)
Mortality - one year age rating	**44.2**	28.7

16. Notes to the consolidated cash flow statement

Year ended 31 December	**2016 Before exceptional items £m**	**2016 Exceptional items £m**	**2016 Total £m**	2015 Before exceptional items (restated) £m	2015 Exceptional items £m	2015 Total (restated) £m
Operating profit / (loss) for the year –continuing operations*	**98.5**	**(56.3)**	**42.2**	106.1	(109.9)	(3.8)
Operating (loss) / profit for the year –discontinued operations	**(3.3)**	**(14.2)**	**(17.5)**	26.5	(77.6)	(51.1)
Operating profit / (loss) for the year*	**95.2**	**(70.5)**	**24.7**	132.6	(187.5)	(54.9)
Adjustments for:						
Share of profits in joint ventures and associates	**(33.4)**	**-**	**(33.4)**	(37.0)	–	(37.0)
Share based payment expense	**9.7**	**-**	**9.7**	9.8	–	9.8
Exceptional impairment of goodwill	**-**	**17.8**	**17.8**	–	153.4	153.4
Exceptional impairment of property, plant and equipment	**-**	**(0.8)**	**(0.8)**	–	0.8	0.8
Exceptional impairment of intangible assets	**-**	**0.3**	**0.3**	–	(0.3)	(0.3)
Impairment and write down of intangible assets	**0.7**	**-**	**0.7**	11.5	–	11.5
Impairment of property, plant and equipment	**0.7**	**-**	**0.7**	2.1	–	2.1
Depreciation of property, plant and equipment	**24.8**	**-**	**24.8**	28.9	–	28.9
Amortisation of intangible assets	**26.2**	**-**	**26.2**	29.0	–	29.0
Exceptional profit on disposal of subsidiaries and operations	**-**	**(0.1)**	**(0.1)**	–	(2.8)	(2.8)
Loss on disposal of property, plant and equipment	**0.4**	**-**	**0.4**	0.1	–	0.1
Loss on disposal of intangible assets	**0.8**	**-**	**0.8**	1.5	–	1.5
Non cash R&D expenditure offset against intangible assets	**0.2**	**-**	**0.2**	0.8	–	0.8
Decrease in provisions	**(118.4)**	**(1.1)**	**(119.5)**	(116.0)	(9.5)	(125.5)
Other non-cash movements*	**0.4**	**-**	**0.4**	(0.1)	–	(0.1)
Total non-cash items	**(54.5)**	**16.1**	**(38.4)**	(32.4)	141.6	109.2
Operating cash inflow / (outflow) before movements in working capital	**7.3**	**(54.4)**	**(47.1)**	63.2	(45.9)	17.3
Decrease in inventories	**1.3**	**-**	**1.3**	5.6	–	5.6
Decrease in receivables	**59.0**	**13.9**	**72.9**	20.6	–	20.6
Decrease in payables	**(84.0)**	**0.6**	**(83.4)**	(48.8)	(10.7)	(59.5)
Movements in working capital	**(23.7)**	**14.5**	**(9.2)**	(22.6)	(10.7)	(33.3)
Cash generated by operations*	**(16.4)**	**(39.9)**	**(56.3)**	40.6	(56.6)	(16.0)
Tax paid	**(5.6)**	**-**	**(5.6)**	(2.7)	–	(2.7)
Non cash R&D expenditure	**(0.4)**	**-**	**(0.4)**	(0.7)	–	(0.7)
Net cash (outflow) / inflow from operating activities*	**(22.4)**	**(39.9)**	**(62.3)**	37.2	(56.6)	(19.4)

* Operating Profit has been restated following the change in accounting policy to include foreign exchange movements on investment and financing arrangements in net finance costs.

17. 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 and associates are disclosed below.

During the year, Group companies entered into the following transactions with joint ventures and associates:

	Transactions 2016 £m	Current outstanding at 31 December 2016 £m	Non current outstanding at 31 December 2016 £m
Sale of goods and services			
Joint ventures	**0.5**	**0.1**	**-**
Associates	**6.2**	**0.5**	**-**
Other			
Dividends received – joint ventures	**20.4**	**-**	**-**
Dividends received - associates	**19.6**	**-**	**-**
Receivable from consortium for tax – joint ventures	**3.2**	**7.7**	**-**
Total	**49.9**	**8.3**	**-**

Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. Interest arising on loans is based on LIBOR, or its equivalent, with an appropriate margin. No guarantee has been given or received. The only loan amounts owed by joint ventures or associates related to a single entity which have been provided for in full.

	Transactions 2015 £m	Current outstanding at 31 December 2015 £m	Non current outstanding at 31 December 2015 £m
Sale of goods and services			
Joint ventures	6.1	0.6	-
Other			
Dividends received – joint ventures	32.5	-	-
Loans and other receivables – joint ventures	-	0.8	7.2
Receivable from consortium for tax – joint ventures	4.2	9.3	-
Total	42.8	10.7	7.2