Stock Exchange Announcement

Serco Group plc – 2016 half year results

4 August 2016

Six months ended 30 June	2016	2015
Revenue – continuing and discontinued operations(1)	£1,517.9m	£1,789.3m
Reported Revenue (continuing operations only)	£1,493.2m	£1,612.7m
Underlying Trading Profit(2)	£51.0m	£46.9m
Reported Operating Profit (after exceptional items; continuing operations only)(2)	£65.2m	£36.8m
Underlying EPS, basic(3)	3.70p	1.57p
Reported EPS, basic (after exceptional items; continuing and discontinued operations)	4.27p	(10.32p)
Free Cash Flow(4)	£1.5m	(£77.5m)
Net Debt (including that for assets and liabilities held for sale)	£120.2m	£290.3m

- Revenue(1), including discontinued operations, declined by 15%, comprising an 8% organic decline from net contract attrition and 8% resulting from disposals, partially offset by a 1% currency benefit.
- Underlying Trading Profit(2) increased by 9%, better than we anticipated at the start of the year; the improved performance was driven largely by factors which are unlikely to repeat, such as the favourable resolution of commercial issues and certain contracts running on longer than expected.
- Trading Profit(2) of £71.7m increased by 14%, growing faster than Underlying Trading Profit due principally to further progress reducing future liabilities related to loss-making contracts.
- Underlying EPS(3) increased substantially, reflecting increased profits, reduced net finance costs and a significantly lower effective tax rate.
- Reported EPS includes the effect of exceptional items; the net exceptional charge was £12.4m, compared with £117.1m of charges in the first half of 2015 largely related to impairment of goodwill and refinancing costs.
- Free Cash Flow of £2m, significantly better than the first half of 2015 outflow of £78m.
- Closing Net Debt increased over the period by £43m to £120m, includes £23m translation effect on long-term US$ debt.
- Net Debt : EBITDA leverage of 0.75x, comfortably below our medium term target range of 1-2x and at similar level to the start of the year.
- £0.9bn total value of signed contracts, of which 16 are worth more than £10m each; largest new contracts were for the Australian icebreaker and nuclear hardening of US radar facilities; largest extensions were for Acacia prison in Australia and the Anglia Support Partnership healthcare shared services in the UK.
- Pipeline of larger new bid opportunities of £7.3bn, an increase of £0.8bn over the period and £2.3bn year-on-year.
- Operating costs compared to the first half 2015 reduced by £275m, or £550m on an annualised basis, and in proportion to revenue reduction.
- Better trading performance and currency movements lead us to increase guidance for 2016; latest expectations are revenue of approximately £3.0bn and Underlying Trading Profit of not less than £80m.
- View of 2017 not materially changed on a constant currency basis.

Rupert Soames, Serco Group Chief Executive, said: "Performance for the first half of the year has been better than we expected. Although much of the improvement came from items that will not recur, it reflects the result of a lot of hard work and successful resolution of a number of commercial issues. Since our last update in May, our trading performance and cost savings are tracking slightly ahead of plan, and recent foreign exchange movements have increased the value in sterling of our overseas earnings. Accordingly, we are increasing our profit guidance for 2016, although it is important to note that our view of the outlook for 2017 is not materially changed, other than adjusting for foreign currency movements.

"Whilst we expect to see potholes on the way, we are making good progress on the implementation of our strategy, underlined by our growing pipeline of new bids. We have removed some £550m from our operating costs, and at the same time we have been investing in our infrastructure, processes and capability and have recently rolled out significant improvements in our HR, finance and purchasing systems."

For further information please contact Serco:

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Presentation:

A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting 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 1909 (USA: +1 646 254 3361) with participant pin code 6046858.

Notes to summary table of financial results:

(1) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures. Revenue including that from discontinued operations is shown for consistency with previous guidance. Reported Revenue excludes revenue from discontinued operations of £24.7m (2015: £176.6m). Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of any acquisitions or disposals.

(2) Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures. Underlying Trading Profit excludes Contract and Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), 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 termination of a UK local authority contract that occurred in the second half 2015. Trading Profit measures include discontinued operations for consistency with previous guidance. A reconciliation of Underlying Trading Profit to Reported Operating Profit is as follows:

Six months ended 30 June	2016	2015
Underlying Trading Profit	£51.0m	£46.9m
Include: non-underlying items		
Onerous contract and Balance Sheet Review adjustments	£17.0m	£5.5m
Benefit from non-depreciation and non-amortisation of assets held for sale	£0.2m	£10.3m
Other one-time items	£3.5m	-
Trading Profit	£71.7m	£62.7m
Amortisation and impairment of intangibles arising on acquisition	(£2.0m)	(£2.9m)
Operating Profit Before Exceptional Items (continuing and discontinued operations)	£69.7m	£59.8m
Exclude: Operating Loss/(Profit) Before Exceptional Items from discontinued operations	£3.2m	(£6.4m)
Reported Operating Profit Before Exceptional Items (continuing operations only)	£72.9m	£53.4m
Operating Exceptional Items (continuing operations only)	(£7.7m)	(£16.6m)
Reported Operating Profit (after exceptional items; continuing operations only)	£65.2m	£36.8m

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

(4) 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 deducting net interest paid and net capital expenditure on tangible and intangible asset purchases.

(5) Change at constant currency for Revenue and Underlying Trading Profit is calculated by translating non-Sterling values for the periods to 30 June 2015 and 30 June 2016 into Sterling at the average exchange rate for the year ended 31 December 2015.

Reconciliations and further detail of financial performance are included in the Finance Review on pages 15 to 28. The consolidated financial statements and accompanying notes are on pages 29 to 58.

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" 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. 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 £1,493m (2015: £1,613m); this measure excludes Serco's share of revenue from joint ventures of £294m (2015: £364m) and from discontinued operations (our private sector BPO division) of £25m (2015: £177m). Revenue including discontinued operations was £1,518m (2015: £1,789m). Currency movements provided a £25m benefit. At constant currency and adjusting for disposals, the organic revenue decline was 8%, 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 £71.7m (2015: £62.7m) and Underlying Trading Profit was £51.0m (2015: £46.9m), resulting in a margin of 3.4% (2015: 2.6%). The £20.7m difference is accounted for by three items. First, we have excluded from Underlying Trading Profit a benefit of £17.0m (2015: £5.5m) arising from our review of OCPs and other Contract and Balance Sheet Review items, reflecting the net effect of numerous charges and releases against individual contracts and provisions, none of which was individually larger than £6m. While this £17.0m is excluded from our underlying measures, it reflects further good progress in reducing the liabilities related to onerous contracts. As with the comparable period, Underlying Trading Profit benefited from OCP utilisation, which reflects the neutralisation of the losses on the previously identified onerous contracts; the £47m utilised in the period was slightly lower than our expectations at the start of the year, and compares to £69m utilised in the first half of 2015. The second item of difference between Underlying Trading Profit and Trading Profit 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 termination of 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 beneficial impact of this accounting treatment of £0.2m (2015: £10.3m) has therefore been excluded from our measure of Underlying Trading Profit.

The £4.1m increase in Underlying Trading Profit includes a £3.8m increase in our share of profits from joint ventures, a favourable £1.4m currency movement and an adverse £6.3m movement in discontinued operations resulting from our exit of the private sector BPO market. Excluding these, Underlying Trading Profit increased by approximately £5m. The impact of net contract attrition has therefore been more than offset by further good progress in reducing overhead and shared service centre costs. The profit performance was stronger than we initially anticipated, in large part due to the successful resolution of a number of commercial issues; these increased profits in the first half, but are not expected to repeat in subsequent periods.

Reported Operating Profit, including discontinued operations, and before exceptional items, was £69.7m (2015: £59.8m), which reflects Trading Profit as described above, after additionally charging amortisation and impairment of intangibles arising on acquisition of £2.0m (2015: £2.9m).

Finance, tax and exceptional costs

Pre-exceptional net finance costs, including discontinued operations, were £7.1m (2015: £18.6m). The reduction in cost arises principally from the lower average net debt resulting from the proceeds from the Rights Issue received in April 2015 and the BPO disposal proceeds received at the end of December 2015, which enabled us to pay down early a further £117m of US Private Placement debt in February 2016. Within net finance costs is a net credit of £2.3m (2015: £2.5m) related to the strong funding position of Serco's pension schemes; as a result, we now anticipate overall net finance costs to be approximately £15m for the year as a whole. The pension scheme net balance sheet asset, before tax, increased to £140m (2015: £119m); on an estimated actuarial basis, the main Group scheme has a deficit of just £11m (2015: £9m). Cash net interest paid in the period was £10.5m (2015: £19.6m).

Pre-exceptional tax costs, including discontinued operations, were £3.8m (2015: £15.8m). Excluding the tax cost on non-underlying items of £0.2m (2015: £1.2m), the underlying effective tax rate was 8% (2015: 51%) based upon £43.9m of Underlying Trading Profit less pre-exceptional net finance costs, or approximately 20% excluding a £4.4m deferred tax credit related to movement in the value of pension assets. The rate reflects the tax charges at locally prevailing rates in the international divisions (which tend to be higher than the UK's rate), but in the latest period a substantial proportion of Serco's profit before tax is generated by consolidating our share of joint venture earnings which have already been taxed, and in the first half of the year there are some profits in the UK that attract a 0% effective tax rate; this 0% effective tax rate is because losses are forecast for the UK for the year as a whole, against which there continues to be a current lack of a deferred tax credit. In line with expectations, net cash tax paid in the period was £6.6m (2015: £7.7m).

Whilst we expect our cash tax rate to be reasonably stable 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 2016, we expect an underlying effective tax rate of approximately 20-25%. 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 £11.9m, exceptional finance costs of £0.4m and tax charges on exceptional items of £0.1m; in aggregate, net exceptional costs were therefore £12.4m (2015: £117.1m). Within the £11.9m, there were exceptional restructuring costs of £6.6m and external adviser costs related to the UK Government reviews of £0.9m. The remaining £4.4m of operating exceptional costs reflected losses on disposals and the movement in the carrying value of assets held for sale and for indemnities provided on prior business disposals. Cash outflows related to exceptional charges were significantly higher than the accounting charge in the period, as payments were made related to prior exceptional charges.

Reported Profit for the period

Reported Profit for the period, as presented on the Group's Consolidated Income Statement on page 29, was £46.4m (2015: loss of £91.7m). This reflects the measures described above: reported operating profit, including discontinued operations, and before exceptional items, of £69.7m (2015: £59.8m); pre-exceptional net finance costs, including discontinued operations, of £7.1m (2015: £18.6m); pre-exceptional tax costs, including discontinued operations, of £3.8m (2015: £15.8m); and exceptional costs, net of tax, of £12.4m (2015: £117.1m).

Earnings Per Share

Underlying Earnings Per Share, which reflects the Underlying Trading Profit measure after deducting pre-exceptional finance costs (including those for discontinued operations) and related tax effects, was 3.70p (2015: 1.57p). The increase reflects the lower tax charge and finance costs, as well as the improvement in Underlying Trading Profit. There is a partial offset to these factors from the movement in the weighted average number of shares in issue which increased to 1,088.8m shares (2015: 886.2m shares) as a consequence of the 2015 Rights Issue. Earnings before exceptional items, including those for discontinued operations, were 5.40p per share; including the impact of exceptional items, Reported EPS was 4.27p.

Cash Flow and Net Debt

Free Cash Flow was an inflow £1.5m (2015: outflow of £77.5m). Cash generated from Underlying Trading Profit was largely offset by the outflows related to the movement in provisions reflecting the cash impact of the onerous contracts, together with a small working capital outflow. The improvement in Free Cash Flow reflects principally the fact that 2015 was the major phase of our campaign to normalise debtor and creditor cycles; capital expenditure was also lower, mainly as a result of the disposal of the private sector BPO business.

Despite positive Free Cash Flow, closing net debt at 30 June 2016, including that for assets and liabilities held for sale, increased to £120.2m, having been £77.5m at the start of the year; this increase was as a result of a £32.4m cash outflow related to exceptional items, which includes the cash timing of exceptional charges taken in prior years, and a £23.4m adverse currency translation impact on net debt. Pleasingly, and reflecting our efforts to normalise cash management, the average debt balance was £123.9m (2015: £588.3m), very close to the reported closing position; peak net debt during the period was £169.6m (2015: £830.4m).

At the closing balance sheet date, our leverage for covenant purposes was 0.53x EBITDA on a rolling 12-month basis, which compares with the requirement in our debt covenants to be less than 3.5x, and is comfortably below our medium term target range of 1-2x and at a similar level to the start of the year. On a pro forma basis, excluding from EBITDA the benefit of the net movement on OCPs and other Contract and Balance Sheet Review items and the other non-underlying items, as well as adjusting for the BPO disposal, the leverage ratio was 0.75x EBITDA.

Dividends

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. The Board has not declared an interim dividend for 2016. The Board is committed to resuming dividend payments as soon as it is prudent to do so.

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 the first half of the year 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 a year 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, notably COMPASS (UK asylum seeker support services), Prisoner Escort and Custody Services (PECS) in the UK, and Armidale Class Patrol Boat (ACPB) maintenance in Australia. This improvement in the operational performance of our loss-making contracts is reflected in the level of OCP utilisation being some £22m lower in the first half of 2016 than in the prior year.

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 ('SFLTAP') 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 period, 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 latest forecasts for the expected timing of the change in Joint Venture shareholding arrangements also improved the profit contribution received by Serco in the period.

Serco has targeted for 2016 achieving over £50m of overhead and other cost reductions from central support functions and other overheads. This programme is running slightly ahead of plan, with savings delivered during the first half of the year from reducing the number of management layers, better procurement and driving greater efficiency in the operation of shared services.

Following the various disposals and transfers related to Serco's exit of the private sector BPO market, there are losses and stranded costs related to the residual UK onshore private sector BPO contracts. We have made very good progress mitigating the financial impact of these disposals, and we now expect a further reduction in the run-rate in the second half, to the point where there should be no material residual effect beyond the end of the year.

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 intend to use Centres of Excellence ('CoEs') to develop Group-wide propositions and capabilities in our core markets, and in 2015 we launched CoEs in the Health, Justice & Immigration and Transport sectors which are improving the sharing of skills, best practice and intellectual property across our businesses. We now have more than 20 people working directly and as part of the CoE virtual network and are seeing good early progress, particularly in strengthening our business development initiatives.

In IT, we have continued to invest in our IT systems enhancements and improvements. In the period, 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 Centres of Excellence share data and information globally.

Contract awards, pipeline, order book and rebids

Contract awards

As anticipated, the period was relatively quiet with few major bidding outcomes announced. Notwithstanding this, the Group signed contracts with a total value of £0.9bn during the period; as we do not consolidate our share of joint venture revenue, this excludes the estimated £0.7bn value of Serco's share of the AWE updated contract for the next three years. 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 was for the new icebreaker for the Australian Antarctic Division of the 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; the second largest new contract was to upgrade the High Altitude Electromagnetic Pulse (HEMP) Protection of Ballistic Missile Early Warnings Systems supporting the U.S. Air Force at Thule Air Base in Greenland. Of the other major new bids decided during the period, we were unsuccessful in the tender to operate the Clyde and Hebrides Ferry Services on behalf of Transport Scotland and in the bid to operate environmental services for a London borough. Smaller new bids won included two for the European Space Agency, transport operations support for the State of Louisiana, and numerous US Navy ship and shore defence equipment modernisation task orders. Of rebids and extensions secured, the largest was for Acacia prison in Western Australia for a further five years, with others including our support to the UK military satellite network, the Anglia Support Partnership healthcare shared services, and Baghdad Air Navigation Services.

Win rates by volume continued to be around 50% for new bids and around 90% for rebids and extensions. Win rates by value reduced to below 20% for new work given balance of outcomes on larger bids, but improved to approximately 90% for securing existing work.

Order book

The Group's order book, excluding the discontinued Global Services division, now stands at £9.7bn compared to £10.0bn at the start of the year. There is now £2.8bn of revenue already delivered or secured in the order book for 2016, equivalent to around 95% revenue visibility of our £3.0bn revenue guidance. The secured order book is £1.9bn for 2017 and £1.3bn for 2018.

Rebids

In terms of the few remaining contracts potentially ending over the balance of 2016, these have aggregate annual revenue totalling around £40m. In 2017, there are a larger number of contracts that will potentially end or need to be re-bid or extended, with these having aggregate annual revenue of around £300m. In 2018, the equivalent value is over £500m, with the greater amount driven by the US Affordable Care Act contract becoming due in that year. In total through to the end of 2018, there are around 35 contracts in our order book with annual revenue of over £5m across the Group where an extension or rebid will be required, representing annual revenue of over £800m or around 30% of the Group's forecast revenue for 2016 of £3.0bn.

Pipeline

The definition we use for our reported pipeline is new bid opportunities with annual revenue of at least £10m, and which we expect to bid and to be adjudicated within a rolling 24-month timeframe. The definition does not include rebids and extension opportunities. It is therefore a relatively small proportion of the total universe of opportunities we have in our prospect list, 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 of it 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.

Having increased for the first time at the end of 2015 after several years of decline, the pipeline has further increased from around £6.5bn six months ago, and from around £5bn a year ago, to the current level of £7.3bn. While over £1.5bn has come out of the pipeline reflecting the customer decisions resulting in wins and losses during the period, this has been more than offset by adding new opportunities, particularly in defence in US, justice in Australia, and new health and environmental services opportunities in the UK. There are around 30 bids in the pipeline, with the annual contract value averaging approximately £30m and a typical length of contract being 5-10 years. Key opportunities in the pipeline are described further in the Divisional Reviews.

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

Serco has previously reported on the potential risk to its business if Britain left the EU. Now that the die is cast, 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; these contracts are executed by 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.

Second, we must consider how Brexit might affect our business with the British Government. Here, the picture is uncertain. On the one hand, repatriation of regulation and increased immigration controls will likely mean that the

UK public administration has to do more, not less, and that is a potential opportunity for our business. On the other hand, the diversion of Government's attention, and that of many of the country's most talented civil servants, away from domestic policy towards Brexit negotiations, may slow the pace of domestic reform. It is too early to say how this will play out; our largest customers – the Ministry of Defence and the Ministry of Justice – are amongst the least exposed to Brexit issues, and, where delay occurs, it can be of benefit to incumbents.

The third area of possible impact would be in terms of our labour costs. Only 2% 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. We see the main risks as macro-economic; if economic growth is slower than it would otherwise have been, this may have an impact on Government finances. If inflation and stricter immigration controls lead to higher labour costs, this may affect profitability. However, these impacts are likely to show themselves only over the long term, and are currently unquantifiable. In the meantime, our long-term contracts and our role in providing critical public services give us 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 for 2016 and outlook beyond

In May, Serco updated its previous guidance for the 2016 financial year, reflecting largely the successful resolution of a number of commercial issues and other factors not expected to repeat in subsequent periods, together with an assumption for currency rates at that time. Since then, our trading performance and cost savings are tracking slightly ahead of plan, and recent foreign exchange movements have increased the value in sterling of our overseas earnings; we estimate that at current rates and for the financial year as a whole, the translational benefit since the beginning of the year would be £165m for Revenue and £8-9m for Underlying Trading Profit.

Accordingly, we now anticipate Revenue of approximately £3.0bn and Underlying Trading Profit of not less than £80m for 2016. Our updated estimate for closing net debt at the end of 2016 is approximately £150m, equivalent to leverage for covenant purposes of approximately 1x EBITDA when excluding non-underlying items.

It is important to note that our view of the outlook for 2017 is not materially changed, other than adjusting for foreign currency movements. The level of known gross revenue attrition in 2017 from contracts that will have ended or reduced is over £200m. Conditions remain uncertain, many of the upsides to performance we have seen in the first half of 2016 are not expected to repeat, and profits remain a sliver of reward between some £3 billion each of costs and revenues; we are therefore not minded to change significantly our view of 2017, other than for current currency rates. That previous view of 2017 was for around £50m of Underlying Trading Profit; adjusting for an estimate of annualised currency benefit which at current rates could be up to £10-12m, together with the recurring elements of improved trading performance related to cost savings delivered, our view of 2017 Underlying Trading Profit has therefore increased to £60-65m.

Concluding thoughts

We continue to make good progress implementing our strategy, whose 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 are reducing our operating costs, investing in our systems, processes and people, building compelling service propositions and improving the quality of our operational delivery to customers. Armed with a strong balance sheet, and skilled and committed people, we have the resources to put our strategy into action.

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

Divisional Reviews

Serco's continuing operations are reported as five divisions: UK Central Government ('CG'); UK and Europe Local and 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's underlying measures include the Revenue and Trading Profit of these discontinued operations for consistency with previous guidance. Also reflecting statutory reporting, Serco's share of revenue from its joint ventures is not included in divisional revenue, while Serco's share of joint ventures' profit after interest and tax costs is included in divisional 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 termination of the Thurrock contract.

Six months ended 30 June 2016 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**349.0**	**376.7**	**284.7**	**153.9**	**328.9**	**-**	**1,493.2**	**24.7**	**1,517.9**
Change	*(5%)*	*(19%)*	*+1%*	*+7%*	*(8%)*	-	*(7%)*	*(86%)*	*(15%)*
Change at constant currency	*(5%)*	*(19%)*	*+2%*	*+2%*	*(12%)*	-	*(9%)*	*(86%)*	*(16%)*
Organic change at constant currency	*(5%)*	*(19%)*	*+6%*	*+2%*	*(12%)*	-	*(8%)*	*n/a*	*n/a*
Discontinued operations adjustment*	-	-	-	-	-	-	-	(24.7)	(24.7)
Revenue	**349.0**	**376.7**	**284.7**	**153.9**	**328.9**	**-**	**1,493.2**	**-**	**1,493.2**
Underlying Trading Profit/(Loss)	**33.4**	**2.7**	**7.6**	**9.7**	**19.6**	**(17.8)**	**55.2**	**(4.2)**	**51.0**
Change	*+35%*	*+29%*	*(3%)*	*(3%)*	*(24%)*	*(30%)*	*+23%*	*n/a*	*+9%*
Change at constant currency	*+35%*	*+29%*	*(3%)*	*(9%)*	*(28%)*	*(31%)*	*+21%*	*n/a*	*+6%*
Margin	*9.6%*	*0.7%*	*2.7%*	*6.3%*	*6.0%*	*n/a*	*3.7%*	*(17.0%)*	*3.4%*
Contract and Balance Sheet Review adjustments	18.6	(1.1)	0.3	1.8	(2.8)	(0.7)	16.1	0.9	17.0
Benefit from not depreciating and amortising assets held for sale	-	-	-	-	-	-	-	0.2	0.2
Other one-time items	-	3.5	-	-	-	-	3.5	-	3.5
Trading Profit/(Loss)	**52.0**	**5.1**	**7.9**	**11.5**	**16.8**	**(18.5)**	**74.8**	**(3.1)**	**71.7**
Amortisation of intangibles arising on acquisition	-	-	(0.6)	-	(1.3)	-	(1.9)	(0.1)	(2.0)
Discontinued operations adjustment*	-	-	-	-	-	-	-	3.2	3.2
Operating profit/(loss) before exceptionals	**52.0**	**5.1**	**7.3**	**11.5**	**15.5**	**(18.5)**	**72.9**	**-**	**72.9**

Six months ended 30 June 2015 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**366.0**	**463.8**	**281.1**	**143.9**	**357.9**	**-**	**1,612.7**	**176.6**	**1,789.3**
Discontinued operations adjustment*	-	-	-	-	-	-	-	(176.6)	(176.6)
Revenue	**366.0**	**463.8**	**281.1**	**143.9**	**357.9**	**-**	**1,612.7**	**-**	**1,612.7**
Underlying Trading Profit/(Loss)	**24.7**	**2.1**	**7.8**	**10.0**	**25.7**	**(25.5)**	**44.8**	**2.1**	**46.9**
Margin	*6.7%*	*0.5%*	*2.8%*	*6.9%*	*7.2%*	*n/a*	*2.8%*	*1.2%*	*2.6%*
Contract and Balance Sheet Review adjustments	(3.1)	4.1	-	4.6	(3.0)	4.8	7.4	(1.9)	5.5
Benefit from not depreciating and amortising assets held for sale	-	4.1	-	-	-	-	4.1	6.2	10.3
Trading Profit/(Loss)	**21.6**	**10.3**	**7.8**	**14.6**	**22.7**	**(20.7)**	**56.3**	**6.4**	**62.7**
Amortisation of intangibles arising on acquisition	-	(0.6)	(1.0)	-	(1.3)	-	(2.9)	-	(2.9)
Discontinued operations adjustment*	-	-	-	-	-	-	-	(6.4)	(6.4)
Operating profit/(loss) before exceptionals	**21.6**	**9.7**	**6.8**	**14.6**	**21.4**	**(20.7)**	**53.4**	**-**	**53.4**

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**	**(51.2)**	**81.7**	**14.3**	**96.0**
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**	**(47.9)**	**111.0**	**26.6**	**137.6**
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**	**(47.9)**	**106.2**	**-**	**106.2**

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

UK Central Government

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

Revenue in the period was £349.0m (2015: £366.0m), a decline of 5%; reported revenue excludes that from our joint ventures at Northern Rail and AWE, which represents the vast majority of the Group's activity in joint ventures. The principal driver of the revenue reduction was the phased transfer back of services that Serco had previously been providing to DSTL, together with the end of the Defence Business Services arrangement, the loss of two other 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 the full year impact of the Caledonian Sleeper contract which Serco began operating on 31 March 2015, and higher revenue on the COMPASS programme relating to increased numbers of asylum seekers under our care.

Underlying Trading Profit was £33.4m (2015: £24.7m), representing an implied margin of 9.6% (2015: 6.7%). Trading Profit includes the profit contribution (from which tax and interest have already been deducted) of joint ventures; if the £274m proportional share of revenue from joint ventures was also included and if the £3.5m share of interest and tax cost was excluded, the overall divisional margin would have been 5.9% (2015: 3.9%). The joint venture profit contribution of £17.1m was £4.5m ahead of the comparable period with the increase mainly due to the final settlement arrangements on the transfer of the Northern Rail franchise, and an increase in the profits from AWE. Outside of joint ventures, Underlying Trading Profit increased by 35% to £16.3m as the reduction in profit contribution as a consequence of contract attrition was more than offset by increased profitability on continuing contracts and reductions in overheads. Within Underlying Trading Profit there was £18m of OCP utilisation (2015: £32m), which served to offset the Division's loss-making contracts including COMPASS, Caledonian Sleepers and PECS. The reduced level of OCP utilisation reflects improving operational and financial performance on loss-making contracts.

Contract and Balance Sheet Review adjustments resulted in an £18.6m net release in the period, arising from reductions in our estimates of future liabilities. The key movements were OCP releases due to further operational improvements on the FPMS contract, the transition of the secure escorting services contract for the Youth Justice Board which removed future losses, and our view of the likely outcome of the re-pricing of the HMP Ashfield contract. After the Contract and Balance Sheet Review adjustments, Trading Profit was £52.0m.

UK Central Government represented around £70m of the Group's aggregate total value of signed contracts during the period, which was driven by smaller rebids or extensions 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 period was the tender to operate the Clyde and Hebrides Ferries Services; Serco was unsuccessful, with the operations remaining with the incumbent CalMac Ferries Limited.

An updated contract was also agreed in the period 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 will reduce from 33.3% to 24.5%; the change in shareholdings is expected to take effect in the coming months to allow for this. If Serco's new share of joint venture 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 2016 as a whole, we expect the net effect of known contract losses and other revenue movements to lead to an overall reported revenue reduction of around £70m or approximately 10%; in the second half of the year and into 2017, there will be a greater impact from the phased transfer back of the DSTL operations. In terms of profitability, the second half will see the impact of the ending of the Northern Rail joint venture, and a reduction in the contributions from AWE. Accordingly, we expect the profits of the Division to be significantly lower in the second half of the year than in the first.

Of existing work where an extension or rebid will be required at some point before the end of 2018, there are 8 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. Our pipeline of major new bid opportunities due for decision within the next 24 months includes the Defence Fire & Risk Management Organisation and the operation of an immigration removal centre. Over the longer term, we continue to expect reform and improvement to the prison system, and for opportunities in Defence and other areas to emerge as the UK Government continues its efforts to save cost and improve public services.

UK and Europe Local and Regional Government

The UK and Europe Local and 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 in the period was £376.7m (2015: £463.8m), a decline of 19%. At constant currency, the organic decline was 19%. The principal drivers of the revenue reduction were the end of the Suffolk Community Healthcare and National Citizen Services contracts which were heavily loss-making and were not rebid, the early termination of the Thurrock BPO services contract, the ending of certain infrastructure support services to private sector customers, the reducing scale of the Child Maintenance Group operations and a number of other smaller contracts ending or reducing in scope. There was limited growth elsewhere to offset these contract ends and reductions.

Underlying Trading Profit was £2.7m (2015: £2.1m), representing a margin of 0.7% (2015: 0.5%). The reduction in profit contribution from contract attrition and certain areas of cost increase was broadly offset by other contract profitability improvements and overhead efficiencies. Within Underlying Trading Profit there was £13m of OCP utilisation (2015: £3m), which was slightly lower than our expectations at the start of the year; the utilisation offset contract losses of which the largest were at the Lincolnshire County Council operations.

Contract and Balance Sheet Review adjustments resulted in a £1.1m net charge in the period. Separately, there was a one-time profit of £3.5m arising from a pension scheme settlement relating to the early termination of the Thurrock Council services in the previous year. After these adjustments and one-time profit, Trading Profit was £5.1m.

LRG represented around £200m of the Group's aggregate total value of signed contracts during the period, which was driven by smaller rebids or extensions such as the Anglia Support Partnership healthcare shared services contract, environmental services for Woking Borough Council and our contact centre and digital services support for Public Health England, as well as some rebid and new awards supporting the European Space Agency. The only major new bid pipeline decision during the period was one for environmental services for a London borough; Serco was unsuccessful, with the incumbent selected as preferred bidder.

For 2016 as a whole, we expect the net effect of known contract losses and other revenue movements to lead to an overall reported revenue reduction of around £200m or approximately 25%. Some £100m of annualised revenues will begin to fall from reported revenue in the second half reflecting changes to contracts where we purchase goods on behalf of hospitals as part of managed procurement services; the margin on these purchases is negligible. Of existing work where an extension or rebid will be required at some point before the end of 2018, there are 7 contracts with annual revenue of over £5m within the LRG division; in aggregate, these represent approximately 15% of the current level of annual revenue for the division.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes five tenders for various 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 18% of total Revenue for the Group.

Revenue in the period was £284.7m (2015: £281.1m), an increase of 1%. In Australian dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately A$560m (2015: A$550m). The movements in local currency against Sterling reduced revenue by £1m or 1%, while the impact of disposals (the Great Southern Rail business disposed in May 2015) reduced revenue by £10m or 4%; the organic growth at constant currency was therefore 6%. 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 the expansion of Acacia prison. Revenue from Australian immigration services was broadly flat.

Underlying Trading Profit was £7.6m (2015: £7.8m), representing a margin of 2.7% (2015: 2.8%). Progress on cost efficiencies were broadly offset by other cost and margin pressures; there was an immaterial currency impact on profit. Within Underlying Trading Profit there was £8m of OCP utilisation, which was about half the level of the prior year; this offset contract losses driven principally by the ACPB and Mount Eden Correctional Facility contracts, and our operations in Hong Kong.

Contract and Balance Sheet Review adjustments resulted in a £0.3m net release in the period. After these adjustments, Trading Profit was £7.9m.

With approximately £500m of signed contracts and order book progress during the period, Australia represented around half of the Group's total order intake. The largest order, valued at approximately £160m, was to project manage the design and build phase and subsequently operate the new icebreaker for the Australian Antarctic Division of the 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.

For 2016 as a whole, we expect the relatively small impact from known contract losses and other revenue reductions including the annualisation effect of the GSR disposal to be broadly offset by increases in revenue elsewhere; including the estimated effect of favourable currency movements, the overall reported revenue could therefore increase by around £50m or approximately 10%. The estimate remains susceptible to the prevailing volume of work in Australian immigration services as this single contract represents more than a quarter of the total revenue for the division, as well as any further movement in foreign exchange rates. Of existing work where an extension or rebid will be required at some point before the end of 2018, there are 10 contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent approximately 30% of the current level of annual revenue for the division.

Our pipeline of major new bid opportunities due for decision within the next 24 months now includes additional prison opportunities in New South Wales. The potential opportunity for work related to Australian offshore immigration detention services has not been included in the pipeline. 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 in the period was £153.9m (2015: £143.9m), an increase of 7%. The strengthening of local currency against Sterling provided growth of £8m or 5%; the organic growth at constant currency was 2%. There was revenue growth from the annualisation effect of the Saudi Railway Company contract which Serco began operating in late February 2015, from volume growth on a defence logistics contract and from expansion of healthcare support services; 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 £9.7m (2015: £10.0m), representing a margin of 6.3% (2015: 6.9%). There was some improvement in profitability from higher defence logistics volumes and the £0.6m favourable currency movement; these were more than offset by the impact of other contract reductions and attrition, together with investment in business development and bidding. Within Underlying Trading Profit, OCP utilisation was immaterial.

Contract and Balance Sheet Review adjustments resulted in a £1.8m net release in the period. After these adjustments, Trading Profit was £11.5m.

The Middle East represented a small proportion of the Group's aggregate total value of signed contracts in the period, with no major new bid pipeline decisions due. Amongst smaller rebids and extensions secured was a further extension for Baghdad Air Navigation Services.

For 2016 as a whole, we continue to expect the impact from known contract losses or other revenue reductions to be broadly offset by increases in revenue elsewhere; including the estimated effect of a favourable currency movement, the overall reported revenue could therefore increase by around £30m or 10%. Of existing work where an extension or rebid will be required at some point before the end of 2018, there are 7 contracts with annual revenue of over £5m within the Middle East division; in aggregate, these represent approximately 35% of the current level of annual revenue for the division.

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. Further opportunities in defence training services and in non-clinical health facilities management support have also been added in the period under review.

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 in the period was £328.9m (2015: £357.9m), a decline of 8%. In US dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately US$470m (2015: US$550m). The strengthening of the US dollar provided growth of £16m or 4%, with the organic decline at constant currency being 12%. The principal drivers of the revenue reduction were the loss of the rebid for record processing at the National Benefits Centre, some reduced work areas on the US Affordable Care Act eligibility processing services contract 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 £19.6m (2015: £25.7m), representing a margin of 6.0% (2015: 7.2%). The decline was driven by contract attrition and the timing of certain costs, which was only partially offset by the £1.1m favourable currency movement and other cost efficiencies. Within Underlying Trading Profit there was £5m (2015: £1m) of OCP utilisation on the completed VDOT contract and the Ontario Driver Examination Services contract.

Contract and Balance Sheet Review adjustments resulted in a £2.8m net charge in the period. This was driven by estimate revisions to costs associated with the IT systems implementation on the Ontario Driver Examination Services contract. After the Contract and Balance Sheet Review adjustments, Trading Profit was £16.8m.

Americas represented over £150m or approximately 20% of the Group's aggregate total value of signed contracts during the period. 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. Other ship and shore/base modernisation services awarded during the period totalled over US$60m.

For 2016 as a whole, we expect the net impact of known contract losses and other revenue movements to result in a revenue decline of around £70m at constant currency; this decline is expected to be broadly offset by the estimate of beneficial foreign exchange movements. The estimate remains susceptible to the prevailing volume of task orders and other contracts where operational scale can change in the short term, as well as any further movement in foreign exchange rates. Of existing work where an extension or rebid will be required at some point before the end of 2018, there are 3 contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent approximately 40% of the current level of annual revenue for the division, with the relatively high proportion reflecting that the US Affordable Care Act contract which becomes due in 2018.

Our pipeline of major new bid opportunities due for decision within the next 24 months continues to include passport processing for the Department of State and an increase in opportunities to provide various support functions to the US Navy. Other bids in transport operational support, Citizen Services processing and immigration services have also been added.

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 the period, before Contract and Balance Sheet Review adjustments, were £17.8m (2015: £25.5m). The reduction was driven by the non-recurrence of programme establishment costs and actions taken to improve the efficiency of our overall operating model.

Contract and Balance Sheet Review adjustments resulted in a £0.7m net charge in the period. After these adjustments, Corporate Costs within Trading Profit were £18.5m.

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, and related consulting and technology services. As part of Serco's previously announced strategy to exit non-core markets and to focus on the provision of public services, Serco is exiting these private sector BPO 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, one of which was completed in the first half of 2016 with the other expected to complete in the coming months. The remaining private sector operations, which are predominantly UK onshore operations, will be 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 £24.7m (2015: £176.6m), with the decline reflecting the disposals and transfers completed in 2015 and the managed exit of a further number of smaller loss-making contracts in the UK during the latest period.

Underlying Trading Loss was £4.2m (2015: Underlying Trading Profit of £2.1m). The loss in the period 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, which was broadly in line with our expectations.

Contract and Balance Sheet Review adjustments resulted in a £0.9m net release in the period. As the division included assets designated as held for sale, there is a benefit of not charging depreciation and amortisation of £0.2m. After these Contract and Balance Sheet Review adjustments and held for sale benefits, the Trading Loss was £3.1m.

We are running ahead of our plans to mitigate the losses and stranded costs; with a further reduction in the run-rate expected in the second half, there should be no material residual effect beyond the end of the year. Having transferred the Freeman Grattan Holdings and BrightHouse contracts together with the associated Sheffield facilities to a new provider during the period, the only remaining contracts are those for life and pensions company Aegon and direct home shopping company JD Williams.

Finance Review

Overview of Financial Performance

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 (restated*) £m	Year ended 31 December 2015 £m
Revenue – including discontinued operations	**1,517.9**	1,789.3	3,514.6
Less: Revenue from discontinued operations	**(24.7)**	(176.6)	(337.6)
Revenue	**1,493.2**	1,612.7	3,177.0
Underlying Trading Profit	**51.0**	46.9	96.0
Onerous contract and Balance Sheet Review adjustments	**17.0**	5.5	20.9
Benefit from non-depreciation and non-amortisation of assets held for sale	**0.2**	10.3	11.7
Other one-time items	**3.5**	-	9.0
Trading Profit on continuing and discontinued operations	**71.7**	62.7	137.6
Other expenses – amortisation and impairment of intangibles arising on acquisition	**(2.0)**	(2.9)	(4.9)
Operating profit before exceptional items on continuing and discontinued operations	**69.7**	59.8	132.7
Less: Operating loss/(profit) before exceptional items arising on discontinued operations	**3.2**	(6.4)	(26.5)
Operating profit before exceptional items	**72.9**	53.4	106.2
Exceptional loss on disposal of subsidiaries and operations	**(0.9)**	(4.9)	(2.6)
Other exceptional operating items	**(6.8)**	(11.7)	(107.3)
Exceptional operating items	**(7.7)**	(16.6)	(109.9)
Operating profit/(loss)	**65.2**	36.8	(3.7)
Investment income	**4.7**	2.8	6.1
Other finance costs	**(11.8)**	(22.8)	(39.0)
Exceptional finance costs	**-**	(32.8)	(32.8)
Total net finance costs	**(7.1)**	(52.8)	(65.7)
Profit/(loss) before tax	**58.1**	(16.0)	(69.4)
Tax on profit before exceptional items	**(3.7)**	(9.6)	(17.9)
Tax on exceptional items	**(0.1)**	0.3	0.4
Tax	**(3.8)**	(9.3)	(17.5)
Profit/(loss) for the period from continuing operations	**54.3**	(25.3)	(86.9)
Discontinued operations			
Loss from discontinued operations for the period	**(7.9)**	(66.4)	(66.2)
Profit/(loss) for the period	**46.4**	(91.7)	(153.1)
Underlying trading margin from continuing and discontinued operations	**3.4%**	2.6%	2.7%
Underlying earnings per share from continuing and discontinued operations	**3.70p**	1.57p	3.44p
Earnings per share before exceptional items from continuing and discontinued operations	**5.40p**	2.89p	6.55p
Earnings/(loss) per share from continuing and discontinued operations	**4.27p**	(10.32p)	(15.47p)

*restated to reflect discontinued operations.

Revenue

Revenue declined by 7.4% in the six months ended 30 June 2016 to £1,493.2m (six month ended June 2015: £1,612.7m), a 9.0% reduction in constant currency.

Revenue including that arising from operations classified as discontinued declined by 15.2% in the six months ended 30 June 2016 to £1,517.9m (six month ended June 2015: £1,789.3m), a 16.6% reduction in constant currency.

Commentary on the revenue performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections above.

Trading Profit

Trading Profit is defined as operating profit as shown on the face of the Consolidated Income Statement before amortisation and impairment costs of intangibles arising on acquisitions and exceptional items, adjusted to include the Trading Profit arising on discontinued operations. By their nature, neither of the items are driven by the trading performance of the business and while discontinued operations will not form part of future trading performance, inclusion is necessary to understand historic trends.
Trading Profit increased in the six months ended 30 June 2016 to £71.7m (six month ended June 2015: £62.7m) and includes the Trading Loss on discontinued operations of £3.1m (six month ended June 2015: Trading Profit £6.4m).

Underlying Trading Profit

Underlying Trading Profit is defined as Trading Profit adjusted to exclude charges and releases made to Onerous Contract Provisions (OCPs), charges and releases made in respect of other items identified during the 2014 Contract and Balance Sheet Review, the beneficial treatment of depreciation and amortisation on assets held for sale and any other one-time items. OCP movements and the impact of the 2014 Contract and Balance Sheet Review items reflect the management of historic issues rather than the underlying performance of the business, while adding back depreciation and amortisation on assets classified as held for sale removes an artificial benefit. These adjustments aid the understanding of historic trends.

Underlying Trading Profit for the six months ended 30 June 2016 was £51.0m, an increase of 8.7%. At constant currency, Underlying Trading Profit was £49.6m. Commentary on the trading performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections above.

Excluded from Underlying Trading Profit for the six months ended 30 June 2016 were net releases from OCPs of £13.4m (six months ended 30 June 2015: net charge £7.7m). Also excluded from Underlying Trading Profit were net releases of £3.6m (six month ended June 2015: £13.2m) that related to other provisions and accruals for items identified during the 2014 Contract and Balance Sheet Review.

Underlying Trading Profit excludes the benefit arising from the non-depreciation of assets classified as held for sale. In the six months ended 30 June 2016 depreciation and amortisation of £0.2m (six month ended June 2015: £10.3m) on assets classified as held for sale were not charged to operating profit.

Other one-time items relate to the early termination of a UK Local Authority contract in 2015 in lieu of anticipated profits in future years, net of direct costs, impairments and other charges. In the six months ended 30 June 2016 the other one time profit recorded relates to a pension scheme settlement in respect of the same contract which was agreed in the period.

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 with the final element expected to complete prior to 31 December 2016.

The UK onshore private sector BPO businesses have either been sold, are planned to be sold, or have been exited early. Those businesses remaining at 30 June 2016 are expected to be disposed of within the next twelve months.

The results of discontinued operations were as follows:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Revenue	**24.7**	176.6	337.6
Underlying Trading (Loss)/Profit	**(4.2)**	2.1	14.3
Onerous contract and Balance Sheet Review adjustments	**0.9**	(1.9)	0.6
Benefit from non-depreciation and non-amortisation of assets held for sale	**0.2**	6.2	11.7
Trading (Loss)/Profit	**(3.1)**	6.4	26.6
Other expenses – amortisation and impairment of intangibles arising on acquisition	**(0.1)**	-	(0.1)
Operating (loss)/profit before exceptional items	**(3.2)**	6.4	26.5
Exceptional (loss)/gain on disposal of subsidiaries and operations	**(0.3)**	-	5.4
Other exceptional operating items	**(3.9)**	(68.0)	(83.0)
Operating loss	**(7.4)**	(61.6)	(51.1)
Investment revenue	**-**	1.5	2.1
Finance costs	**-**	(0.1)	(1.2)
Exceptional finance costs	**(0.4)**	-	-
Loss before tax	**(7.8)**	(60.2)	(50.2)
Tax on loss before exceptional items	**(0.1)**	(6.2)	(18.7)
Tax on exceptional items	**-**	-	2.7
Net loss on discontinued operations (attributable to equity owners of the Company) as presented in the income statement	**(7.9)**	(66.4)	(66.2)

Joint Ventures – Share of Results

During the six months ended 30 June 2016 the most significant joint ventures were AWE Management Limited and Northern Rail Holdings Limited. In the six months ended 30 June 2016 dividends of £12.2m (six months ended 30 June 2015: £9.8m) and £4.0m (six months ended 30 June 2015: £2.0m) respectively were received from these companies. The Northern Rail franchise ended on 1 April 2016.

In March 2016 it was agreed in principle that there would be a change in the AWE Management Limited shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% and Lockheed Martin taking a majority holding. The legal process is expected to complete in the second half of 2016.

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

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Revenue	**293.6**	**363.9**	737.2
Operating profit	**21.4**	**15.9**	42.6
Net finance costs	**(0.3)**	**(0.2)**	(0.4)
Tax expense	**(3.4)**	**(1.8)**	(5.2)
Profit after tax	**17.7**	**13.9**	37.0
Dividends received from joint ventures	**19.7**	**15.8**	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 their size or nature. As such, the items set out below require separate disclosure on the face of the Consolidated Income Statement to assist in the understanding of the underlying performance of the Group.

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

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Exceptional items arising on continuing operations			
Exceptional loss on disposal of subsidiaries and operations	**(0.9)**	(4.9)	(2.6)
Other exceptional operating items			
Impairment of goodwill	**-**	-	(87.5)
Restructuring costs	**(6.2)**	(6.9)	(19.7)
Aborted transaction costs	**0.3**	-	(1.7)
Costs associated with UK Government reviews	**(0.9)**	(0.1)	(1.2)
UK frontline clinical health contract provisions	**-**	-	2.8
Impairment of assets transferred to held for sale	**-**	(4.7)	-
Other exceptional operating items	**(6.8)**	(11.7)	(107.3)
Exceptional operating items arising on continuing operations	**(7.7)**	(16.6)	(109.9)
Exceptional items arising on discontinued operations			
Exceptional (loss)/gain on disposal	**(0.3)**	-	5.4
Other exceptional operating items			
Restructuring costs	**(0.4)**	(2.6)	(2.2)
Impairment of goodwill	**-**	(65.4)	(65.9)
Impairment of other assets transferred to held for sale	**4.3**	-	(14.9)
Movements in indemnities provided on business disposals	**(7.8)**	-	-
Other exceptional operating items	**(3.9)**	(68.0)	(83.0)
Exceptional operating items arising on discontinued operations	**(4.2)**	(68.0)	(77.6)
Exceptional operating items arising on continuing and discontinued operations	**(11.9)**	(84.6)	(187.5)

Exceptional Loss on Disposal of Businesses Arising on Continuing Operations

The loss on disposal of £0.9m in the six months ended 30 June 2016 arose from a profit of £0.4m on disposal of a 10% investment in a company relating to an expired customer contract, offset by £1.3m of charges relating to transactions completed in prior years.

The exceptional loss on disposal in the six months ended 30 June 2015 was £4.9m. In May 2015, the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.6m, with a loss on disposal of £4.2m being charged in the six month period to 30 June 2015. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. Both these businesses were classified as held for sale as at 31 December 2014. In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group's frontline public services operation in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.7m.

Other Exceptional Operating Items Arising on Continuing Operations

In the six months ended 30 June 2016, a charge of £6.2m (six months to 30 June 2015: £6.9m) has arisen in relation to the restructuring programme resulting from the Strategy Review being implemented across the Group. This includes redundancy payments, external advisory fees and other incremental costs.

The disposal of the Environmental and Leisure businesses was aborted in 2015 and during the current period costs related to the aborted transaction were finalised, resulting in the release of a £0.3m credit.

In the six months ended 30 June 2016, there were exceptional costs totalling £0.9m (six months to 30 June 2015: £0.1m) associated with the UK Government reviews, reflecting external adviser costs related to these reviews.

In the six months ended 30 June 2015 there was a charge of £4.7m in respect of the carrying value of assets held for sale. This reflected the latest indicative offers received, together with movements of the assets held for sale since the prior balance sheet date. In the six months ended 31 December 2015 this was reversed following the decision to cancel the sales process for these businesses.

Exceptional Loss on Disposal of Discontinued Operations

Disposal of one of the final two elements of the offshore private sector BPO business was completed in March 2016, resulting in a loss on disposal of £0.3m.

Other Exceptional Operating Items Arising on Discontinued Operations

In the six months ended 2016 a charge of £0.4m (six months ended 30 June 2015: £2.6m) is reported in discontinued operations relating to the exit of the UK private sector BPO business. This includes redundancy payments, external advisory fees and other incremental costs.

In the six months ended 30 June 2016 the value assets held for sale increased by £4.3m, reflecting the latest estimate of likely sale proceeds and movements of the assets held for sale since the prior balance sheet date.

A charge of £7.8m has arisen in the six months ended 30 June 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.

Finance Costs and Investment Income on Continuing and Discontinuing Operations

Investment income of £4.7m (six months to 30 June 2015: £4.3m) relates to interest earned on deposits and other receivables of £1.9m, the movement in discounting of other receivables of £0.5m and interest accruing on net retirement benefit assets of £2.3m.

Other finance costs of £11.8m (six months to 30 June 2015: £22.9m) relate to interest incurred on the USPP loans and the Revolving Credit Facility of £7.9m, facility fees and other charges of £2.0m, interest payable on finance leases of £1.0m, and the movement in discount on provisions of £0.9m.

Pre-exceptional net finance costs were £7.1m (six months to 30 June 2015: £18.6m).

In the six months ended 30 June 2016 costs of £0.4m (six months ended 30 June 2015: £32.8m) were incurred for external fees as a result of early settlement of 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.

Taxation on Continuing and Discontinuing Operations

The Group's tax strategy continues to be to manage all taxes to ensure that we pay the appropriate amount in the countries in which we operate, while both respecting applicable tax legislation and utilising appropriate legislative reliefs.

The tax charge on pre-exceptional profit from continuing activity of £65.8m was £3.7m. Tax related to Underlying Trading Profit after deducting pre-exceptional net finance costs was £3.7m, equivalent to an effective rate of 8.4%. The principal reasons why the effective rate is lower than the UK rate of 20% is due to taxable profits being made in the UK in the half year, but tax losses forecast for the year as a whole, the presentation of joint ventures which are consolidated after tax within Trading Profit and the impact of the deferred tax movement related to defined benefit pension schemes. These effects have countered the impact of profits being made in jurisdictions where the tax rate is higher than that in the UK.

In the period, a £0.1m tax charge is reflected on the exceptional cost of £12.3m, resulting in a £12.4m net exceptional charge. Only limited deductions are available for many of the costs incurred, as most are associated with disposals for which no tax deduction is available.

Net corporate income tax of £6.6m was paid during the period, relating mainly to non UK operations.

Dividend

The Board is not recommending the payment of an interim dividend. The Board is committed to resuming dividend payments and adopting a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take 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 market outlook at the time.

Share Count and Earnings per Share

The weighted average number of shares for earnings per share (EPS) purposes was 1,088.8m at 30 June 2016 (30 June 2015: 886.2m).

EPS before exceptional items from both continuing and discontinuing operations was 5.40p per share (30 June 2015: 2.89p); including the impact of exceptional items EPS was 4.27p (30 June 2015: loss of 10.32p).

Underlying EPS was 3.70p per share at 30 June 2016 (30 June 2015: 1.57p). This measure reflects Underlying Trading Profit of £51.0m, adding back non controlling interests of £0.1m, deducting pre-exceptional net finance costs of £7.1m (including those for discontinued operations) and related tax effects of £3.7m (30 June 2015: £46.9m add £0.2m, less £18.6m, less £14.6m).

Cash Flow and Reconciliation to Net Debt

The table below shows the operating profit and Free Cash Flow reconciled to movements in net debt. 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 deducting net interest paid and net capital expenditure on tangible and intangible asset purchases. Free Cash Flow in the six months ended 30 June 2016 was an inflow £1.5m compared to an outflow of £77.5m in the six months ended 30 June 2015. This movement is largely driven by a reduction in the purchases of intangibles and tangible assets, a reduction in interest payments as a result of a reduction in interest bearing debt and a realignment of working capital management practices which took place in the first half of 2015.

Operating cash flow (before movements in working capital, exceptional items and tax) is calculated by removing the non cash items included within operating profit (before exceptional items on continuing and discontinued operations) and in the six months ended 30 June 2016 was £27.6m. These non cash items include profit from joint ventures of £17.7m, the reduction in total provisions including those in held for sale of £77.8m and a total of other non cash movements of £53.4m. Of the total reduction in provisions, £61.2m relates to OCPs and £12.5m relates to other contract provisions. Other non cash movements include the removal of non cash foreign exchange charges of £23.9m that are included within operating profit, of which £8.9m relates to movements on US Private Placement foreign currency loans and derivatives hedging these loans. The net value of foreign exchange relating to realised and unrealised gains and losses on transactions included within operating profit, including both cash and non cash items, in the six months to 30 June 2016 was £0.5m. Also included in other non cash movements are £24.0m of depreciation and amortisation charges.

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	£m	£m	£m
Operating profit/(loss) on continuing operations	**65.2**	36.8	(3.7)
Operating loss on discontinued operations	**(7.4)**	(61.6)	(51.1)
Less: exceptional items	**11.9**	84.6	187.5
Operating profit before exceptional items on continuing and discontinued operations	**69.7**	59.8	132.7
Less: profit from joint ventures	**(17.7)**	(13.9)	(37.0)
Movement in provisions	**(77.8)**	(53.3)	(116.0)
Other non cash movements	**53.4**	46.1	102.8
Operating cash inflow before movements in working capital, exceptional items and tax	**27.6**	38.7	82.5
Working capital movements	**(14.2)**	(71.5)	(22.6)
Tax paid	**(6.6)**	(7.7)	(2.7)
Non cash R&D expenditure credit	**(0.1)**	(0.3)	(0.7)
Cash flow from operating activities before exceptional items	**6.7**	(40.8)	56.5
Dividends from joint ventures	**19.7**	15.8	32.5
Interest received	**0.9**	1.6	3.4
Interest paid	**(11.4)**	(21.2)	(36.1)
Purchase of intangible and tangible assets net of proceeds from disposals	**(14.4)**	(32.9)	(72.5)
Free Cash Flow	**1.5**	(77.5)	(16.2)
Net disposal/(acquisition) of subsidiaries	**11.1**	(4.5)	184.9
Proceeds from share placement	**-**	530.1	530.3
Purchase of own shares net of share option proceeds	**0.1**	4.3	4.4
Other movements on investment balances	**0.2**	(0.6)	(1.3)
Capitalisation and amortisation of loan costs	**0.2**	-	(0.6)
Non recourse loan disposals, repayments and advances	**-**	24.0	24.0
New, acquired and disposed finance leases	**-**	(1.0)	0.5
Exceptional items	**(32.4)**	(72.8)	(88.4)
Foreign exchange loss on net debt	**(23.4)**	(10.1)	(32.9)
Movement in net debt including assets and liabilities held for sale	**(42.7)**	391.9	604.7
Asset held for sale movement in net debt	**2.3**	(25.1)	(44.2)
Net debt at 1 January	**(82.2)**	(642.7)	(642.7)
Net debt at end of period	**(122.6)**	(275.9)	(82.2)
Net debt at 1 January including assets and liabilities held for sale	**(77.5)**	(682.2)	(682.2)
Net debt at end of period including assets and liabilities held for sale	**(120.2)**	(290.3)	(77.5)

Average net debt as calculated on a daily basis for the six months ended 30 June 2016 was £123.9m, compared with the opening and closing positions of £77.5m and £120.2m respectively. The movement in closing net debt including assets and liabilities held for sale was primarily driven by Exceptional items of £32.1m and exchange differences of £23.4m, largely arising on the Group's USPPs, offset by Free Cash Flow of £1.5m and net disposal proceeds of £11.1m. Cash outflows of £32.1m on exceptional items includes the settlement of brought forward liabilities for the exit of the Group's private sector BPO business and the Docklands Light Railway pension scheme settlement recognised as exceptional charges in prior periods.

Total cash outflows for the Group, including assets held for sale, amounted to a total outflow of £163.5m. This is after accounting for loan repayments of £135.8m and finance lease repayments of £8.6m. The cash impact included in the movement in net debt therefore amounted to £19.1m.

The table below provides an analysis of trading cash flow and provides the pre-interest and pre-tax cash flows equivalent to Underlying Trading Profit. This is derived from the Free Cash Flow excluding tax and interest items.

The percentage conversion of Underlying Trading Profit into trading cash flow is also provided in this table. This is 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. This measure is impacted by provisions related to onerous contracts.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Free Cash Flow	**1.5**	(77.5)	(16.2)
Add back:			
Tax paid	**6.6**	7.7	2.7
Interest received	**(0.9)**	(1.6)	(3.4)
Interest paid	**11.4**	21.2	36.1
Trading Cash Flow	**18.6**	(50.2)	19.2
Underlying Trading Profit	**51.0**	46.9	96.0
Underlying Trading Profit cash conversion	**36.5%**	n/a	20.0%

The Underlying Trading Profit conversion into trading cash flow was 36.5%. The low conversion was primarily due to the cash outflows on onerous contracts excluded from Underlying Trading Profit but included in Trading Cash Flows and the outflow of working capital resulting from the normalisation of balances following the end of the statutory reporting period, offset by depreciation and amortisation charges being greater than expenditure on property, plant and equipment and intangible assets.

Net Debt

As at 30 June	**2016 As reported £m**	**2016 Assets and liabilities held for sale adjustment £m**	**2016 Including assets and liabilities held for sale £m**	2015 Including assets and liabilities held for sale £m
Cash and cash equivalents	**166.2**	**2.7**	**168.9**	176.0
Loans receivable	**20.4**	**-**	**20.4**	0.9
Other loans	**(273.5)**	**-**	**(273.5)**	(412.4)
Obligations under finance leases	**(35.7)**	**(0.3)**	**(36.0)**	(54.8)
Net debt	**(122.6)**	**2.4**	**(120.2)**	(290.3)

As at 31 December	2015 As reported £m	2015 Assets and liabilities held for sale adjustment £m	2015 Including assets and liabilities held for sale £m
Cash and cash equivalents	323.6	5.2	328.8
Loans receivable	19.9	-	19.9
Other loans	(381.9)	-	(381.9)
Obligations under finance leases	(43.8)	(0.5)	(44.3)
Net debt	(82.2)	4.7	(77.5)

Debt Covenants

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

The principal financial covenant ratios are consistent across the private placement loan notes 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.

For covenant purposes the definition of CTNB represents Group recourse net debt determined at the balance sheet date adjusted to exclude encumbered cash, loan receivable amounts, and also adjusted to reflect the impact of currency hedges associated with recourse loans. CTNB expressed in a currency other than Sterling is calculated at average exchange rates per the facility documentation. The covenant definition of EBITDA is the twelve month operating profit of the business before exceptional items, deducting profits from joint ventures and after adding back depreciation, intangible amortisation, share based payment charges and dividends received from joint ventures.

The ratio of CTNB to EBITDA as at 30 June 2016 was 0.5 times (31 December 2015: 0.4 times) and the ratio of EBITDA to net finance costs was 9.8 times (31 December 2015: 6.7 times).

	As at 30 June 2016 £m	As at 31 December 2015 £m	As at 30 June 2015 £m
Operating profit/(loss) before exceptional items	**142.6**	132.7	(653.5)
Less: Joint venture post-tax profits	**(40.8)**	(37.0)	(30.1)
Add: Dividends from joint ventures	**36.4**	32.5	35.9
Amortisation of other intangible assets	**37.8**	40.5	34.1
Depreciation of property, plant and equipment	**30.3**	28.9	29.8
Impairment of property, plant and equipment	**0.8**	2.1	1.6
Share based payment expense	**10.6**	9.8	6.4
Balance sheet and contract write-downs in 2014	**-**	-	752.1
EBITDA per covenant	**217.7**	209.5	176.3
Net finance costs	**20.5**	32.0	38.1
Other adjustments	**1.7**	(0.6)	(1.2)
Net finance costs per covenant	**22.2**	31.4	36.9
Recourse net debt (including assets and liabilities held for sale)	**120.2**	77.5	290.3
Loans receivable, foreign exchange adjustments and other items	**(4.6)**	14.2	2.4
Consolidated Total Net Borrowings (CTNB)	**115.6**	91.7	292.7
Covenant CTNB/EBITDA (not to exceed 3.5x)	**0.5x**	0.4x	1.7x
Covenant EBITDA / Net finance costs (at least 3.0x)	**9.8x**	6.7x	4.8x

Balance Sheet Summary

The balance sheet at 30 June 2016 is summarised below, showing the impact of the assets and liabilities held for sale for each line item. At 30 June 2016 the balance sheet had net assets of £400.4m, a movement of £118.3m from the closing net asset position of £282.1m as at 31 December 2015. The increase in net assets is mainly due to a reduction in provision balances due to utilisation and an increase in goodwill resulting predominantly from movements in exchange rates.

	2016	**2016**	**2016**	2015	2015	2015
	As at 30 June Including assets held for sale £m	**As at 30 June Adjustment for assets held for sale £m**	**As at 30 June As reported £m**	As at 31 December Including assets held for sale £m	As at 31 December Adjustment for assets held for sale £m	As at 31 December As reported £m
Non current assets						
Goodwill	547.6	(2.4)	545.2	517.7	(7.8)	509.9
Other intangible assets	88.5	-	88.5	90.2	(0.4)	89.8
Property, plant and equipment	70.7	-	70.7	74.1	(0.9)	73.2
Other non current assets	70.2	-	70.2	72.0	(0.2)	71.8
Deferred tax assets	42.5	-	42.5	42.2	-	42.2
Retirement benefit assets	153.9	-	153.9	127.1	-	127.1
	973.4	(2.4)	971.0	923.3	(9.3)	914.0
Current assets						
Inventories	27.6	-	27.6	26.4	-	26.4
Trade and other current assets	585.9	(9.9)	576.0	549.7	(20.6)	529.1
Current tax	12.9	(4.7)	8.2	11.3	(4.7)	6.6
Cash and cash equivalents	168.9	(2.7)	166.2	328.8	(5.2)	323.6
	795.3	(17.3)	778.0	916.2	(30.5)	885.7
Assets classified as held for sale	-	19.7	19.7	-	39.8	39.8
Total current assets	795.3	2.4	797.7	916.2	9.3	925.5
Total assets	1,768.7	-	1,768.7	1,839.5	-	1,839.5
Current liabilities						
Trade and other current liabilities	(557.9)	3.2	(554.7)	(558.6)	7.4	(551.2)
Current tax liabilities	(11.5)	0.1	(11.4)	(14.3)	0.1	(14.2)
Provisions	(153.9)	1.1	(152.8)	(191.2)	22.6	(168.6)
Obligations under finance leases	(15.6)	0.3	(15.3)	(16.3)	0.5	(15.8)
Loans	(9.7)	-	(9.7)	(132.2)	-	(132.2)
	(748.6)	4.7	(743.9)	(912.6)	30.6	(882.0)
Amounts classified as held for sale	-	(5.6)	(5.6)	-	(32.5)	(32.5)
Total current liabilities	(748.6)	(0.9)	(749.5)	(912.6)	(1.9)	(914.5)
Non current liabilities						
Other non current liabilities	(18.7)	-	(18.7)	(18.3)	-	(18.3)
Deferred tax liabilities	(28.6)	-	(28.6)	(22.3)	-	(22.3)
Provisions	(274.6)	0.9	(273.7)	(315.0)	1.9	(313.1)
Obligations under finance leases	(20.4)	-	(20.4)	(28.0)	-	(28.0)
Loans	(263.8)	-	(263.8)	(249.7)	-	(249.7)
Retirement benefit obligations	(13.6)	-	(13.6)	(11.5)	-	(11.5)
	(619.7)	0.9	(618.8)	(644.8)	1.9	(642.9)
Total liabilities	(1,368.3)	-	(1,368.3)	(1,557.4)	-	(1,557.4)
Net assets	400.4	-	400.4	282.1	-	282.1

Provisions

The total of current and non current provisions, excluding provisions related to businesses held for sale, has decreased by £55.2m in the six months ended 30 June 2016, the majority of which relates to a reduction in contract provisions as a result of the utilisation and net release of in the period. 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	Other Contract Provisions	**Total contract provisions including assets held for sale**	Held for sale adjustment	**Total contract provisions as reported**
	£m	£m	**£m**	£m	£m
At 31 December 2015 (audited)	(299.9)	(13.1)	**(313.0)**	10.9	**(302.1)**
Charged to income statement	(4.4)	-	**(4.4)**	-	**(4.4)**
Released to income statement - exceptional	-	4.3	**4.3**	(4.3)	**-**
Released to income statement – other	17.8	0.6	**18.4**	(0.7)	**17.7**
Utilised during the year	47.3	0.5	**47.8**	(3.0)	**44.8**
Unwinding of discount	(0.8)	-	**(0.8)**	-	**(0.8)**
FX	(7.0)	-	**(7.0)**	0.1	**(6.9)**
Transfer to trade payables	11.5	1.6	**13.1**	-	**13.1**
Reclassifications	(3.2)	5.5	**2.3**	(3.0)	**(0.7)**
At 30 June 2016 (unaudited)	(238.7)	(0.6)	**(239.3)**	-	**(239.3)**

In the six months ended 30 June 2016 there were releases from OCPs of £17.8m and additional OCP charges of £4.4m, which included no new OCPs. Included within the release from OCPs were amounts in relation to HMP Ashfield where the ongoing discussions with the customer in respect of repricing progressed sufficiently in the period to trigger a reassessment of the required provision. An OCP release was also made on the Future Provision of Marine Services contract, primarily due to the progress being made in lowering the ongoing costs base of the contract.

During the six months ended 30 June 2016 a settlement was reached with the customer in respect of HMAS Bundaberg, the vessel operating under the Armidale Class Patrol Boat contract which was destroyed by fire in 2014. The provision relating to this claim has been transferred to other creditors and other debtors, given that the amounts owed to the customer and the associated insurance receivable are no longer uncertain and therefore do not meet the criteria to be included within the provisions balance.

Utilisation of OCPs in the six months ended 30 June 2016 was £47.3m (six months ended 30 June 2015 £68.8m).

Other Contract and Balance Sheet Review items

There were adjustments arising in the six months ended 30 June 2016 on items identified during the Contract and Balance Sheet Review. These adjustments relate to a number of items including:

- The releases of other provisions and accruals of £5.0m where liabilities have either been settled for less than the amount provided or accrued, or have lapsed due to the passage of time.
- The release of allowances for bad debts of £1.6m following the receipt of payments in respect of old outstanding balances.
- Additional charges made in the period of £3.0m to increase provisions or settle further liabilities arising on items identified during the Contract and Balance Sheet Review.

The overall net improvement to Trading Profit from OCPs and other Contract and Balance Sheet Review adjustments was therefore £17.0m in the six months to 30 June 2016.

Pre-tax ROIC

Pre-tax Return on Invested Capital (ROIC) for the six months ended 30 June 2016 and 31 December 2015 is calculated using the Income Statement for the rolling 12 month period and a two-point average of the opening and closing balance sheets for the 12 month period. For 30 June 2015, ROIC is calculated using the Income Statement for a rolling 12 month period and a two-point average of the opening and closing balance sheets for the 6 month period due to the significant reduction in net assets during the second half of 2014.

For the six months ended 30 June 2016 the return from Underlying Trading Profit was 11.1%. The composition of Invested Capital and calculation of ROIC is summarised in the table below.

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	£m	£m	£m
Non current assets			
Goodwill	**545.2**	530.6	509.9
Other intangible assets	**88.5**	95.5	89.8
Property, plant and equipment	**70.7**	37.2	73.2
Interest in joint ventures	**12.6**	1.4	13.8
Trade and other receivables	**46.9**	46.1	50.2
	763.9	710.8	736.9
Current assets			
Inventory	**27.6**	34.4	26.4
Trade and other receivables	**561.2**	557.2	519.7
Assets classified as held for sale	**19.7**	473.3	39.8
	608.5	1,064.9	585.9
Total invested capital assets	**1,372.4**	1,775.7	1,322.8
Current liabilities			
Trade and other payables	**(550.5)**	(573.9)	(548.8)
Assets classified as held for sale	**(5.6)**	(166.1)	(32.5)
Non current liabilities			
Trade and other payables	**(18.7)**	(37.5)	(18.3)
Total invested capital liabilities	**(574.8)**	(777.5)	(599.6)
Invested capital	**797.6**	998.2	723.2
Trading profit/(loss) 12 months	**146.6**	(632.7)	137.6
ROIC %	**16.3%**	(63.3%)	16.0%
Underlying Trading Profit 12 months	**100.1**	115.0	96.0
ROIC %	**11.1%**	13.4%	11.1%

Principal Risks and Uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 16 to 29 of the 2015 Annual Report and Accounts and the key headline risks for the remainder of 2016 are restated below. This summary is not intended, and should not be used, as a substitute for reading the appropriate pages of the Annual Report and Accounts which include further commentary on the risks and the Group's management of them.

- Failure to attract and retain leaders fit for the future
- Failure to transform and deliver the Group strategy
- Failure to build our reputation or act with integrity
- Failure to grow profitably
- Financial control and finance IT systems failure
- Major information security breach
- Catastrophic event
- Misreporting of performance
- Contract non-compliance and contract non-performance
- Material legal and regulatory compliance failure

Serco previously reported on the potential risk to its business should the UK public vote to leave the European Union and whilst the Group's view of its principal risks and uncertainties for the remaining six months of the financial year remains substantially unchanged, the outcome of the UK vote has created uncertainties in our UK markets and the wider economy. Therefore, the impact of Britain leaving the EU remains a key consideration within the risk of failure to grow profitably. Further detail regarding the risks associated with the outcome of the UK's referendum on EU membership is given in the Chief Executive's Review.

In addition to the principal risks and uncertainties listed above there may be additional risks unknown to Serco and other risks, currently believed to be immaterial, which could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

Responsibility Statement

We confirm to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;
b) the interim management report includes a fair review of the information required by the DTR 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
c) the interim management report includes a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

Rupert Soames
Group Chief Executive Officer

Angus Cockburn
Group Chief Financial Officer

4 August 2016

Independent Review Report to Serco Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Service Authority.

Stephen Wardell
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

4 August 2016

Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June 2016

Continuing operations	Note	**Six months ended 30 June 2016 (unaudited) £m**	Six months ended 30 June 2015 (unaudited) (restated*) £m	Year ended 31 December 2015 (audited) £m
Revenue		**1,493.2**	1,612.7	3,177.0
Cost of sales		**(1,326.7)**	(1,427.6)	(2,849.1)
Gross profit		**166.5**	185.1	327.9
Administrative expenses				
General and administrative expenses		**(109.4)**	(142.7)	(253.9)
Exceptional loss on disposal of subsidiaries and operations	5	**(0.9)**	(4.9)	(2.6)
Other exceptional operating items	5	**(6.8)**	(11.7)	(107.3)
Other expenses – amortisation and impairment of intangibles arising on acquisition		**(1.9)**	(2.9)	(4.8)
Share of profits in joint ventures, net of interest and tax	4	**17.7**	13.9	37.0
Operating profit/(loss)		**65.2**	36.8	(3.7)
Operating profit before exceptional items		**72.9**	53.4	106.2
Investment income	6	**4.7**	2.8	6.1
Finance costs	7	**(11.8)**	(22.8)	(39.0)
Exceptional finance costs	5	**-**	(32.8)	(32.8)
Total net finance costs		**(7.1)**	(52.8)	(65.7)
Profit/(loss) before tax		**58.1**	(16.0)	(69.4)
Tax on profit/(loss) before exceptional items		**(3.7)**	(9.6)	(17.9)
Tax on exceptional items		**(0.1)**	0.3	0.4
Tax charge	8	**(3.8)**	(9.3)	(17.5)
Profit/(loss) for the period from continuing operations		**54.3**	(25.3)	(86.9)
Loss for the period from discontinued operations	2	**(7.9)**	(66.4)	(66.2)
Profit/(loss) for the period		**46.4**	(91.7)	(153.1)
Attributable to:				
Equity owners of the Company		**46.5**	(91.5)	(152.6)
Non controlling interests		**(0.1)**	(0.2)	(0.5)
Earnings per share (EPS)				
Basic EPS from continuing operations	9	**5.00p**	(2.83p)	(8.78p)
Diluted EPS from continuing operations	9	**4.82p**	(2.83p)	(8.78p)
Basic EPS from discontinued operations	9	**(0.73p)**	(7.49p)	(6.69p)
Diluted EPS from discontinued operations	9	**(0.70p)**	(7.49p)	(6.69p)
Basic EPS from continuing and discontinued operations	9	**4.27p**	(10.32p)	(15.47p)
Diluted EPS from continuing and discontinued operations	9	**4.12p**	(10.32p)	(15.47p)

*restated to reflect discontinued operations.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June 2016 (unaudited) £m	Six months ended 30 June 2015 (unaudited) £m	Year ended 31 December 2015 (audited) £m
Profit/(loss) for the period	**46.4**	(91.7)	(153.1)
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain/(loss) on defined benefit pension schemes[1]	**21.7**	(9.5)	(15.8)
Actuarial gain/(loss) on reimbursable rights[1]	**0.8**	-	(0.4)
Tax relating to items not reclassified[1]	**(4.4)**	1.2	4.1
Share of other comprehensive income in joint ventures	**0.2**	0.1	5.0
Items that may be reclassified subsequently to profit or loss:			
Net exchange gain/(loss) on translation of foreign operations[2]	**44.0**	(14.6)	(40.9)
Fair value gain on cash flow hedges during the period[2]	**4.2**	6.3	2.2
Tax relating to items that may be reclassified[2]	**(0.1)**	(1.5)	-
Share of other comprehensive income in joint ventures	**0.6**	1.5	2.6
Total other comprehensive income/(expense) for the period	**67.0**	(16.5)	(43.2)
Total comprehensive income/(expense) for the period	**113.4**	(108.2)	(196.3)
Attributable to:			
Equity owners of the Company	**113.4**	(108.0)	(195.9)
Non controlling interests	**-**	(0.2)	(0.4)

Notes:

1 Recorded in retirement benefit obligations reserve in the consolidated statement of changes in equity.

2 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 share holders' equity £m	Non controlling interests £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 period	-	-	-	(89.9)	(8.3)	-	-	(9.8)	(108.0)	(0.2)
Issue of share capital	11.0	-	-	519.1	-	-	-	-	530.1	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.1)	4.4	-	4.3	-
Expense in relation to share based payments	-	-	-	-	-	4.1	-	-	4.1	-
Transfer on disposal	-	-	-	(3.4)	3.4	-	-	-	-	-
At 30 June 2015 (unaudited)	22.0	327.9	0.1	119.8	(93.9)	75.4	(60.1)	(28.7)	362.5	1.6
Total comprehensive expense for the period	-	-	-	(55.1)	(3.8)	-	-	(29.0)	(87.9)	(0.2)
Issue of share capital	-	-	-	0.2	-	-	-	-	0.2	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.2)	0.3	-	0.1	-
Expense in relation to share based payments	-	-	-	-	-	5.7	-	-	5.7	-
Transfer on disposal	-	-	-	3.6	(3.6)	-	-	-	-	-
Change in non controlling interests	-	-	-	-	-	-	-	-	-	0.1
At 31 December 2015 (audited)	**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 period	**-**	**-**	**-**	**47.3**	**18.1**	**-**	**-**	**48.0**	**113.4**	**-**
Shares transferred to option holders on exercise of share options	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**0.3**	**-**	**-**	**-**
Expense in relation to share based payments	**-**	**-**	**-**	**-**	**-**	**4.9**	**-**	**-**	**4.9**	**-**
At 30 June 2016 (unaudited)	**22.0**	**327.9**	**0.1**	**115.8**	**(83.2)**	**85.5**	**(59.5)**	**(9.7)**	**398.9**	**1.5**

Condensed Consolidated Balance Sheet

	Note	At 30 June 2016 (unaudited) £m	At 30 June 2015 (unaudited) £m	At 31 December 2015 (audited) £m
Non current assets				
Goodwill	10	**545.2**	530.6	509.9
Other intangible assets		**88.5**	95.5	89.8
Property, plant and equipment		**70.7**	37.2	73.2
Interests in joint ventures	4	**12.6**	1.4	13.8
Trade and other receivables		**46.9**	46.1	50.2
Derivative financial instruments	14	**10.7**	3.3	7.8
Deferred tax assets		**42.5**	32.9	42.2
Retirement benefit assets	15	**153.9**	133.8	127.1
		971.0	880.8	914.0
Current assets				
Inventories		**27.6**	34.4	26.4
Trade and other receivables		**561.2**	557.2	519.7
Current tax assets		**8.2**	20.1	6.6
Cash and cash equivalents		**166.2**	157.1	323.6
Derivative financial instruments	14	**14.8**	3.4	9.4
		778.0	772.2	885.7
Assets classified as held for sale	18	**19.7**	473.3	39.8
		797.7	1,245.5	925.5
Total assets		**1,768.7**	2,126.3	1,839.5
Current liabilities				
Trade and other payables		**(550.5)**	(573.9)	(548.8)
Derivative financial instruments	14	**(4.2)**	(14.3)	(2.4)
Current tax liabilities		**(11.4)**	(18.1)	(14.2)
Provisions	12	**(152.8)**	(147.2)	(168.6)
Obligations under finance leases		**(15.3)**	(9.0)	(15.8)
Loans		**(9.7)**	(34.9)	(132.2)
		(743.9)	(797.4)	(882.0)
Liabilities directly associated with assets classified as held for sale	18	**(5.6)**	(166.1)	(32.5)
		(749.5)	(963.5)	(914.5)
Non current liabilities				
Trade and other payables		**(18.7)**	(37.5)	(18.3)
Deferred tax liabilities		**(28.6)**	(11.4)	(22.3)
Provisions	12	**(273.7)**	(345.3)	(313.1)
Obligations under finance leases		**(20.4)**	(12.5)	(28.0)
Loans		**(263.8)**	(377.5)	(249.7)
Retirement benefit obligations	15	**(13.6)**	(14.5)	(11.5)
		(618.8)	(798.7)	(642.9)
Total liabilities		**(1,368.3)**	(1,762.2)	(1,557.4)
Net assets		**400.4**	364.1	282.1
Equity				
Share capital		**22.0**	22.0	22.0
Share premium account		**327.9**	327.9	327.9
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**115.8**	119.8	68.5
Retirement benefit obligations reserve		**(83.2)**	(93.9)	(101.3)
Share based payment reserve		**85.5**	75.4	80.9
Own shares reserve		**(59.5)**	(60.1)	(59.8)
Hedging and translation reserve		**(9.7)**	(28.7)	(57.7)
Equity attributable to owners of the Company		**398.9**	362.5	280.6
Non controlling interests		**1.5**	1.6	1.5
Total equity		**400.4**	364.1	282.1

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016	Note	**Six months ended 30 June 2016 (unaudited)** £m	Six months ended 30 June 2015 (unaudited) £m	Year ended 31 December 2015 (audited) £m
Net cash inflow/(outflow) from operating activities before exceptional items		**6.7**	(40.8)	56.5
Exceptional items		**(32.1)**	(41.5)	(56.6)
Net cash outflow from operating activities	16	**(25.4)**	(82.3)	(0.1)
Investing activities				
Interest received		**0.9**	1.6	3.4
Decrease in security deposits		**-**	0.3	0.3
Dividends received from joint ventures		**19.7**	15.8	32.5
Proceeds from disposal of property, plant and equipment		**0.1**	-	0.8
Proceeds from disposal of intangible assets		**0.1**	0.3	0.9
Proceeds on disposal of subsidiaries and operations		**11.2**	(4.3)	165.6
Acquisition of subsidiaries, net of cash acquired		**(0.1)**	(0.2)	(0.2)
Purchase of other intangible assets		**(6.8)**	(13.6)	(37.5)
Purchase of property, plant and equipment		**(7.8)**	(19.6)	(36.7)
Net cash inflow/(outflow) from investing activities		**17.3**	(19.7)	129.1
Financing activities				
Interest paid		**(11.0)**	(21.2)	(34.7)
Exceptional finance costs paid		**(0.3)**	(31.3)	(31.8)
(Decrease)/increase in loans to joint ventures		**0.2**	(0.9)	(1.6)
Repayment of loans		**(135.8)**	(392.4)	(448.4)
Capital element of finance lease repayments		**(8.6)**	(9.6)	(18.8)
Share placement net proceeds		**-**	530.1	530.3
Proceeds from issue of other share capital and exercise of share options		**0.1**	4.3	4.4
Net cash (outflow)/inflow from financing activities		**(155.4)**	79.0	(0.6)
Net (decrease)/increase in cash and cash equivalents		**(163.5)**	(23.0)	128.4
Cash and cash equivalents at beginning of period		**323.6**	180.1	180.1
Net exchange gain/(loss)		**3.6**	(3.5)	(2.1)
Cash reclassified to assets held for sale		**2.5**	3.5	17.2
Cash and cash equivalents at end of period		**166.2**	157.1	323.6

Notes to the Consolidated Financial Statements

1. General Information, Going Concern and Accounting Policies

The information contained herein for the year ended 31 December 2015 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006 and did not draw attention to any matters by way of emphasis of matter.

The annual financial statements of Serco Group plc are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*, as adopted by the EU.

In 2016 there have been no significant changes to accounting under IFRS which have impacted the Group's consolidated financial statements in the six months ended 30 June 2016. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

The comparative results for the six months ended 30 June 2015 have been restated for the separation of discontinued operations as explained in note 2. The condensed set of financial statements includes the results of subsidiaries which have been consolidated and joint ventures which have been equity accounted.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review and Divisional Reviews on pages 3 to 14. The Finance Review includes a summary of the Group's financial position, its cash flows and its borrowing facilities.

Going Concern

In assessing the basis of preparation of the financial statements for the six months ended 30 June 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 Group's principal debt facilities at the year end comprised a £480m revolving credit facility, and $552m of US private placements notes. During the six months ended 30 June 2016 US$195m of the US private placement notes have been repaid (including US$167m paid early from disposal proceeds). As at 30 June 2016, the Group had £745m of committed credit facilities and committed headroom of £616m.

Assessment of going concern
The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts. In order to satisfy ourselves that we 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.

Review period
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 31 December 2017. The Directors have also reviewed the principal risks considered on page 27.

Assessment
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.

2. Discontinued Operations

The Global Services division represented UK onshore and offshore private sector BPO operations and is in the process of being disposed. As a result, this division was deemed to be a discontinued operation in the second half of 2015. The decision to exit these operations is a core element of the strategy to focus Serco on being a leading supplier of public services. This not only strengthens the balance sheet position but also enables the Group to concentrate on the five core sectors.

During 2015 the disposal of the offshore private sector BPO operations was agreed and completion of the sale of the majority of these operations occurred on 31 December 2015. Disposal of one of the final two elements of the remaining offshore business was completed in March 2016 and the final element is expected to complete prior to 31 December 2016.

The UK onshore private sector BPO businesses have been sold, are planned to be sold, or have been exited early. During 2016 progress has been made and the final elements are expected to be disposed of within the next twelve months.

The results of the discontinued operations were as follows:

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2015 (audited)
Revenue	**24.7**	176.6	337.6
Expenses	**(27.9)**	(170.2)	(311.1)
Operating (loss)/profit before exceptional items	**(3.2)**	6.4	26.5
Exceptional (loss)/gain on disposal of subsidiaries and operations	**(0.3)**	-	5.4
Other exceptional operating items	**(3.9)**	(68.0)	(83.0)
Operating loss	**(7.4)**	(61.6)	(51.1)
Investment revenue	**-**	1.5	2.1
Finance costs	**-**	(0.1)	(1.2)
Exceptional finance costs	**(0.4)**	-	-
Loss before tax	**(7.8)**	(60.2)	(50.2)
Tax charge on loss before exceptional items	**(0.1)**	(6.2)	(18.7)
Tax credit on exceptional items	**-**	-	2.7
Net loss attributable to discontinued operations presented in the income statement	**(7.9)**	(66.4)	(66.2)

Attributable to:			
Equity owners of the Company	**(7.9)**	(66.4)	(66.0)
Non controlling interests	**-**	-	(0.2)

2. Discontinued Operations (continued)

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:

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2015 (audited)
Exceptional items arising on discontinued operations			
Loss on disposal of discontinued operations prior to reserve recycling	**(0.7)**	-	(45.6)
Recycling of gains in hedging and translation reserves	**0.4**	-	51.0
Exceptional (loss)/gain on disposal	**(0.3)**	-	5.4
Other exceptional operating items			
Restructuring costs	**(0.4)**	(2.6)	(2.2)
Impairment of goodwill	**-**	(65.4)	(65.9)
Impairment of other assets transferred to held for sale	**4.3**	-	(14.9)
Movements in indemnities provided on business disposals	**(7.8)**	-	-
Other exceptional operating items	**(3.9)**	(68.0)	(83.0)
Exceptional operating items arising on discontinued operations	**(4.2)**	(68.0)	(77.6)

Exceptional Operating Items

In the six months ended 2016 a charge of £0.4m (six months ended 30 June 2015: £2.6m) has arisen in discontinued operations in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, external advisory fees and other incremental costs relating to the exit of the UK private sector BPO business.

In the six months ended 30 June 2016 the value of assets held for sale increased by £4.3m, reflecting the latest estimate of likely sale proceeds and movements of the assets held for sale since the prior balance sheet date.

A charge of £7.8m has arisen in the six months ended 30 June 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 tax indemnities.

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 £65.4m recorded at the half year for 2015.

Exceptional Finance Costs

In the six months ended 30 June 2016 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.

2. Discontinued Operations (continued)

The loss on disposal of discontinued operations in the six months ended 30 June 2016 is calculated as follows:

	Offshore £m
Cash consideration	10.5
Less:	
Net assets disposed	(10.4)
Disposal related costs	(0.8)
Loss on disposal of discontinued operations prior to reserve recycling	(0.7)
Recycling of gains on translation of foreign operations	0.4
Exceptional loss on disposal	(0.3)

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

	Offshore £m
Goodwill	5.6
Property, plant and equipment	0.9
Trade and other receivables	2.8
Cash and cash equivalents	2.7
Trade and other payables	(1.6)
Net assets disposed	10.4

The recycling items relate to the cumulative gains taken through the Consolidated Statement of Comprehensive Income. These are in respect of the historic movements in exchange differences on the net investment held in these overseas operations.

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

	Offshore £m
Cash consideration	10.5
Less:	
Cash and cash equivalents disposed	(2.7)
Disposal related costs	(0.7)
Net cash flow on disposal and movement in net debt	7.1

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

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2015 (audited)
Net cash inflow from operating activities before exceptional items	**18.2**	2.6	67.7
Exceptional items	**(12.7)**	(0.3)	(1.5)
Net cash inflow from operating activities	**5.5**	2.3	66.2
Net cash (outflow)/inflow from investing activities	**(2.9)**	(8.3)	93.5
Net cash (outflow)/inflow from financing activities	**(5.3)**	2.9	(26.5)
Net (decrease)/increase in cash and cash equivalents attributable to discontinued operations	**(2.7)**	(3.1)	133.2

3. Segmental Information

The Group's reportable operating segments under IFRS8 *Operating Segments* are:

Reportable segment	**Operating segment**
UK Central Government	Frontline 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, Local Government Direct Services, Citizen Services and BPO services delivered to UK & European public sector customers;
AsPac	Frontline 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	Frontline services for sectors including Defence, Transport and Health in the Middle East region;
Americas	Professional, technology and management 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.

Geographic Information

	Six months ended 30 June 2016 (unaudited)		Six months ended 30 June 2015 (unaudited) (restated**)		Year ended 31 December 2015 (audited)	
	Revenue	**Non current assets***	Revenue	Non current assets*	Revenue	Non current assets*
	£m	**£m**	£m	£m	£m	£m
United Kingdom	**665.5**	**448.5**	777.1	421.3	1,529.2	259.2
United States	**300.3**	**283.2**	325.9	331.4	632.0	347.7
Australia	**271.6**	**139.2**	248.7	129.9	514.7	125.5
Middle East	**153.8**	**21.0**	143.9	15.0	291.3	16.2
Other countries	**102.0**	**18.5**	117.1	25.3	209.8	34.0
Total	**1,493.2**	**910.4**	1,612.7	922.9	3,177.0	782.6

*Non current assets exclude derivative financial instruments, deferred tax assets and loans to joint ventures and includes assets of £nil (30 June 2015 £324.6m; 31 December 2015: £1.2m) reclassified as held for sale.
**restated to reflect discontinued operations.

3. Segmental Information (continued)

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2016.

Six months ended 30 June 2016 Continuing operations	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	**349.0**	**376.7**	**284.7**	**153.9**	**328.9**	**-**	**1,493.2**
Result							
Trading profit/(loss)*	**52.0**	**5.1**	**7.9**	**11.5**	**16.8**	**(18.5)**	**74.8**
Amortisation and impairment of intangibles arising on acquisition	**-**	**-**	**(0.6)**	**-**	**(1.3)**	**-**	**(1.9)**
Operating profit/(loss) before exceptional items	**52.0**	**5.1**	**7.3**	**11.5**	**15.5**	**(18.5)**	**72.9**
Exceptional loss on disposal of subsidiaries and operations	**-**	**0.6**	**0.4**	**-**	**-**	**(1.9)**	**(0.9)**
Other exceptional operating items	**-**	**(0.1)**	**-**	**(0.1)**	**-**	**(6.6)**	**(6.8)**
Operating profit/(loss)	**52.0**	**5.6**	**7.7**	**11.4**	**15.5**	**(27.0)**	**65.2**
Investment income							**4.7**
Finance costs							**(11.8)**
Profit before tax							**58.1**
Tax on profit before exceptional items							**(3.7)**
Tax on exceptional items							**(0.1)**
Profit for the period							**54.3**

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

	CG	LRG	AsPac	Middle East	Americas	Corporate	Total
Segment assets							
Interests in joint ventures	**2.7**	**6.7**	**2.8**	**0.4**	**-**	**-**	**12.6**
Other segment assets	**200.6**	**306.6**	**247.7**	**105.0**	**406.3**	**220.0**	**1,486.2**
Total segment assets	**203.3**	**313.3**	**250.5**	**105.4**	**406.3**	**220.0**	**1,498.8**
Unallocated assets							**269.9**
Consolidated total assets							**1,768.7**
Segment liabilities							
Segment liabilities	**(315.4)**	**(165.7)**	**(199.0)**	**(81.3)**	**(109.6)**	**(138.3)**	**(1,009.3)**
Unallocated liabilities							**(359.0)**
Consolidated total liabilities							**(1,368.3)**

Segment assets exclude all derivative financial instruments, current and deferred taxation assets, loans to joint ventures and cash. Segment liabilities consist of all trade and other payables, provisions and retirement benefit obligations.

3. Segmental Information (continued)

Six months ended 30 June 2015 **Continuing operations (restated**)**	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	366.0	463.8	281.1	143.9	357.9	-	1,612.7
Result							
Trading profit/(loss)*	21.6	10.3	7.8	14.6	22.7	(20.7)	56.3
Amortisation and impairment of intangibles arising on acquisition	-	(0.6)	(1.0)	-	(1.3)	-	(2.9)
Operating profit/(loss) before exceptional items	21.6	9.7	6.8	14.6	21.4	(20.7)	53.4
Exceptional profit on disposal of subsidiaries and operations	-	-	(4.2)	(0.7)	-	-	(4.9)
Other exceptional operating items	(0.7)	(5.2)	(0.8)	-	-	(5.0)	(11.7)
Operating profit/(loss)	20.9	4.5	1.8	13.9	21.4	(25.7)	36.8
Investment income							2.8
Finance costs							(22.8)
Exceptional finance costs							(32.8)
Loss before tax							(16.0)
Tax on loss before exceptional items							(9.6)
Tax on exceptional items							0.3
Loss for the period							(25.3)

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

	CG	LRG	AsPac	Middle East	Americas	Corporate	Total
Segment assets							
Interests in joint ventures	(6.9)	5.3	2.3	0.4	0.3	-	1.4
Other segment assets	191.3	413.0	219.9	95.1	463.1	149.3	1,531.7
Total segment assets	184.4	418.3	222.2	95.5	463.4	149.3	1,533.1
Unallocated assets							593.2
Consolidated total assets							2,126.3
Segment liabilities							
Segment liabilities	(390.2)	(315.9)	(228.1)	(75.2)	(109.6)	(20.5)	(1,139.5)
Unallocated liabilities							(622.7)
Consolidated total liabilities							(1,762.2)

3. Segmental Information (continued)

Year ended 31 December 2015 **Continuing operations**	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)*	60.2	(14.5)	58.8	27.4	27.0	(47.9)	111.0
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	(47.9)	106.2
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)	(63.5)	(3.7)
Investment income							6.1
Finance costs							(71.8)
Loss before tax							(69.4)
Tax on loss before exceptional items							(17.9)
Tax on exceptional items							0.4
Loss for the year							(86.9)

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

Segment assets							
Interests in joint ventures	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	379.5	234.8	100.7	196.6	1,402.1
Unallocated assets							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							(497.1)
Consolidated total liabilities							(1,557.4)

4. Joint Ventures

The Group has certain arrangements where control is shared equally with one or more parties. As each arrangement is a separate legal entity and legal ownership and control are equal with all other parties, there are no significant judgements required to be made.

AWE Management Limited and Northern Rail Holdings Limited are the only joint ventures material to the Group. Dividends of £12.2m (six months ended 30 June 2015: £9.8m; year ended 31 December 2015: £17.8m) and £4.0m (six months ended 30 June 2015: £2.0m; year ended 31 December 2015: £5.9m) respectively were received from these companies in the period. The Northern Rail franchise ended on 1 April 2016.

In March 2016 it was agreed in principle that there would be a change in the AWE Management Limited shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% and Lockheed Martin taking a majority holding. The legal process is expected to complete in the second half of 2016.

Summarised financial information of the Group's material joint ventures and an aggregation of the other joint ventures in which the Group has an interest is as follows:

30 June 2016

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Total £m
Revenue	508.9	131.5	133.3	235.4	58.2	293.6
Operating profit	37.8	8.4	9.4	16.8	4.6	21.4
Net investment income/(finance costs)	0.2	-	(0.7)	0.1	(0.4)	(0.3)
Income tax expense	(3.3)	(2.5)	(2.0)	(2.4)	(1.0)	(3.4)
Profit from continuing operations	34.7	5.9	6.7	14.5	3.2	17.7
Other comprehensive income	-	1.2	0.4	0.6	0.2	0.8
Total comprehensive income	34.7	7.1	7.1	15.1	3.4	18.5
Non current assets	464.5	-	43.2	154.8	18.5	173.3
Current assets	168.3	33.9	75.0	73.1	32.9	106.0
Current liabilities	(154.0)	(22.5)	(69.2)	(62.6)	(30.4)	(93.0)
Non current liabilities	(462.0)	-	(51.7)	(154.0)	(19.7)	(173.7)
Net assets/(liabilities)	16.8	11.4	(2.7)	11.3	1.3	12.6
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	5.6	5.7	1.3	11.3	1.3	12.6

*100% of the results of the joint ventures multiplied by the respective proportion of Group ownership.

4. Joint Ventures (continued)

31 December 2015

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Total £m
Revenue	978.3	585.3	277.1	618.7	118.5	737.2
Operating profit	61.2	19.4	27.0	30.1	12.5	42.6
Net investment revenue/(finance costs)	0.4	0.4	(1.4)	0.3	(0.7)	(0.4)
Income tax expense	(5.9)	(3.5)	(3.8)	(3.7)	(1.5)	(5.2)
Profit from continuing operations	55.7	16.3	21.8	26.7	10.3	37.0
Other comprehensive income/(expense)	-	11.9	5.0	5.9	1.7	7.6
Total comprehensive income	55.7	28.2	26.8	32.6	12.0	44.6
Non current assets	464.2	10.3	52.7	159.9	17.3	177.2
Current assets	358.8	97.2	85.6	168.2	35.7	203.9
Current liabilities	(342.6)	(93.4)	(75.1)	(160.9)	(32.7)	(193.6)
Non current liabilities	(461.7)	(3.8)	(52.3)	(155.8)	(17.9)	(173.7)
Net assets	18.7	10.3	10.9	11.4	2.4	13.8
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	6.2	5.2	2.5	11.4	2.4	13.8

*100% of the results of the joint ventures multiplied by the respective proportion of Group ownership.

30 June 2015

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Total £m
Revenue	499.4	278.9	135.5	305.9	58.0	363.9
Operating profit	26.3	4.2	11.1	10.9	5.0	15.9
Net investment revenue/(finance costs)	0.2	0.1	(0.8)	0.1	(0.3)	(0.2)
Income tax expense	(2.6)	-	(1.7)	(0.9)	(0.9)	(1.8)
Profit from continuing operations	23.9	4.3	8.6	10.1	3.8	13.9
Other comprehensive income/(expense)	-	4.8	(1.0)	2.4	(0.8)	1.6
Total comprehensive income	23.9	9.1	7.6	12.5	3.0	15.5
Non current assets	590.3	10.2	51.6	201.9	17.1	219.0
Current assets	331.0	88.2	85.8	154.4	35.7	190.1
Current liabilities	(319.9)	(92.5)	(78.5)	(152.8)	(33.6)	(186.4)
Non current liabilities	(590.0)	(8.2)	(57.1)	(200.8)	(20.5)	(221.3)
Net assets/(liabilities)	11.4	(2.3)	1.8	2.7	(1.3)	1.4
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	3.8	(1.1)	(1.3)	2.7	(1.3)	1.4

*100% of the results of the joint ventures multiplied by the respective proportion of Group ownership.

5. Exceptional Items

Exceptional items are non-recurring items of financial performance that are outside of normal practice and material to the results of the Group either by virtue of size or nature. We believe these items require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Net Loss on Disposal of Subsidiaries and Operations

There were no material disposals of continuing operations in the six months ended 30 June 2016. The loss on disposal of £0.9m in the period 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, offset by £1.3m of charges relating to transactions completing in prior years.

The exceptional loss on disposal in the six months ended 30 June 2015 was £4.9m. In May 2015, the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.6m, with a loss on disposal of £4.2m being charged in the six month period to 30 June 2015. The transaction is part of the disposal programme of businesses identified as not being core to Serco's future strategy, as announced initially in November 2014. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. Both these businesses were classified as held for sale as at 31 December 2014. In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group’s frontline public services operations in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.7m.

Other Exceptional Operating Items Arising on Continuing Operations

	Six months ended 30 June 2016 (unaudited) £m	**Six months ended 30 June 2015 (unaudited) (restated*) £m**	**Year ended 31 December 2015 (audited) £m**
Impairment of goodwill	**-**	-	(87.5)
Restructuring costs	**(6.2)**	(6.9)	(19.7)
Aborted transaction costs	**0.3**	-	(1.7)
Costs associated with UK Government reviews	**(0.9)**	(0.1)	(1.2)
UK frontline clinical health contract provisions	**-**	-	2.8
Impairment of assets transferred to held for sale	**-**	(4.7)	-
Other exceptional operating items	**(6.8)**	(11.7)	(107.3)

*Restated to reflect discontinued operations

In the six months ended 30 June 2016, a charge of £6.2m (six months to 30 June 2015: £6.8m) has arisen in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, external advisory fees and other incremental costs.

The disposal of the Environmental and Leisure businesses was aborted in 2015 and during the current period costs related to the aborted transaction were finalised, resulting in the release of a £0.3m credit.

In the six months ended 30 June 2016, there were exceptional costs totalling £0.9m (six months to 30 June 2015 £0.1m) associated with the UK Government reviews, reflecting external adviser costs related to these reviews.

In the six months ended 30 June 2015 there was a charge of £4.7m in respect of the carrying value of assets held for sale. This reflected the latest indicative offers received, together with movements of the assets held for sale since the prior balance sheet date.

5. Exceptional Items (continued)

Exceptional Finance Costs

In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015. As a result costs were incurred in 2015 to preserve the existing finance facilities. 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 in the six months ended 30 June 2015 were treated as exceptional items as they are outside of the normal financing arrangements of the Group and are significant in size.

Tax on Exceptional Items

The tax impact of these exceptional items was a tax charge of £0.1m (six months ended 30 June 2015 credit of £0.3m; year ended 31 December 2015: credit of £0.4m).

6. Investment Income

	Six months ended 30 June 2016 (unaudited) £m	Six months ended 30 June 2015 (unaudited) (restated*) £m	Year ended 31 December 2015 (audited) £m
Interest receivable on other loans and deposits	**1.9**	0.3	1.1
Net interest receivable on retirement benefit obligations	**2.3**	2.5	4.9
Movement in discount on other receivables	**0.5**	-	0.1
	4.7	2.8	6.1

*restated to reflect discontinued operations.

7. Finance Costs

	Six months ended 30 June 2016 (unaudited) £m	Six months ended 30 June 2015 (unaudited) (restated*) £m	Year ended 31 December 2015 (audited) £m
Interest payable on obligations under finance leases	**1.0**	1.3	2.5
Interest payable on other loans	**7.9**	15.1	24.7
Facility fees and other charges	**2.0**	3.5	6.2
Movement in discount on provisions	**0.9**	2.9	5.6
	11.8	22.8	39.0

*restated to reflect discontinued operations.

8. Tax

The tax charge on pre-exceptional profit from continuing activity of £65.8m was £3.7m. The principal reasons why the effective rate is lower than the UK rate of 20% is due to taxable profits being made in the UK in the half year, but tax losses forecast for the year as a whole, the presentation of joint ventures which are consolidated after tax within Operating Profit and the impact of the deferred tax movement related to defined benefit pension schemes. These effects have countered the impact of profits being made in jurisdictions where the tax rate is higher than that in the UK.

In the period, a £0.1m tax charge is reflected on the exceptional cost of £12.3m. Only limited deductions are available for many of the costs incurred, as most are associated with disposals for which no tax deduction is available.

As at 30 June 2016, the total deferred tax asset recognised in respect of UK losses is £10.5m (30 June 2015: £10.5m; 31 December 2015: £10.5m).

9. Earnings per Share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS33 *Earnings per Share*.

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

Number of shares

	Six months ended 30 June 2016 (unaudited) Millions	Six months ended 30 June 2015 (unaudited) Millions	Year ended 31 December 2015 (audited) Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**1,088.8**	886.2	986.5
Effect of dilutive potential ordinary shares: share options	**40.2**	-	-
Weighted average number of ordinary shares for the purpose of diluted EPS	**1,129.0**	886.2	986.5

Earnings per share

Continuing and Discontinued EPS	**Six months ended 30 June 2016 Earnings (unaudited) £m**	**Six months ended 30 June 2016 Per share amount (unaudited) Pence**	Six months ended 30 June 2015 Earnings (unaudited) £m	Six months ended 30 June 2015 Per share amount (unaudited) Pence	Year ended 31 December 2015 Earnings (audited) £m	Year ended 31 December 2015 Per share amount (unaudited) Pence
Earnings for the purpose of basic EPS	**46.5**	**4.27**	(91.5)	(10.32)	(152.6)	(15.47)
Effect of dilutive potential ordinary shares	**-**	**(0.15)**	-	-	-	-
Diluted EPS	**46.5**	**4.12**	(91.5)	(10.32)	(152.6)	(15.47)
Basic EPS Excluding Exceptional Items						
Earnings for the purpose of basic EPS	**46.5**	**4.27**	(91.5)	(10.32)	(152.6)	(15.47)
Add back exceptional operating items	**11.9**	**1.09**	84.6	9.54	187.5	19.00
Add back exceptional finance costs	**0.4**	**0.04**	32.8	3.70	32.8	3.33
Add back tax on exceptional items	**-**	**-**	(0.3)	(0.03)	(3.1)	(0.31)
Earnings excluding exceptional items for the purpose of basic EPS	**58.8**	**5.40**	25.6	2.89	64.6	6.55

Earnings per share

Continuing EPS	**Six months ended 30 June 2016 Earnings (unaudited) £m**	**Six months ended 30 June 2016 Per share amount (unaudited) Pence**	Six months ended 30 June 2015 Earnings (unaudited) £m	Six months ended 30 June 2015 Per share amount (unaudited) Pence	Year ended 31 December 2015 Earnings (audited) £m	Year ended 31 December 2015 Per share amount (unaudited) Pence
Earnings for the purpose of basic EPS	**54.4**	**5.00**	(25.1)	(2.83)	(86.6)	(8.78)
Effect of dilutive potential ordinary shares	**-**	**(0.18)**	-	-	-	-
Diluted EPS	**54.4**	**4.82**	(25.1)	(2.83)	(86.6)	(8.78)
Basic EPS Excluding Exceptional Items						
Earnings for the purpose of basic EPS	**54.4**	**5.00**	(25.1)	(2.83)	(86.6)	(8.78)
Add back exceptional operating items	**7.7**	**0.71**	16.6	1.87	109.9	11.14
Add back exceptional finance costs	**-**	**-**	32.8	3.70	32.8	3.33
Add back tax on exceptional items	**0.1**	**-**	(0.3)	(0.03)	(0.4)	(0.04)
Earnings excluding exceptional items for the purpose of basic EPS	**62.2**	**5.71**	24.0	2.71	55.7	5.65

9. Earnings per Share (Continued)

Discontinued EPS	Six months ended 30 June 2016 Earnings (unaudited) £m	Per share amount (unaudited) Pence	Six months ended 30 June 2015 Earnings (unaudited) £m	Per share amount (unaudited) Pence	Year ended 31 December 2015 Earnings (audited) £m	Per share amount (unaudited) Pence
Earnings for the purpose of basic EPS	**(7.9)**	**(0.73)**	(66.4)	(7.49)	(66.0)	(6.69)
Effect of dilutive potential ordinary shares	**-**	**0.03**	-	-	-	-
Diluted EPS	**(7.9)**	**(0.70)**	(66.4)	(7.49)	(66.0)	(6.69)
Basic EPS Excluding Exceptional Items						
Earnings for the purpose of basic EPS	**(7.9)**	**(0.73)**	(66.4)	(7.49)	(66.0)	(6.69)
Add back exceptional operating items	**4.2**	**0.39**	68.0	7.67	77.6	7.87
Add back exceptional finance costs	**0.4**	**0.04**	-	-	(2.7)	(0.27)
Earnings excluding exceptional items for the purpose of basic EPS	**(3.3)**	**(0.30)**	1.6	0.18	8.9	0.90

At 30 June 2016, options over 310,493 (30 June 2015: 8,058,314; 31 December 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.

10. 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.

Trading and cash over the five year period used in the impairment review are expected to be materially consistent with those forecast during the most recent impairment review despite the UK public's decision to leave the European Union. Although the referendum vote creates some uncertainties in UK markets and could lead to potential delays in new business opportunities in those markets, given the focus on providing essential frontline services for the UK Government and the long term nature of the business there is no current expectation that the decision will materially impact cash flows and long term growth. In addition to cash flows and the growth in those cash flows, a key judgement which could indicate impairment is an increase in discount rates. However, the vote to leave the European Union has led to a reduction in gilt rates and as a result discount rates are more likely to decrease than increase and therefore there were no indicators of goodwill impairment as at 30 June 2016.

11. Analysis of Net Debt

	Cash and cash equivalents £m	Loans receivable £m	Other loans £m	Obligations under finance leases £m	Total £m
At 1 January 2015 (audited)	180.1	1.0	(797.3)	(26.5)	(642.7)
Cash flow	(4.7)	(0.2)	393.2	5.1	393.4
Reclassified as held for sale	(14.4)	-	-	(0.1)	(14.5)
Disposals	(0.4)	-	-	-	(0.4)
Exchange differences	(3.5)	(0.1)	(6.7)	0.2	(10.1)
Non cash movements	-	0.2	(1.6)	(0.2)	(1.6)
At 30 June 2015 (unaudited)	157.1	0.9	(412.4)	(21.5)	(275.9)
Cash flow	133.5	(0.4)	55.8	4.2	193.1
Reclassified as held for sale	31.6	-	(0.8)	(26.6)	4.2
Exchange differences	1.4	0.1	(24.1)	(0.2)	(22.8)
Non cash movements	-	19.3	(0.4)	0.3	19.2
At 31 December 2015 (audited)	**323.6**	**19.9**	**(381.9)**	**(43.8)**	**(82.2)**
Cash flow	**(160.8)**	**-**	**135.8**	**8.4**	**(16.6)**
Exchange differences	**3.4**	**0.1**	**(26.8)**	**(0.3)**	**(23.6)**
Non cash movements	**-**	**0.4**	**(0.6)**	**-**	**(0.2)**
At 30 June 2016 (unaudited)	**166.2**	**20.4**	**(273.5)**	**(35.7)**	**(122.6)**

12. Provisions

	Employee Related & Restructuring £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2015 (audited)	35.1	21.5	430.4	90.9	577.9
Charged to income statement – exceptional	1.9	-	-	0.1	2.0
Charged to income statement - other	4.0	0.2	14.4	6.8	25.4
Released to income statement – exceptional	(1.0)	-	(0.3)	-	(1.3)
Released to income statement – other	(0.4)	(0.2)	(9.3)	(6.6)	(16.5)
Utilised during the year	(5.6)	(1.6)	(68.7)	(1.2)	(77.1)
Transferred to assets held for sale	(7.1)	-	(4.0)	-	(11.1)
Unwinding of discount	-	0.1	2.8	-	2.9
Exchange differences	(0.6)	0.2	(8.9)	(0.4)	(9.7)
At 30 June 2015 (unaudited)	26.3	20.2	356.4	89.6	492.5
Reclassified from trade and other payables	-	-	-	15.9	15.9
Charged to income statement – exceptional	3.2	-	-	30.6	33.8
Charged to income statement - other	12.6	2.9	74.7	7.2	97.4
Released to income statement – exceptional	(0.4)	-	(2.5)	(0.8)	(3.7)
Released to income statement – other	(0.6)	(0.3)	(80.9)	(6.9)	(88.7)
Utilised during the year	(5.1)	(4.4)	(48.1)	(15.4)	(73.0)
Reclassification	-	(0.3)	0.3	-	-
Transferred (to)/from assets held for sale	(0.9)	-	(0.9)	2.6	0.8
Unwinding of discount	-	-	2.7	-	2.7
Exchange differences	1.3	0.2	0.4	2.1	4.0
At 31 December 2015 (audited)	**36.4**	**18.3**	**302.1**	**124.9**	**481.7**
Reclassified to working capital	**-**	**-**	**(13.1)**	**-**	**(13.1)**
Charged to income statement – exceptional	**-**	**-**	**-**	**7.9**	**7.9**
Charged to income statement - other	**6.9**	**1.5**	**4.4**	**4.5**	**17.3**
Released to income statement - other	**(2.3)**	**(0.1)**	**(17.7)**	**(4.8)**	**(24.9)**
Utilised during the year	**(5.6)**	**(3.0)**	**(44.8)**	**(3.6)**	**(57.0)**
Reclassification	**-**	**(3.0)**	**0.7**	**2.3**	**-**
Unwinding of discount	**-**	**-**	**0.8**	**-**	**0.8**
Exchange differences	**2.9**	**0.8**	**6.9**	**3.2**	**13.8**
At 30 June 2016 (unaudited)	**38.3**	**14.5**	**239.3**	**134.4**	**426.5**
Analysed as:					
Current	**10.9**	**3.2**	**72.9**	**65.8**	**152.8**
Non current	**27.4**	**11.3**	**166.4**	**68.6**	**273.7**

12. Provisions (continued)

Total provisions held by the Group at 30 June 2016 amount to £428.5m (30 June 2015: £527.9m; 31 December 2015: £506.2m) and include £426.5m (30 June 2015: £492.5m; 31 December 2015: £481.7m) shown above and £2.0m (30 June 2015: £35.4m; 31 December 2015: £24.5m) included within amounts held for sale on the balance sheet.

Contract provisions relate to loss making onerous contracts which will be utilised over the life of each individual contract, up to a maximum of 6.8 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 life of the contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material. A full analysis of the future profitability of all contracts with low margins is performed at least annually. During the six months ended 30 June 2016 a settlement was reached with the customer in respect of HMAS Bundaberg, the vessel operating under the Armidale Class Patrol Boat contract which was destroyed by fire in 2014. The provision relating to this claim has been transferred to other creditors and other debtors, given that the amounts owed to the customer and the associated insurance receivable are no longer uncertain and therefore do not meet the criteria to be included within the provisions balance.

Employee related provisions are for long term service awards and terminal gratuity 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 are 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 June 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. 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 expected to be settled by 31 December 2021.

13. Contingent Liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £20.9m (30 June 2015; £25.7m: 31 December 2015: £21.1m). The actual commitment outstanding at 30 June 2016 was £18.1m (30 June 2015: £20.9m; 31 December 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 30 June 2016 was £213.3m (30 June 2015: £196.6m; 31 December 2015: £211.8m).

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.

On 31 May 2011 we filed a claim with the Authority for Advance Rulings (AAR) to seek confirmation that Serco was not obliged to withhold Indian income tax from the purchase price on the acquisition of Intelenet. The AAR declined to rule on the matter, so Serco filed a claim with the High Court to decide or direct the AAR to rule on the matter. The High Court has issued a judgement in favour of Serco, that is, there was no requirement to withhold income tax. Further litigation to a higher court is a possibility. Should the matter be decided against Serco, it would be liable for unprovided tax of £30.0m together with accrued interest to 30 June 2016 of £17.3m. Having taken appropriate professional advice, management considers it likely that Serco will ultimately be successful in this matter.

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 our 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 our Annual Report and Accounts for the year ended 31 December 2015 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.

14. Financial Instruments

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3: inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 30 June 2016 and the comparison fair values for loans and finance leases, are all considered to fall into Level 2. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. There have been no transfers between levels in the period.

The Group held the following financial instruments:

	Carrying amount (measurement basis)		**Comparison fair value**	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost 30 June 2016 (unaudited) £m	**Fair value - Level 2 30 June 2016 (unaudited) £m**	**Level 2 30 June 2016 (unaudited) £m**	Amortised cost 30 June 2015 (unaudited) £m	Fair value - Level 2 30 June 2015 (unaudited) £m	Level 2 30 June 2015 (unaudited) £m
Financial assets - current						
Cash and bank balances	**166.2**	**-**	**166.2**	157.1	-	157.1
Derivatives designated as FVTPL						
Forward foreign exchange contracts	**-**	**13.9**		-	2.2	
Derivative instruments in designated hedge accounting relationships: Cross currency swaps	**-**	**-**		-	1.2	
Forward foreign exchange contracts	**-**	**0.9**		-	-	
Trade receivables	**201.2**	**-**	**201.2**	201.1	-	201.1
Loan receivables	**0.5**	**-**	**0.5**	0.9	-	0.9
Security deposits	**0.2**	**-**	**0.2**	0.2	-	0.2
Amounts owed by joint ventures	**0.8**	**-**	**0.8**	0.1	-	0.1
Financial assets – non current						
Derivative instruments in designated hedge accounting relationships: Cross currency swaps	**-**	**10.7**		-	3.3	
Loan receivables	**19.9**	**-**	**19.9**	-	-	-
Other investments	**0.6**	**-**	**0.6**	3.4	-	3.4
Amounts owed by joint ventures	**7.0**	**-**	**7.0**	8.6	-	8.6
Financial liabilities - current						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	**-**	**(4.2)**		-	(3.3)	-
Derivative instruments in designated hedge accounting relationships: Cross currency swaps	**-**	**-**		-	(0.1)	-
Forward foreign exchange contracts	**-**	**-**		-	(10.9)	-
Trade payables	**(80.2)**	**-**	**(80.2)**	(89.9)	-	(89.9)
Loans	**(9.7)**	**-**	**(9.7)**	(34.9)	-	(35.2)
Obligations under finance leases	**(15.3)**	**-**	**(15.3)**	(9.0)	-	(9.0)
Financial liabilities – non current						
Loans	**(263.8)**	**-**	**(262.3)**	(377.5)	-	(369.4)
Obligations under finance leases	**(20.4)**	**-**	**(20.4)**	(12.5)	-	(12.5)

14. Financial instruments (continued)

	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost 31 December 2015 (Audited)	Fair value - Level 2 31 December 2015 (Audited)	Level 2 31 December 2015 (Audited)
	£m	£m	£m
Financial assets – current			
Cash and bank balances	323.6	-	323.6
Derivatives designated as FVTPL			
Forward foreign exchange contracts	-	6.6	
Derivative financial instruments in designated hedge accounting relationships:			
Cross currency swaps	-	2.6	
Forward foreign exchange contracts	-	0.2	
Trade receivables	173.6	-	173.6
Loan receivables	0.4	-	0.4
Security deposits	0.2	-	0.2
Amounts owed by joint ventures	0.8	-	0.8
Financial assets – non current			
Derivative financial instruments in designated hedge accounting relationships:			
Cross currency swaps	-	7.8	
Loan receivables	19.5	-	19.5
Other investments	3.4	-	3.4
Amounts owed by joint ventures	7.2	-	7.2
Financial liabilities - current			
Derivatives designated as FVTPL			
Forward foreign exchange contracts	-	(2.4)	
Derivative instruments in designated hedge accounting relationships:			
Cross currency swaps	-	-	
Forward foreign exchange contracts	-	-	
Trade payables	(93.6)	-	(93.6)
Loans	(132.2)	-	(132.2)
Obligations under finance leases	(15.8)	-	(15.8)
Financial liabilities – non current			
Loans	(249.7)	-	(246.8)
Obligations under finance leases	(28.0)	-	(28.0)

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and finance lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the tenor of the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

15. Defined Benefit Schemes

The costs related to defined benefit pension schemes included within operating profit in the period amount to £7.0m (30 June 2015: £7.0m, 31 December 2015: £11.6m). Included in investment income and finance costs is a credit of £2.3m (30 June 2015: £2.5m, 31 December 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 estimated actuarial deficit of SPLAS as at 30 June 2016 was approximately £10.9m (30 June 2015: £9.0m; 31 December 2015: £28.0m). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2012 and resulted in an actuarially assessed deficit of £24.0m. Following this review, the Group agreed with the Trustees to make a small increase in contributions, bringing cash contributions of up to 33% of members' pensionable salaries until 2021. An actuarial valuation of the scheme as at 5 April 2015 is being undertaken and is due to be released in the autumn of 2016. The level of benefits and contributions under the scheme is kept under continual review in light of the needs of the business and changes to pension legislation.

At 30 June 2016 (unaudited)	**Contract specific £m**	**Non-contract specific £m**	**Total £m**
Fair value of scheme assets	**5.2**	**1,487.6**	**1,492.8**
Present value of scheme liabilities	**(9.2)**	**(1,347.3)**	**(1,356.5)**
Net amount recognised	**(4.0)**	**140.3**	**136.3**
Franchise adjustment	**2.4**	**-**	**2.4**
Members share of deficit	**1.6**	**-**	**1.6**
Net retirement benefit asset	**-**	**140.3**	**140.3**
Retirement benefit obligations	**-**	**(13.6)**	**(13.6)**
Retirement benefit assets	**-**	**153.9**	**153.9**
Deferred tax liabilities	**-**	**(25.2)**	**(25.2)**
Net retirement benefit asset (after tax)	**-**	**115.1**	**115.1**

At 31 December 2015 (audited)	Contract specific £m	Non-contract specific £m	Total £m
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 assets	-	127.1	127.1
Deferred tax liabilities	-	(20.8)	(20.8)
Net retirement benefit asset (after tax)	-	94.8	94.8

At 30 June 2015 (unaudited)	Contract specific £m	Non-contract specific £m	Total £m
Fair value of scheme assets	30.3	1,327.4	1,357.7
Present value of scheme liabilities	(33.5)	(1,204.9)	(1,238.4)
Net retirement benefit (obligation)/asset	(3.2)	122.5	119.3
Net pension liability	(3.2)	(11.3)	(14.5)
Net pension assets	-	133.8	133.8
Deferred tax asset/(liabilities)	0.6	(24.5)	(23.9)
Net retirement benefit (liability)/asset (after tax)	(2.6)	98.0	95.4

15. Defined Benefit Schemes (continued)

	At 30 June 2016 (unaudited) %	At 31 December 2015 (audited) %	At 30 June 2015 (unaudited) %
Main assumptions:			
Rate of salary increases	**2.3**	2.8	2.7
Rate of increase in pensions in payment	**1.7 (CPI) and 2.7 (RPI)**	2.0 (CPI) and 3.0 (RPI)	2.1 (CPI) and 3.1 (RPI)
Rate of increase in deferred pensions	**1.8 (CPI) and 2.8 (RPI)**	2.1 (CPI) and 3.1 (RPI)	2.2 (CPI) and 3.2 (RPI)
Inflation assumption	**1.8 (CPI) and 2.8 (RPI)**	2.1 (CPI) and 3.1 (RPI)	2.2 (CPI) and 3.2 (RPI)
Discount rate	**2.9**	3.8	3.8

	At 30 June 2016 (unaudited) Years	At 31 December 2015 (audited) Years	At 30 June 2015 (unaudited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	**22.6**	22.6	22.5
Current pensioners at 65 – female	**25.2**	25.1	25.0
Future pensioners at 65 – male	**24.5**	24.4	24.3
Future pensioners at 65 – female	**27.1**	27.1	27.0

Pension assumption sensitivities

	Assumption	Change in assumption	Change in present value of scheme liabilities 30 June 2016	Change in present value of scheme Liabilities 31 December 2015	Change in present value of scheme liabilities 30 June 2015
Discount rate	2.9%	+0.5% (0.5%)	(8%) +9%	(9%) +10%	(8%) +9%
Inflation	1.7% (CPI) and 2.7% (RPI)	+0.5% (0.5%)	+8% (7%)	+9% (8%)	+8% (8%)
Rate of salary increase	2.3%	+0.5% (0.5%)	+1% (1%)	+1% (1%)	+1% (1%)
Mortality	22.6 – 27.1*	Increase by one year	+2%	+2%	+2%

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

16. Notes to the Consolidated Cash Flow Statement

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Six months ended 30 June 2016 Before Exceptional Items (unaudited) £m	**Six months ended 30 June 2016 Exceptional Items (unaudited) £m**	**Six months ended 30 June 2016 Total (unaudited) £m**	Six months ended 30 June 2015 Before Exceptional Items (unaudited) £m	Six months ended 30 June 2015 Exceptional Items (unaudited) £m	Six months ended 30 June 2015 Total (unaudited) £m
Operating profit/(loss) – continuing operations	**72.9**	**(7.7)**	**65.2**	53.4	(16.6)	36.8
Operating (loss)/profit – discontinued operations	**(3.2)**	**(4.2)**	**(7.4)**	6.4	(68.0)	(61.6)
Operating profit/(loss)	**69.7**	**(11.9)**	**57.8**	59.8	(84.6)	(24.8)
Adjustments for:						
Share of profits in joint ventures	**(17.7)**	**-**	**(17.7)**	(13.9)	-	(13.9)
Non cash items:						
Share based payment expense	**4.9**	**-**	**4.9**	4.1	-	4.1
Exceptional impairment of assets held for sale	**-**	**-**	**-**	-	70.7	70.7
Exceptional impairment of property, plant and equipment	**-**	**(0.3)**	**(0.3)**	-	0.8	0.8
Impairment of property, plant and equipment - other	**0.3**	**-**	**0.3**	1.6	-	1.6
Exceptional impairment of other intangibles	**-**	**0.3**	**0.3**	-	0.4	0.4
Depreciation of property, plant and equipment	**12.2**	**-**	**12.2**	10.8	-	10.8
Amortisation of intangible assets	**11.8**	**-**	**11.8**	14.5	-	14.5
Exceptional loss on disposal of subsidiaries and operations	**-**	**1.2**	**1.2**	-	4.9	4.9
Impairment of loan receivable	**-**	**-**	**-**	(0.2)	-	(0.2)
Loss on disposal of property, plant and equipment	**0.4**	**-**	**0.4**	0.2	-	0.2
Loss on disposal of intangible assets	**-**	**-**	**-**	0.6	-	0.6
Non cash R&D expenditure offset against intangible assets	**0.1**	**-**	**0.1**	-	-	-
Decrease in provisions	**(77.8)**	**(14.5)**	**(92.3)**	(53.3)	(18.5)	(71.8)
Other non cash movements	**23.7**	**-**	**23.7**	14.5	-	14.5
Total non cash items	**(24.4)**	**(13.3)**	**(37.7)**	(7.2)	58.3	51.1
Operating cash inflow/(outflow) before movements in working capital	**27.6**	**(25.2)**	**2.4**	38.7	(26.3)	12.4
Decrease/(increase) in inventories	**0.3**	**-**	**0.3**	(3.9)	-	(3.9)
Decrease/(increase) in receivables	**4.5**	**-**	**4.5**	(96.9)	3.4	(93.5)
(Decrease)/increase in payables	**(19.0)**	**(6.9)**	**(25.9)**	29.3	(18.6)	10.7
Movements in working capital	**(14.2)**	**(6.9)**	**(21.1)**	(71.5)	(15.2)	(86.7)
Cash generated by operations	**13.4**	**(32.1)**	**(18.7)**	(32.8)	(41.5)	(74.3)
Tax paid	**(6.6)**	**-**	**(6.6)**	(7.7)	-	(7.7)
Non cash R&D expenditure credit	**(0.1)**	**-**	**(0.1)**	(0.3)	-	(0.3)
Net cash (outflow)/inflow from operating activities	**6.7**	**(32.1)**	**(25.4)**	(40.8)	(41.5)	(82.3)

16. Notes to the Consolidated Cash Flow Statement (continued)

	Year ended 31 December 2015 Before Exceptional Items (audited) £m	Year ended 31 December 2015 Exceptional Items (audited) £m	Year ended 31 December 2015 Total (audited) £m
Operating profit/(loss) – continuing operations	106.2	(109.9)	(3.7)
Operating profit/(loss)– discontinued operations	26.5	(77.6)	(51.1)
Operating profit/(loss)	132.7	(187.5)	(54.8)
Adjustments for:			
Share of profits in joint ventures	(37.0)	-	(37.0)
Non cash items:			
Share-based payment expense	9.8	-	9.8
Exceptional impairment of goodwill	-	153.4	153.4
Exceptional impairment of property, plant and equipment	-	0.8	0.8
Exceptional impairment of intangible assets	-	(0.3)	(0.3)
Impairment and write down of intangible assets - other	11.5	-	11.5
Impairment of property, plant and equipment - other	2.1	-	2.1
Depreciation of property, plant and equipment	28.9	-	28.9
Amortisation of intangible assets	29.0	-	29.0
Exceptional loss on disposal of subsidiaries and operations	-	(2.8)	(2.8)
Loss on disposal of property, plant and equipment	0.1	-	0.1
Loss on disposal of intangible assets	1.5	-	1.5
Non cash R&D expenditure offset against intangible assets	0.8	-	0.8
Decrease in provisions	(116.0)	(9.5)	(125.5)
Other non cash movements	19.1	-	19.1
Total non cash items	(13.2)	141.6	128.4
Operating cash inflow/(outflow) before movements in working capital	82.5	(45.9)	36.6
Increase in inventories	5.6	-	5.6
Decrease in receivables	20.6	-	20.6
Increase in payables	(48.8)	(10.7)	(59.5)
Movements in working capital	(22.6)	(10.7)	(33.3)
Cash generated by operations	59.9	(56.6)	3.3
Tax paid	(2.7)	-	(2.7)
Non cash R&D expenditure credit	(0.7)	-	(0.7)
Net cash inflow/(outflow) from operating activities	56.5	(56.6)	(0.1)

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 are disclosed below.

	Six months ended 30 June 2016 (unaudited) £m	Six months ended 30 June 2015 (unaudited) £m	Year ended 31 December 2015 (audited) £m
Royalties and management fees receivable	**-**	1.6	-
Dividends receivable	**19.7**	15.8	32.5
	19.7	17.4	32.5

The following receivable balances were held relating to joint ventures:

	At 30 June 2016 (unaudited) £m	At 30 June 2015 (unaudited) £m	At 31 December 2015 (audited) £m
Current:			
Loans and other receivables	**0.8**	0.1	1.4
Non current:			
Loans and other receivables	**7.0**	8.6	7.2

18. Assets Held For Sale

As part of the Strategy Review, certain assets and liabilities have been designated as non core and are held for sale. As at 30 June 2016 only the remaining private sector BPO business has been disclosed as held for sale.

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Assets			
Goodwill	**2.4**	206.8	7.8
Other intangible assets	**-**	24.9	0.4
Property, plant and equipment	**-**	74.3	0.9
Deferred tax assets	**-**	10.4	-
Other non current assets	**-**	18.6	0.2
Inventories	**-**	1.1	-
Current tax assets	**4.7**	-	4.7
Cash and cash equivalents	**2.7**	18.9	5.2
Liabilities			
Other current liabilities	**(3.2)**	(72.5)	(7.4)
Current tax liabilities	**(0.1)**	(21.9)	(0.1)
Provisions	**(2.0)**	(35.4)	(24.5)
Obligations under finance leases	**(0.3)**	(33.3)	(0.5)
Deferred tax liabilities	**-**	(2.5)	-
Other non current liabilities	**-**	(0.5)	-
Liabilities directly associated with assets classified as held for sale	**(5.6)**	(166.1)	(32.5)
Other current assets	**9.9**	118.3	20.6
Assets classified as held for sale	**19.7**	473.3	39.8

Directors' Responsibilities

Sir Roy Gardner	Non-Executive Chairman
Rupert Soames OBE	Group Chief Executive
Edward J Casey, Jr	Group Chief Operating Officer
Angus Cockburn	Group Chief Financial Officer
Mike Clasper CBE	Senior Independent Director and Non-Executive Director
Ralph D Crosby, Jr	Non-Executive Director
Rachel Lomax	Non-Executive Director
Angie Risley	Non-Executive Director
Malcolm Wyman	Non-Executive Director

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The Chief Executive’s Review and the Divisional Reviews include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.