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Stock Exchange Announcement

29 August 2013

International portfolio provides resilience and growth

Serco Group plc – 2013 half year results

6 months to 30 June	2013	2012	Change	Change at constant currency
Adjusted revenue – ongoing activities*	£2,548.5m	£2,269.4m	+12.3%	+11.8%
Revenue	£2,113.3m	£1,905.5m	+10.9%	+10.4%
Adjusted operating profit – ongoing activities*	£146.3m	£135.5m	+8.0%	+7.5%
Operating profit	£125.1m	£133.5m	(6.3%)	(6.7%)
Adjusted profit before tax*	£127.1m	£114.5m	+11.0%	+10.5%
Profit before tax	£106.1m	£108.9m	(2.6%)	(3.1%)
Adjusted earnings per share (basic)*	19.69p	17.44p	+12.9%	+12.4%
Earnings per share (basic)	17.18p	19.35p	(11.2%)	(11.6%)
Dividend per share	3.10p	2.65p	+17.0%	n/a
Free cash flow	£29.0m	£0.9m	+£28.1m	n/a

* Adjusted measures include Serco's proportional share of joint ventures and are before exceptional items (in 2012 there was a £31.0m exceptional net profit on disposals) and reorganisation costs (in 2012 reorganisation costs totalled £15.7m). Ongoing activities exclude the financial results of disposals. Full definitions are provided on page 2, reconciliations are included in the Finance Review on pages 24 to 36 and the income statement is presented on page 39.

Group organic revenue growth of 8.8% reflects benefits of global portfolio breadth
- UK & Europe: growth of 7%, driven principally by the new contracts started in the second half of last year
- Americas: decline of 3%, reflecting challenging US federal contracting market though better than expected
- AMEAA: growth of 19%, with significant volume-related growth in immigration services
- Global Services: growth of 18%, supported by the particularly strong level of contract awards during 2012

Strong financial result for the period
- Organic revenue growth for the year weighted to the first half as expected, driven by last year's record level of contract wins together with volume-related and project-based work in the period
- Adjusted operating margin from ongoing activities reduced by 23 basis points to 5.7%, reflecting investment in contract bidding and new market development activity
- Adjusted earnings per share growth of 12.9% to 19.69p
- Interim dividend increase of 17.0%, reflecting policy of accelerated growth to move to higher payout ratio

Further good progress on contract awards and strategic positioning
- £2.1bn of contract awards; order book of £18.5bn as at 30 June 2013 (£19.1bn at 31 December 2012)
- New wins in the US highlight excellent progress to further diversify the Americas division
- Successfully developing a more balanced portfolio across geographies and markets

Continued progress on bid opportunities
- Serco's broad pipeline of opportunities remains strong at approximately £30bn
- Substantial new bid and extension/rebid opportunities in progress
- Revenue visibility currently 98% for 2013, 82% for 2014 and 72% for 2015

UK government review of contracts
- Full cooperation with central government customers in their reviews, supported by our external advisers
- Programme of actions agreed with the MoJ regarding the PECS contract

Overall outlook remains positive
- 2013 expected to deliver an improvement in organic revenue growth for the year as a whole; the strong growth achieved in the first half is forecast to be significantly lower in the second half
- 2013 Adjusted operating margin expected to be flat to slightly down on the level achieved in 2012
- Management expectations unchanged for Adjusted profit before tax and earnings per share
- Strength and breadth of portfolio continues to provide resilience and good growth potential
- The Group remains well positioned to take advantage of attractive market opportunities

Christopher Hyman, Group Chief Executive, said: "The strong financial performance over the first six months of 2013 has met expectations, our overall guidance for the full year is unchanged and the outlook remains positive. We have seen further excellent revenue growth in Australia and in our BPO business, the UK has seen good growth from the contracts won in 2012 and the Americas division has won significant new business despite the material challenges in the US federal contracting market.

"We are working closely with UK government customers on their ongoing reviews of our contracts, and have agreed to a series of actions with the MoJ regarding our PECS contract. Serco prides itself on being a values-led organisation, delivering essential services that matter to people around the world. We will act with integrity to deliver the standards expected of a service business such as ours and will put right any issues that arise from these reviews."

Notes and definitions:

2012 is restated for changes to accounting standards IAS 19 Revised (Employee Benefits) and IFRS 11 (Joint Ventures).

Adjusted measures include Serco's proportional share of joint ventures in each case. Adjusted operating profit and Adjusted profit before tax are before amortisation of intangibles arising on acquisitions, transaction-related costs and exceptional items (being profits or losses on disposals of subsidiaries and operations), as shown on the face of the Group's consolidated income statement and the accompanying notes. The Adjusted earnings per share measure also takes account of the tax effect of these adjusting items. Reconciliations to GAAP measures are included in the Finance Review on pages 24 to 36 and the income statement is presented on page 39.

Given the timing of implementation costs for the Group's reorganisation activity undertaken in the first half of 2012, in order to aid comparability Adjusted measures have also been provided before the reorganisation costs of £15.7m incurred last year.

Change at constant currency has been calculated by translating non-Sterling revenue and earnings for the six months to 30 June 2013 into Sterling at the average exchange rates for the same period in 2012.

Ongoing activities measures exclude the financial results of subsidiaries and operations disposed of in 2012, being nuclear consulting services, defence-related German operations, education software and UK data hosting operations.

Organic revenue growth is the change at constant currency in Adjusted revenue from ongoing activities (thereby excluding disposals) and also excludes incremental revenues from acquisitions completed in the current or prior financial year.

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

The order book reflects the value of future revenues based on all existing signed contracts, including Serco's proportional share of joint ventures. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.

The pipeline is the estimated value of all future potential opportunities that are clearly defined and identifiable, including the estimate of any proportional share of future joint venture arrangements.

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Presentation

A presentation for investors and analysts will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS at 9.30am today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Overview

The first half of 2013 has seen a strong financial result and demonstrates the importance of the breadth of the international portfolio. This is particularly reflected in the Group's Adjusted revenue growth from ongoing activities of 11.8% at constant currency, which includes strong organic revenue growth of 8.8%. Adjusted profit before tax was £127.1m and Adjusted EPS was 19.69p; on a comparable basis before the reorganisation costs incurred last year and at constant currency, this represented growth of 10.5% and 12.4% respectively. The interim dividend is increased by 17.0%, reflecting our policy to raise the payout ratio over time and the Board's confidence in the Group's prospects. With £2.1bn of contract awards in the period, including important wins in the Americas division, the Group's strategic positioning continues to improve. There is continued progress on bid activity, with substantial new, extension and rebid opportunities. We are fully cooperating with the UK government's review of our contracts. While there continues to be a balance of risks and opportunities in the near term, we remain confident in the positioning of the Group and its ability to take advantage of attractive market opportunities. Our overall outlook and guidance for the full year are unchanged.

Group organic revenue growth of 8.8% shows benefit of portfolio breadth

A key component of the Group's strategy is a strong and diverse contract portfolio, reducing our exposure to market fluctuations, enabling us to select the best opportunities where they arise and allowing us to transfer expertise and insight across markets and sectors. Our success in building a balanced portfolio is reflected in the overall strong growth achieved in the last six months across different markets and varied conditions.

In our UK & Europe division, having returned to growth in 2012, the first half of 2013 continued to show good organic growth of 7%. This has been driven principally by the additional revenues of the many new contracts that started in the second half of last year, including new operations such as community healthcare in Suffolk, the Northern Isles ferry services in Scotland, and asylum applicant accommodation and transport services in North West England and Scotland & Northern Ireland. There was additional project-based work on contracts such as the Atomic Weapons Establishment, which also contributed to growth in this particular period.

In the Americas division, the US federal outsourcing market remained challenging: sequestration has been implemented, and significant government budget and funding issues remain. While the rate of organic revenue decline at 3% was an important improvement on the 14% decline experienced in 2012, considerable risk and uncertainty remains in the short term, particularly in the core federal defence services market. However, excellent progress has also been made in the period to broaden the Americas portfolio within sectors where Serco has strong referenceable capabilities elsewhere.

The AMEAA division achieved excellent organic revenue growth of 19% in the period. A significant proportion of this is volume-related growth in our work undertaken for the Australian Department of Immigration and Citizenship (DIAC). The DIAC contract is now the largest within the Group as a result of growth in the number of people in our care since the contract began in 2009, although the level of future activity continues to be unpredictable. The AMEAA division continues to be well positioned following a wide range of other contract developments in Australia and other parts of the region, most notably the Middle East.

The Global Services division, created last year to bring together all of Serco's middle and back office skills and capabilities, also had excellent organic revenue growth with an increase of 18%. The major contract awards that began in the second half of 2012, such as Shop Direct and AEGON UK, have supported this growth, as have numerous other smaller wins and expansions of existing customer relationships.

Strong financial result for the period

Adjusted revenue from ongoing activities was £2,548.5m, a growth of 11.8% at constant currency. Organic revenue growth for the year was expected to be weighted to the first half given the timing of contract awards. At 8.8%, the organic growth achieved in the period was further supported by volume-related and project-based work that occurred in this particular period. The Vertex and DMS acquisitions made in 2012 contributed 3% to revenue growth in the first half, with this offset by a slightly greater impact from the disposal of four non-core operations in 2012.

Adjusted operating profit was £146.3m, representing constant currency growth for ongoing activities of 7.5% before the reorganisation costs incurred last year. The Adjusted operating margin was 5.7% versus 5.9% in the comparable period. The principal driver of the margin reduction was an increased level of investment in contract bidding and new market development activity to support the strong pipeline of opportunities in the Global Services division.

Adjusted net finance costs were £5.6m lower at £19.2m. Adjusted profit before tax of £127.1m and Adjusted earnings per share of 19.69p grew by 10.5% and 12.4% respectively at constant currency. The Board has declared an interim dividend of 3.10p, representing an increase of 17.0%. This reflects our stated intent to accelerate dividend growth to move to a higher payout ratio by 2015. The interim dividend will be paid on 18 October 2013 to shareholders on the register on 6 September 2013.

Group free cash flow was £29.0m compared with £0.9m in the comparable period. Partially offsetting the increase in profits was the anticipated increase in working capital outflow, reflecting the transition and mobilisation stages of new contracts and increased investment supporting BPO growth.

Earnings, cash flow, financing and related matters are described fully in the Finance Review on pages 24 to 36.

Further good progress on contract awards and strategic positioning

In the first half of 2013 contract awards totalled £2.1bn, representing signed contracts valued at £1.7bn and preferred bidder appointments of a further £0.4bn. Our wins included smaller and medium-sized awards which are fundamental to our growth, as well as significant rebids, extensions, expansions and new contracts. Our order book stood at £18.5bn at 30 June 2013 (£19.1bn at 31 December 2012).

Notable contract awards, along with approximate total value and contract length where appropriate, included:

- Operation of London's Dockland's Light Railway (£100m over 18 months)
- Environmental services and grounds maintenance for Canterbury City Council (£60m over eight years)
- Multi-engine pilot training at RAF Cranwell (£36m over five years)
- Parking enforcement services for the West London Alliance (£30m over five years)
- European Space Agency operational IT support for satellite infrastructure (€30m over five years)
- Defence Science and Technology Laboratory (Dstl) procurement services (£15-25m over seven years)
- Barclays Cycle Hire phase 3 expansion in London (£15m over three years)
- European Parliament telephony and communication equipment support (€17m over six years)
- US healthcare eligibility processing support (excluding optional tasks, US$500m over five years)
- Driver examination services in Ontario, Canada (C$500m over ten years)
- Virginia Department of Transportation (VDOT) operational services (US$355m over six years)
- US IDIQ task orders – across areas including IT systems and services, human capital management, engineering support and programme management – totalling over US$80m
- Hong Kong road transportation management, operation and maintenance (£80m over six years)
- Middle East logistics and base support for the Australian Defence Force (£18m over one year)
- Health support services in Abu Dhabi (£5m over three years)
- UK Central Government BPO services including Child Maintenance Group (£100m over three years)
- Customer management services for UK leading high street retailer (£50m over ten years)
- Public sector shared services for the United Arab Emirates (£24m over four years)

More details of these and other contract awards can be found in the Operating Review, with further information and other smaller and medium-sized contract awards during the year described in the contract news updates and other announcements available on our website www.serco.com.

Of particular note amongst the awards are those in the Americas division. We have been actively focused on broadening the division's operations within the sectors where Serco has strong referenceable capability, in order to counter challenging conditions in federal contracting markets and particularly defence services. The successful rebid of driver examination services in Canada ensures a strong reference in this important geographic market. The award by the United States Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS), where Serco will provide processing support for the new federally-facilitated marketplace and state-based marketplace, is a highly significant development for our involvement in the US healthcare market. The VDOT contract also significantly builds on our transportation credentials.

Reflecting our strategy to build a balanced portfolio, Adjusted revenue from outside of the UK is now 44%. The proportion of Adjusted revenue that relates to BPO operations is now 15%.

Our proactive portfolio management will also involve an ongoing assessment of our existing operations for strategic fit, together with expected future levels of performance and returns. While remaining primarily focused on organic growth, we will also continue to look at potential acquisitions that bring new skills, capabilities or market access to enhance the portfolio.

Continued progress on bid opportunities

Serco's broad pipeline of opportunities across markets and geographies remains at a total value of approximately £30bn. This reflects ongoing demand for efficient, high quality and innovative service provision from public and private sector customers around the world.

Areas of bid activity for new contracts across our markets include:

- in Defence, opportunities to manage key organisations with the UK Ministry of Defence, particularly the Defence Infrastructure Organisation (DIO) and the Defence Equipment & Support (DE&S) organisation
- in Transport, progressing the tender for the Sydney North West Rail Link in Australia as well as metro and other transport systems opportunities in the AMEAA region
- in Home Affairs, the proposed outsourcing in areas such as probation in the UK and expansion of offender management services in the UK, Australia and New Zealand
- in Health, community health services for UK NHS Trusts and other health support services in the UK, US and AMEAA regions
- in BPO, UK central Government shared services centre opportunities, local authority strategic partnerships and a healthy pipeline of private sector customer management opportunities

Serco will also have opportunities to extend or rebid existing contracts, including our:

- Northern Rail franchise in the UK (operated in partnership with Abellio)
- operation of the Docklands Light Railway in London
- support services for Australian Government Department of Immigration and Citizenship (DIAC)
- operation of the Dubai Metro
- C4I2TSR services for the US Air Force Space Command
- systems engineering and technical assistance for a US intelligence agency
- visa application processing for the US Department of State
- defence garrison support services in Australia (operated in partnership with Sodexo)

We remain confident in our ability to win new work across our international markets and to secure successfully our existing customer relationships. Importantly, visibility of future revenues remains supported by the signed contracts that constitute our order book, our view of contracts that we hope to extend and rebid, and contracts at the preferred bidder stage which we expect to sign. At 30 June 2013, revenue visibility was 98% for 2013, 82% for 2014 and 72% for 2015.

UK government review of contracts

On 11 July 2013, the Secretary of State for Justice made a statement in the House of Commons that the independent audit focusing on the billing arrangements of the electronic monitoring contracts had highlighted matters of potential concern to the Ministry of Justice (MoJ). In response to these findings Serco has agreed with the MoJ that it would cooperate fully with a detailed independent investigation into this contract and a separate review of other MoJ contracts. In addition, the Cabinet Office is undertaking a wider review across other major UK central government contracts. Serco is cooperating fully with these reviews, and is also supported by external advisers. The outcome, together with any related financial consequences, will not be known until the conclusion of these reviews.

On 28 August 2013, the MoJ and Serco made announcements regarding the misreporting of data on the Prisoner Escort and Custody Services (PECS) contract. Serco has agreed to a programme to restore contract performance, a repayment of profit earned since the contract was renewed in 2011 (estimated to be around £2m), and that Serco will also forgo any future profits on the contract. Serco has also agreed to initiate a programme of change and corporate renewal that includes increasing the voice of our customer in the organisation and strengthening our systems. The Government will have independent oversight of the programme. We will ensure the programme can deliver the changes required to guarantee the future integrity of government contracts.

Overall outlook remains positive

For 2013, an improvement in the rate of organic revenue growth is expected for the year as a whole, although the strong growth achieved in the first half is forecast to be significantly lower in the second half due principally to the previous major contract awards now having completed their first full year. The effect of previous acquisitions is likely to add around 2% to 2013 revenues although previous disposals will reduce 2013 revenues by a similar amount thereby creating a broadly neutral impact on total revenue growth. Given the increased level of investment costs in the first half, the Adjusted operating margin for the year as a whole is expected to be flat to slightly down on the level achieved in 2012. Adjusted net finance costs are now expected to reduce slightly from 2012's level. The overall effect of these factors leaves our expectations for Adjusted profit before tax and Adjusted EPS broadly unchanged for the year. Free cash flow in 2013 may be lower than the level achieved in 2012, reflecting anticipated incremental working capital investment supporting BPO growth, together with lower dividends from joint ventures.

The strength of Serco's portfolio of operations and opportunities around the world continues to provide both resilience and good growth potential. Whilst there exists a balance of risks and opportunities in the near term, we remain confident in the strong positioning of the Group and in the attractiveness of the large and growing markets in which we are represented.

Operating Review and Growth Opportunities

This section is presented according to the four divisions based around our principal markets:

- UK & Europe,
- Americas,
- AMEAA (Australasia, Middle East, Asia and Africa), and
- Global Services.

The section includes references to contract awards which are significant because of their value or their strategic contribution to our business. Further details of these, as well as other medium and smaller-sized contracts, can be found on our website www.serco.com.

UK & Europe – operating review

The UK & Europe division includes our frontline services in: Home Affairs (encompassing justice-related operations, immigration and border security, and welfare); Health; Transport and Local Direct Services; and Defence & Science.

Adjusted revenue from ongoing activities grew by 7% to £1,285m (2012: £1,199m), and represented 50% of the Group (2012: 53%). On an organic basis, revenue also grew by 7%. Adjusted operating profit from ongoing operations was slightly lower at £80.1m (2012: £81.1m), with the margin reducing to 6.2% (2012: 6.8%). Including the impact of disposals, Adjusted revenue increased by 2% to £1,285m (2012: £1,266m) and Adjusted operating profit declined by 7% to £80.1m (2012: £86.0m).

Following the return to organic revenue growth in the second half of 2012, the first half of 2013 has also grown strongly, driven principally by the additional revenues of the new contracts that started in the second half of last year. There was also additional project-based work in this particular period on certain contracts. The margin reduction reflects the first year effect of the major new contracts which tend to involve greater upfront investment, as well as the effect of the start of the new five-year pricing period for our management and operation of the Atomic Weapons Establishment (AWE) and lower margins on managing capital projects for certain customers.

Transport & Local Direct Services

Our operations across Transport and Local Direct Services account for approximately 40% of UK & Europe Adjusted revenue.

Our major UK rail franchise operations – Northern Rail and Merseyrail – which are both joint ventures with Abellio, have continued to operate successfully. Merseyrail is consistently rated as one of the best UK Rail Operators and in this year's National Passenger Survey secured the joint highest score among all UK train operating companies for overall satisfaction. Northern Rail, has seen a 42% increase in passenger journeys since the start of the franchise in December 2004 and now has 95 million passenger journeys per annum.

We have completed our first full year of operating lifeline freight and passenger ferry services to the Northern Isles of Scotland. We have put in place new management and staffing structures and refurbished all three passenger vessels. Other improvements have included new menus with a focus on local sourcing, new reclining seats and sleeping pods. These have been supported by a new marketing campaign with the aim of assisting an increase in passenger numbers.

Serco signed an 18-month extension to its contract to operate, maintain and market the Docklands Light Railway (DLR) on behalf of Transport for London. The extension, valued at approximately £100m, will run to September 2014 and followed the successful delivery during the London Olympic Games where more than double the normal level of passengers were carried with trains maintaining over 99% reliability.

Serco has been awarded an innovative new contract to provide end-to-end on-street parking enforcement for the West London Alliance, a partnership between Ealing, Hounslow and Brent Borough Councils. Serco will manage Civil Enforcement Officers, cashless parking and electronic payments, back-office services as well as the deployment of Automatic Number Plate Recognition (ANPR) enforcement vehicles. The initial five-year contract is valued at over £30m with an opportunity for additional options including a five-year extension, potentially worth a further £57m.

Serco is supporting Transport for London with its phase 3 expansion of Barclays Cycle Hire to West London. The expansion is worth £15m over three years and is designed to add approximately 5,600 new docking points, and 2,400 new bikes into the scheme. Serco is responsible for the design, installation and operation of the expanded scheme in West London with new sites within the London Borough of Hammersmith & Fulham, the London Borough of Lambeth, the Royal Borough of Kensington & Chelsea and Wandsworth. The expansion is set for December 2013.

In Local Direct Services, Serco successfully rebid our contract to manage Canterbury City Council's waste, recycling and street cleansing services, and separately our contract providing landscape and grounds maintenance services. Together, these contracts are valued at approximately £60m over eight years. Our operations for Sandwell Metropolitan Borough Council saw the opening of a new £10m waste transfer station in Tipton, which will handle more than 1,700 tonnes of waste and recycling each week collected from homes across the borough.

Defence & Science

Our operations across Defence and Science account for approximately 30% of UK & Europe Adjusted revenue.

Serco has extended and subsequently rebid its Multi-Engine Pilot Training (MEPT) contract at RAF Cranwell, building on the successful rebid of the Multi-Activity Contract secured in 2012. Valued at approximately £36m over five years, the contract will see Serco provide annually up to 5,500 flying hours in the King Air B200 aircraft as well up to 2,700 aircraft simulator hours. During the period we also extended our contracts providing maintenance for the Search and Rescue fleet of Sea King aircraft, our Multi-Activity Contract at RAF Brize Norton and our Air Traffic Services at Wattisham for the British Army's Apache helicopter fleet.

In related services for the private sector, Serco has provided air traffic services for Airbus since 1997 at Hawarden Airfield in support of their Broughton production line. A new contract comprises an expanded scope for air traffic control, manoeuvring area safety training and air traffic engineering, and is valued at approximately £12m over a maximum five years. Amongst other services for the same customer, we have also secured a one-year extension of our facilities management services.

Working with sub-contractor Thorn Sicherheits GmbH, we have successfully rebid our contract to manage the European Space Agency's (ESA) operational control centre infrastructure and tracking stations network (ESTRACK). Under the new contract we will manage the mission critical satellite infrastructure and the worldwide network of antennas that command and control ESA earth observation, scientific and interplanetary satellites. The five-year contract is worth over €30m to Serco. We have also successfully rebid our contract providing telephony, videoconferencing and cabling support across European Parliament sites. The contract has grown over the last seven years and now requires Serco to support almost 150 professional videoconferencing facilities, in excess of 22,000 phone lines and more than 150,000 network sockets. The new tender has been expanded to include TV distribution and is valued at approximately €17m over a maximum of six years.

Building on our strategic partnership with the Defence Science and Technology Laboratory (Dstl), Serco has been asked to take on further target service options within the existing prime contract. As of 1 July 2013, Serco is responsible for the procurement of laboratory consumables and chemicals. This will enable Dstl to focus on its core business: delivering scientific excellence in support of UK government and its customers. This new business demonstrates the continued growth and trust in the relationship between the two organisations and marks a very positive step forward in Serco's contract at the Government's prestigious centre of defence scientific excellence. The additional work represents a total contract value of £15-25m over seven years.

Our management and operation of the Atomic Weapons Establishment (AWE), as part of a joint venture with Lockheed Martin and Jacobs Engineering, has delivered further strong operational performance and programme delivery. Projects that became fully operational in the period included Orion, AWE's new laser facility, which is now one of the world's most powerful lasers and of immense interest both internationally and to the wider academic community, working in areas such as fusion energy and astrophysics.

Home Affairs

Our operations across the Home Affairs market account for approximately 20% of UK & Europe Adjusted revenue.

HMP & YOI Ashfield, which is managed and operated by Serco, has now transitioned from being a Young Offender Institution to being an Adult Male prison. This reflects the sustained national decrease in the number of young people in custody and the review by the National Offender Management Service (NOMS), part of the Ministry of Justice, across all custodial facilities.

Serco was awarded the first UK contract for Community Payback services to support offenders in partnership with the London Probation Trust in October 2012. Since then, over 800,000 hours of work have been completed on projects across 32 London boroughs. While delivering significant savings for the taxpayer, Serco is also implementing innovative developments. For example, we have recently launched a pilot scheme with our long-term voluntary and community sector partner Catch22, aimed at supporting young offenders aged 16 and 17 years who are completing community sentences. Mentors will provide support and guidance, including valuable educational and employment skills support, with the aim being to assist young offenders to make positive changes to their lives and ultimately reduce re-offending.

In the welfare market, the latest government statistics for the Work Programme show that the national picture is improving and that Serco continues to achieve good results in its two contracts. To date, we have helped over 17,000 long-term unemployed people into employment across the South Yorkshire and West Midlands regions. The NCS Network, a partnership of Serco, Catch22, the National Youth Agency, UK Youth and vInspired, is making encouraging progress on the delivery of the National Citizen Service across six regions in the UK since operational delivery commenced in January. Over 6,800 young people have gone through the programme with the NCS Network and have gained skills that will be useful for their future working lives.

At HMP Thameside which opened last year, we are putting in place a number of innovative practices to continue to improve operational performance at this new London prison. For example, in partnership with Catch22, we have recently rolled-out a ‘Gangs Strategy’ which has already resulted in a drop in violent incidents among young adults and a safer environment for both our staff and prisoners. We are also working with Care UK to provide support to prisoners with mental health issues and introduce the Listener scheme to support those at risk of suicide or self harm.

The first statistics on reoffending rates at HMP & YOI Doncaster were published in May this year and showed a promising reduction during the first six months of the programme that started in October 2011. Our team at Doncaster is seeing a significant improvement in reoffending rates for prisoners serving less than twelve months. While still early days for this pilot between and Serco and Catch22, our key partner in delivering this programme, we are working closely together and are confident of delivering further reductions in reoffending.

Health

Our operations across Health account for approximately 10% of UK & Europe Adjusted revenue.

At our Cornwall GP out-of-hours contract, the Care Quality Commission’s (CQC) report in 2012 identified a number of actions for Serco to take, including improving staffing levels. In its most recent report published in July 2013, this noted that important strides have been made and essential standards of quality and safety were being fully met. It also noted that overall patient feedback regarding their experience of using the out-of-hours service was positive.

In October last year, Serco began its significant new contract for the NHS in Suffolk, providing a wide range of community health services. These include community nursing, specialist nursing, management and operation of community hospitals, speech and language therapy, specialist children's services and community equipment services. Important developments that have been introduced so far this year include: centralising administrative activity in a 24-hour care coordination centre to provide a single point of contact; introducing mobile technology for district nurses and physiotherapists to support increased time with patients from under 40% of their working day to over 50%; and extending routine service delivery hours from eight hours a day to 12 hours a day to make them more convenient for patients.

During the period we expanded our Suffolk Community Healthcare operations with a new contract to consolidate the provision of various facility support services. This opportunity has involved the transfer of a further 74 staff to Serco from across the east of the county. In the short period of time this contract has been in place, all community hospitals have been awarded the highest rating in the most recent environmental health inspections.

UK & Europe – growth opportunities

Competitive outsourcing supports the UK Government's aim of achieving savings whilst improving services and social outcomes. The reform of public services provision is an ongoing process, but the Cabinet Office and spending departments appear increasingly focused on bringing new opportunities to market. Serco is well positioned to target future growth opportunities across our markets, including where customers are looking for more end-to-end services that combine frontline capability with middle and back office operations.

We are progressing with the contract extension process for our Northern Rail contract which currently runs until 1 April 2014 and the rebid for our DLR contract which currently runs until 14 September 2014. Our excellent credentials in transportation systems will support selected future growth opportunities in the UK and other countries, with bids for further ferry services in Europe an example.

Local government services such as environmental and waste management, leisure services and other areas of integrated facilities management are expected to continue to see growth given funding pressures and the need to improve services for citizens.

In the defence and science market, we are pursuing opportunities for strategic partnerships such as the Defence Infrastructure Organisation (DIO) where the Ministry of Defence is looking for further efficiencies to be achieved across its operations. A similar opportunity is for the Defence Equipment & Support (DE&S) organisation, with the MOD recently announcing that our consortium is one of two that are being taken forward for commercial negotiations. Our skills in infrastructure management, business process and whole enterprise outsourcing are also being applied in bids such as our partnership with CH2M HILL and AREVA to participate in the Nuclear Decommissioning Authority's competition to oversee management of decommissioning activities at 12 UK nuclear sites.

Serco is cooperating fully with current independent investigation into the electronic monitoring contract and the separate reviews of other MoJ and UK central government contracts. In the meantime, we have withdrawn from the tendering process for the third generation electronic monitoring service, which will impact our growth in 2014 with the loss of annual revenues of approximately £50m. The MoJ has reconfirmed that Serco continues to be the single remaining bidder for the South Yorkshire group of prisons, comprising HMPs Moorland, Hatfield and Lindholme, however the award will be delayed and is dependent on the outcome of the MoJ's contract reviews. The MoJ has also announced its intention to expand our operations at HMP Thameside with the addition of a new accommodation block.

Another significant market development in Home Affairs will be the opening up of the probation market to competition under the 'Transforming Rehabilitation' initiative to expand the payment by results approach to improve offender rehabilitation outcomes.

We expect areas of the health market to continue to open to private sector competition, driven by financial pressures on the NHS and this year's Health and Social Care Act which gives more clarity on procurement procedures. New opportunities in community healthcare and similar health services are expected to be brought to market by health commissioning bodies and we will also continue to look for further health integrated facilities management opportunities. Combining enabling services such as facilities management, support services and patient administration to improve service quality and productivity in hospitals and other health establishments will continue to be a growing market both in the UK and elsewhere around the world. The development of service lines such as procurement are also being supported by our Anglia Support Partnership shared service operations for the NHS.

Americas – operating review

Our Americas segment provides professional, technology and management services focused primarily on the US federal government including every branch of the military, a broad range of civilian agencies and the National Intelligence community. We also provide services to the Canadian government, selected US state governments and municipal governments.

Adjusted revenue from ongoing activities on a reported currency basis, with a marginal strengthening of the US dollar, fell by 2% to £375m (2012: £381m) and represented 15% of the Group (2012: 17%). On a constant currency as well as on an organic basis the decline was 3%. Adjusted operating profit from ongoing activities was broadly unchanged on a reported currency basis at £29.8m (2012: £29.6m), with the margin slightly increasing to 8.0% (2012: 7.8%).

Challenging conditions have continued for US federal contractors. Both the Department of Defense and civilian agencies have begun to implement ‘sequestration’ - the mechanism of automatic cuts that followed the failure to reach agreement on budget funding. The impact of sequestration has been somewhat lessened in the period being reported, given some ability of customers to draw upon previous unobligated funds. Further disruption to the industry is still expected given the likelihood of additional Continuing Resolutions from the start of the new federal budget year on 1 October, with these also potentially extending the use of sequestration. Additionally, the increase of ‘small business set asides’ restrict our ability to be prime contractor in some cases, and the current customer emphasis on lowest price solutions remains a significant pressure.

In the period being reported, the slight increase in margin includes the benefit of further cost reduction activity. The ongoing challenging market conditions are likely to see reduced margins over the balance of the year, with the impact of recently begun new contract awards also forecast to reduce margins.

Whilst revenues have reduced due to the market conditions, new task orders, contracts and rebids do continue to be secured in numerous areas that are less affected by the general budgetary pressures.

A particularly significant award was Serco’s major new contract to support US healthcare eligibility. For the United States Department of Health and Human Services’ Centers for Medicare & Medicaid Services (CMS), Serco is providing processing support for the new federally-facilitated marketplace and state-based marketplace. Serco will manage approximately 1,500 staff in the US that will support CMS with the routing, automated processing, reviewing, and troubleshooting of applications submitted for enrolment into a Qualified Health Plan. Serco will also provide records management and verification support. The contract, which began in July, has a one-year base period valued at approximately US$115m with four one-year options. Including all potential option periods and optional tasks, it has a potential total contract value of approximately US$1.25bn.

The contract award marks excellent progress in our strategy to broaden the Americas portfolio. It builds on Serco's strong capabilities in records management and processing for the US Government, which include the processing of applications and petitions at US Citizenship and Immigration Services' Centers and the classifying of patent applications for the US Patent and Trademark Office. At the latter, a service Serco has been operating since 2006, we recently processed the two millionth patent application having built a virtually paperless classification operation that on a daily basis analyses more than 20,000 patent claims.

In May, Serco was awarded a new contract to integrate and operate Virginia Department of Transportation's (VDOT) transportation operation centres, manage the Safety Service Patrol, and develop and implement a state-wide advanced traffic management system that oversees 57,000 miles of roadway. The contract has a six-year base period valued at US$355m and three two-year option periods, with work beginning in the third quarter of 2013. As with the healthcare eligibility contract, this also marks excellent progress in our strategy to further diversify Serco's Americas portfolio, building on the skills and capabilities that we deliver in other parts of the Group around the world.

Serco is also continuing its involvement in the wider transportation market with its successful rebid of Driver Examination Services for the Ontario Ministry of Transportation (MTO). This will see Serco provide these vital services in a ten-year partnership with estimated revenues to Serco of approximately C$500m over the contract term. Serco has been supporting MTO since 2003, and will continue to provide the full spectrum of services including application processing and the delivery of vision, knowledge and road testing across all license categories. Serco will be responsible for overseeing approximately 575,000 knowledge tests and 675,000 road tests on an annual basis at 95 testing centres across Ontario. Under the new contract, Serco's role will expand to include upgrading and enhancing information technology solutions to improve processing, scheduling and the delivery of services to drivers.

Other awards in the period included: US$70m of task orders under existing Sea Enterprise and HRsolutions IDIQ frameworks for services such as deploying IT systems for the US Navy and human resource services for the US Army and US$12m of task orders for logistics management support for US forces.

Americas – growth opportunities

Looking ahead, as well as the tough conditions resulting from the federal funding situation, there is also a higher frequency of rebids in our Americas division than is experienced by our operations elsewhere around the world. The development of our business will therefore be shaped by the outcome of these rebids within a challenging market environment. Significant near-term rebids include our work involving: application processing for the National Visa Center; records management services for the Department of Homeland Security; logistics supply operations support for the US Army; air traffic control tower services for the Department of Transportation; career transition services for the US Army; veteran career services for the Department of Veteran Affairs; facilities management services for Canada's Department of National Defense; C4I2TSR services for the US Air Force Space Command; and systems engineering and technical assistance for a US intelligence agency. Serco was recently informed that it had been unsuccessful in its rebid for work supporting the Federal Retirement Thrift Investment Board, which would see a potential reduction in annual revenues of around US$50m from 2014.

Serco continues to focus on markets that we expect will receive ongoing funding support, and on assisting government customers to achieve greater efficiencies and higher productivity with constrained resources. Our key areas are: Logistics and Engineering; Communication and Information Systems; Cyber and National Intelligence; Human Capital Management; Business Process Outsourcing; and Transportation and Traffic Operations. In the health market, we are also pursuing further opportunities to transfer skills and capabilities in non-clinical support services performed by Serco elsewhere around the world. Additionally, with the recent growth in Canadian government outsourcing, we have identified a wide range of markets where we can leverage our global capabilities. We will continue to review further Americas vertical markets that Serco serves successfully in other geographies, as well as assessing the potential for expansion into South America.

AMEAA – operating review

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

Adjusted revenue from ongoing activities on a reported currency basis grew by 25% to £500m (2012: £400m), and represented 20% of the Group (2012: 17%). On a constant currency basis growth was 24%. Excluding the contribution from last year's DMS acquisition, organic growth was 19%. A significant proportion of the organic growth has been volume-related expansion of our work for the Australian Department of Immigration and Citizenship (DIAC).

Adjusted operating profit from ongoing activities grew by 45% on a reported currency basis to £38.8m (2012: £26.7m), with the margin increasing to 7.8% (2012: 6.7%). The increased margin reflects principally the beneficial effect of operational leverage and other cost management activity undertaken in the period.

In Immigration Services in Australia, the level of irregular maritime arrivals has again increased to a record level; the number of people in our care exceeded 10,000 by the end of the period. The Department's processing speed has increased and the average period in detention has reduced; Serco is also responsible for transport arrangements of the people in our care, with growth in the number of movements to more than 30,000 transfers a month. The DIAC contract is our largest operation in the AMEAA division and now employs over 2,500 people. The current level of contract revenue is also now the largest within the Group as a result of the growth in the number of people in our care since the contract began in 2009; the contract would be subject to rebid or potential extension from mid-2014. The unpredictability of our future activity level is a result of the volatility in conditions in countries of origin for individuals in our care and the prevailing government policy, including initiatives designed to act as deterrents to individuals and families who might consider seeking asylum as an irregular maritime arrival, such as the use of off-shore processing and regional agreements with other countries to settle individuals and families found to be refugees. We are committed to maintaining our very strong customer relationship in the operation of this sensitive contract.

In justice services, our operational improvements at Mount Eden Corrections Facility have continued to be recognised. A new performance grading of all prisons in New Zealand has placed Mount Eden in the 'exceptional' category. In Australia, the Southern Queensland Correctional Centre (SQCC) was honoured with a prestigious Australian Business Award in the Innovation category, recognising a ground-breaking education project being trialled at the prison, with the ultimate aim of reducing reoffending.

Serco's pre-operational support for the Fiona Stanley Hospital in Perth continues to build. The hospital is the largest public tertiary health facility in Western Australia, with Serco providing an extensive range of facilities management and support services. The procurement and installation of some of the world's most advanced medical equipment is well underway, as is the recruitment of over 1,000 non-clinical staff required to operate the hospital. Serco will be managing the site from 23 December 2013 and the first patients will be admitted in October 2014.

New awards in the period continue to develop Serco's presence in the health market elsewhere in the AMEAA region. Serco was awarded a new healthcare enabling support services contract in the Middle East at Healthpoint in Abu Dhabi, where Serco will deliver a comprehensive range of facilities management services including estates management, grounds and landscaping, helpdesk, cleaning, laundry and waste management. In Hong Kong, where we currently employ more than 600 people in health-related businesses, we extended our facilities management services contract covering four hospitals and one rehabilitation centre in the western districts.

Also in Hong Kong, Serco was awarded a new transport Management, Operation and Maintenance contract for the Tsing Sha Control Area with a total estimated value to Serco of HK$960m (approximately £80m) over the six-year base period. Serco has been supporting the Hong Kong Transport Department since 1993, where our services include being the largest tunnel operator in the region and collecting over HK$11bn a year from people driving on roads and travelling on rail and public transport networks.

In defence services, Serco extended and expanded our contract with the Australian Defence Force (ADF) to provide logistics and base support services in the Middle East. Valued at approximately £18m for a further year, we will continue delivering fully integrated support for ADF bases to ensure the provision of high quality services in areas such as maintenance and accommodation and will also assist through a complex programme of demobilisation from Afghanistan. We also secured our first direct contract to provide training services in the Middle East defence market in the period.

Towards the end of 2012, Serco completed the purchase of the remaining 50% equity stake in DMS Maritime, our defence and marine services business. The business is one of Australia's largest maritime service operators and offers a wide range of engineering and technical services across Asia Pacific. Our plans are progressing well to develop the now wholly-owned business and to continue its track record of growth. In the period, the first vessel of the Australian Customs and Border Protection Service's new fleet of Cape Class Patrol Boats came into service, adding to the over 600 vessels that DMS Maritime manages, operates and maintains.

AMEAA – growth opportunities

In transport, Serco's TransForm consortium is one of two short-listed for the Operations, Trains & Systems contract for Sydney's new North West Rail Link, with Serco leading the consortium as the service operator of the proposed new rapid transit system. We expect other transportation management, operation and maintenance opportunities to develop, including in India and Asia. In the Middle East, Serco is looking to further its strong position in the delivery of fully integrated transport solutions. Serco was recently awarded by RTA Dubai the operations concession for the Al Sufouh Tramway which connects our operations of the Dubai Metro and the Palm Jumeirah Monorail systems; the tramway is expected to open in late 2014. Serco is currently working with its customer to extend its operation and maintenance contract for the Dubai Metro beyond the initial five-year period which would end in September 2014. It is anticipated that operating other new metro systems in the AMEAA region will continue to build as an area of opportunity for Serco.

Serco is also a global leader in air navigation. Opportunities are being pursued both in the region and in new geographies. For example, Serco was recently awarded by the Qatar Civil Aviation Authority a new framework contract to supply air traffic control services for the newly built Hamad International Airport (HIA) in Doha, which opens in 2014 and will support significant growth in air traffic volumes. This further strengthens our presence in this market in the Gulf region, as well as providing potential opportunity for further frontline services in Qatar.

The Middle East region continues to provide opportunities for our integrated facilities management solutions. Serco is currently progressing its selection to support a fourth university in the region. The New York University Abu Dhabi Saadiyat Campus covers over 350,000 square metres and will be home to around 3,000 students and faculty members.

Our Asia Pacific defence business is established as the largest independent systems integrator and services provider in the Defence, Customs, Police and Paramilitary markets in the region. From this strong base, we are further expanding our operations, including in marine services support. Our joint venture partnership with Sodexo provides garrison support across Australia, with these services currently being rebid.

In India, Serco is looking to build upon its first frontline services contract in Indore to develop a strong and sustainable transport business, including operation and maintenance of buses and intelligent transport systems. Studies indicate that 16 cities across India are currently planning to develop bus and transport system contracts.

Across the region Serco is looking to build upon the strength of its operations in hospitals and related services, with emerging and rapidly growing health markets offering a significant opportunity to further demonstrate our ability to transfer skills and capabilities globally. Similarly, we will continue to pursue opportunities in the immigration and justice markets.

Global Services – operating review

In 2012 Serco created a global Business Process Outsourcing (BPO) division, bringing together all of Serco's middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services. Global Services targets a wide range of BPO-specific opportunities for both the private and public sectors. In addition, it works alongside the regional divisions to deliver fully integrated services for their customers who are increasingly looking for end-to-end services that combine frontline capability with middle and back office operations to help them to drive more efficiency and better quality services.

Adjusted revenue from ongoing activities on a reported currency basis grew by 34% to £389m (2012: £289m), and represented 15% of the Group (2012: 13%). On a constant currency basis, growth was 35%. Excluding the contribution from last year's Vertex acquisition, organic growth was 18%. Adjusted operating profit from ongoing operations on a reported currency basis increased by 8% to £20.7m (2012: £19.2m), with the margin reducing to 5.3% (2012: 6.6%). Including the impact of disposals, Adjusted revenue on a reported currency basis increased by 32% to £389m (2012: £294m) and Adjusted operating profit by 14% to £20.7m (2012: £18.1m).

The major contract awards that began in the second half of 2012, including Shop Direct and AEGON UK, helped to drive the excellent revenue growth in the first half of 2013. The operating margin reduction has been driven by an increased level of investment in contract bidding and new market development activity, which is supporting the strong pipeline and market opportunities in the Global Services division. There is also an impact on margin from the first year effect of the major new contracts, which tend to involve greater upfront investment in the initial service transition phases.

Good progress has been made in the period in the delivery of major new operations that began last year. For example, at Shop Direct we have completed the first phase and are well advanced with the second phase of our service transformation plan, including the rationalisation of UK operations, the delivery of new digital services from our centre in Cardiff and the establishment of off-shore and near-shore locations in India and South Africa. At AEGON UK, we have successfully transitioned services into Serco, our transformation programme is running to plan and service delivery is meeting expectations, with over 400,000 transactions processed in the period. Other important new engagements won last year – such as leading European airline easyJet and Freemans Grattan Holdings, the UK arm of the world's largest distance selling organisation the Otto Group – have been developing well.

We have had further success in attracting new retail clients to our impressive list in this market. In the latest period we have been awarded a new contract to provide a range of BPO services including sales and payments collection for a leading UK high street retailer. The adoption of an integrated contact centre approach will see Serco operate customer services from our centre in Sheffield as part of a ten-year contract worth approximately £50m and creating up to 250 jobs. Of particular importance has been Serco's abilities in multi-channel contact, with specific development for those customers who are using tablet or mobile devices for their shopping and account management needs.

At the Anglia Support Partnership, where we provide shared service support to NHS organisations, we have continued to see expansion of our platform and framework contract. A significant award in the period adds clinical strategic procurement and finance and accounting services for two further customers. We have continued to implement our programme of service transformation and property rationalisation, reducing operating costs and delivering cost savings to customers, improving efficiency and productivity through the introduction of re-designed systems and processes.

Serco secured extensions in the period for a number of UK Central Government BPO contracts valued at over £100m in total (with an average extension period of three years). The contracts include the provision of specialist complex case management services for the Child Maintenance Group at the Department for Work and Pensions (DWP), managing enquiries on behalf of Jobcentre Plus and the Universities & Colleges Admissions Service (UCAS), supporting the delivery of the Department of Health's 'Healthy Start' programme and operating the Food Standards Agency's emergency helpline. At our Child Maintenance Group operations, we were delighted to win the 'Value for Money Award' at the DWP Supplier Excellence Awards 2013; this recognised our continuous improvement ethos and innovative approaches to enhancing customer experience whilst driving down costs for the DWP.

In our local authority strategic partnerships, at Hertfordshire County Council we continue to transform the way services are delivered, and have identified over £10m of additional savings for our customer by improving citizen journeys with enabling technologies; this led to awards for 'Best Web Experience' and 'Technology Innovator of the Year' for demonstrating innovation in the delivery of online and multichannel citizen service. Most recently, we have been appointed to deliver a pioneering new Telecare service for adults in receipt of social care. This additional service is expected to have an initial value of £12m over five years, with the potential for further growth as the service is extended to provide wider support. At Thurrock, Serco has introduced a new debt collection programme, delivering dramatic improvements in collection rates and debt recovery whilst also helping other citizens get the help and funding support they are entitled to.

In an important development in our Middle East operations, Serco has been awarded a new contract for shared services to over 50 government departments within the United Arab Emirates. Serco will initially provide citizen contact and issue resolution management regarding the supply of public services, with potential for the scope of the contract to be increased in the future to include other back office processing. Contact will be delivered on a unique multi-channel basis including voice, email and web chat. As per the agreement, the contract will provide employment opportunity to only Middle Eastern nationals. The initial four-year contract is estimated to be valued at approximately £24m.

New awards in the period continue to enhance Serco's presence within India's banking and financial services markets. Serco now is the sole contact centre service provider for India's largest public sector bank; the migration of its services and those for its five associate banks are expected to be completed in September 2013. Given our consistent performance and exceptional service delivery, Serco has also been awarded additional work for India's largest private sector bank. Serco supports more than 75% of the collections services and is the largest provider supporting card issuance on behalf of the bank.

In other operational developments in the period, we opened our first BPO delivery centre in Africa located in Cape Town, South Africa. The centre will accommodate over 500 new employees and can serve a range of international and domestic customers in sectors such as banking, insurance and retail. Our centre in Teltow, Germany, has officially opened, providing a range of inbound call services, back office and specialist support for Sky Deutschland, where we continue to plan further expansion and increases in the number of employees over the life of the contract. Meanwhile our workforce in Cardiff will double in size to some 850 people driven by our contract award successes across many well-known UK household names.

Global Services – growth opportunities

Serco now has significant capability in the attractive BPO market, with scale and depth to provide private and public sector customers with a range of end-to-end, integrated business services as they seek to reduce costs and improve efficiencies by transforming their operations. In particular, we see our ability to provide a blend of on-shore, near-shore and off-shore service provision as a unique proposition. We are also a clear leader in areas such as multi-channel customer contact services. Serco's strong client list and recent contract awards provide important referenceability for our future development.

We are addressing a large number of private sector market opportunities. Our pipeline and prospects are spread across large and diverse industry groups: Banking, Financial Services & Insurance; Travel, Hospitality & Transportation; Retail, Healthcare, Utilities, & Manufacturing; Telecom, Technology, Online Services & Media. Our geographic reach both for customers and service centre locations has continued to expand to support future growth. We see some further significant potential in Europe, for example. Recent awards such as that for the National Asset Management Agency also show our potential to expand into further areas of the financial services market and was an important move into Ireland; the preferred bidder selection sees Serco provide support on a portfolio of approximately 28,000 mortgages, involving day-to-day customer services and specialised case management. The Global Services division has also been highly successful in expanding the scope of existing private sector customer relationships over time, and sees good further potential to continue growing in this manner in the future.

In the public sector, the Global Services division is working alongside the regional divisions in order to bid and deliver fully integrated solutions for their customers. The division provides support in a bid in areas relating to contact centre services, case management, identity verification, transaction processing, ICT, human resources and payroll, finance and accounting, and any other middle or back office support function that is required. Future opportunities in both the central and local government markets have been enhanced with last year's acquisition of Vertex's UK public sector BPO operations, which has successfully brought additional expertise and strategic partnerships to support expansion into new areas of middle and back office support and at the same time increased Serco's operational scale.

We expect further central government shared service centre prospects to develop as part of the Civil Service Reform Plan. A current opportunity is being pursued for the delivery of payroll, HR, finance and procurement services for the Department for Work and Pensions (DWP), which would support the DWP in driving down the costs of these back office services and offer a competitive proposition for additional customers to the shared services.

Our work with local authorities to transform their services continues to show a good pipeline of opportunities. Local authorities are further developing their strategies based on a smaller proportion of services that they deem to be core, thereby increasing the potential to outsource other non-core supporting operations. Existing Serco strategic partnerships have all demonstrated the potential for expansion, while new awards such as our recent selection by Hull City Council for contact centre services which is expected to start in the autumn continues to show the potential savings we can achieve. We were recently shortlisted for a new strategic partnership with Lincolnshire County Council.

Recognition of Serco's growing presence in the BPO market continues to build. For example, we have risen into the top 3 UK Business Process Services (BPS) providers, as compiled by leading software and IT services industry research company TechMarketView in their 2013 UK Software and IT Services Rankings report. The same research is expecting private sector BPS to continue seeing mid-to-high single digit annual percentage growth rates through a four-year forecast period. We have also been recognized as a top tier BPO service provider by industry renowned market analysts and third party advisories such as Gartner, Everest, NelsonHall and HFS.

Finance Review

Overview

Our business delivered strong revenue growth in the first half of 2013, with Adjusted revenue from ongoing activities, at constant currency, growing 11.8% with organic growth of 8.8%. Adjusted operating profit from ongoing activities, at constant currency, of £146.3m grew by 7.5% excluding reorganisation costs incurred in 2012. Our Adjusted operating margin on this basis decreased by 23 basis points to 5.7%. Adjusted profit before tax of £127.1m, grew by 10.5%, at constant currency, excluding reorganisation costs incurred in 2012. Group free cash flow increased by £28.1m to £29.0m.

In 2013 there have been two significant changes to accounting under International Financial Reporting Standards ('IFRS') which have affected Serco's 2013 results. 2012 comparative figures have also been restated for the effects of these changes. These relate to changes in the joint venture accounting rules (IFRS 11) and to the pension accounting rules (IAS 19 Revised). The change to IFRS 11 removes the option for proportional consolidation of joint ventures as previously adopted, and instead requires equity accounting for joint ventures. The change to IAS 19 Revised requires the pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of asset return.

1. Income statement

Serco's income statement for the half year is summarised below. The Adjusted measures at the top of each table include the results of joint ventures which are proportionately consolidated and are defined in the notes and definitions on page 2. The tables reconcile these to the statutory measures as reported in the condensed consolidated income statement.

1.1 Revenue

Six months ended 30 June	**2013** **£m**	2012 (restated) £m	Change	Change at constant currency
Adjusted revenue – ongoing activities	**2,548.5**	2,269.4	12.3%	11.8%
Adjusted revenue – disposed activities	**-**	72.3		
Adjusted revenue	**2,548.5**	2,341.7	8.8%	8.4%
Less: Share of joint venture revenue	**(435.2)**	(436.2)		
Revenue	**2,113.3**	1,905.5	10.9%	10.4%

Adjusted revenue from ongoing activities grew by 12.3% to £2,548.5m (11.8% growth at constant currency). Organic revenue, which excludes currency effects, acquisitions and disposals, increased by 8.8%, the drivers of this revenue performance are discussed in the preceding divisional operating reviews. Statutory revenue grew by 10.9%, to £2,113.3m.

1.2 Operating profit

Six months ended 30 June	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted operating profit – ongoing activities	**146.3**	135.5	8.0%	7.5%
Adjusted operating profit – disposed activities	**-**	3.8		
Adjusted operating profit before reorganisation costs	**146.3**	139.3	5.0%	4.6%
Reorganisation costs	**-**	(15.7)		
Adjusted operating profit	**146.3**	123.6	18.4%	17.9%
Amortisation of intangibles arising on acquisition	**(12.5)**	(11.5)		
Transaction-related costs	**(2.7)**	(1.1)		
Share of joint venture tax and interest	**(6.0)**	(8.5)		
Operating profit before exceptional item	**125.1**	102.5	22.0%	21.5%
Exceptional item	**-**	31.0		
Operating profit	**125.1**	133.5	(6.3%)	(6.7%)
Adjusted operating margin – ongoing activities before reorganisation costs	**5.74%**	5.97%		
Adjusted operating margin before reorganisation costs	**5.74%**	5.95%		

Adjusted operating profit from ongoing activities increased by 8.0% (excluding the impact of reorganisation costs incurred in the six month period to 30 June 2012) to £146.3m (7.5% growth at constant currency). This represents a margin of 5.74% which is a 23 basis point decrease compared with the comparative period. Drivers of the margin performance are discussed in the preceding divisional operating reviews. The Group's operating profit in the six months to 30 June 2013 was £125.1m, compared with £133.5m in the six months to 30 June 2012 (£102.5m before accounting for exceptional items).

1.3 Reportable segments and ongoing activities

The table below shows the segmental results split between ongoing activities, being the part of the business which will continue in to the second half of 2013, and disposed activities, being the part of the business which contributed to the 2012 results but were disposed of during the prior year.

Six months ended 30 June 2013	**UK & Europe £m**	**Americas £m**	**AMEAA £m**	**Global Services £m**	**Corporate £m**	**Total £m**
Adjusted segment revenue						
Ongoing activities	**1,285.1**	**374.6**	**500.2**	**388.6**	**-**	**2,548.5**
Disposed activities	**-**	**-**	**-**	**-**	**-**	**-**
Adjusted revenue	**1,285.1**	**374.6**	**500.2**	**388.6**	**-**	**2,548.5**
Adjusted operating profit						
Ongoing activities	**80.1**	**29.8**	**38.8**	**20.7**	**(23.1)**	**146.3**
Disposed activities	**-**	**-**	**-**	**-**	**-**	**-**
Adjusted operating profit	**80.1**	**29.8**	**38.8**	**20.7**	**(23.1)**	**146.3**

Six months ended 30 June 2012	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Adjusted segment revenue						
Ongoing activities	1,199.1	380.9	400.1	289.3	-	2,269.4
Disposed activities	67.2	-	-	5.1	-	72.3
Adjusted revenue	1,266.3	380.9	400.1	294.4	-	2,341.7
Adjusted operating profit before reorganisation costs						
Ongoing activities	81.1	29.6	26.7	19.2	(21.1)	135.5
Disposed activities	4.9	-	-	(1.1)	-	3.8
Adjusted operating profit before reorganisation costs	86.0	29.6	26.7	18.1	(21.1)	139.3
Reorganisation costs	(7.4)	-	-	(3.7)	(4.6)	(15.7)
Adjusted operating profit	78.6	29.6	26.7	14.4	(25.7)	123.6

Segmental results on a statutory basis are presented in note 2 of the condensed financial statements.

1.4 Net finance costs

Six months ended 30 June	**2013 £m**	2012 (restated) £m	Change	Change at constant currency
Adjusted net finance costs	**(19.2)**	(24.8)	(22.6%)	(22.6%)
Share of joint venture interest	**0.2**	0.2		
Net finance costs	**(19.0)**	(24.6)	(22.8%)	(22.7%)

Adjusted net finance costs totalled £19.2m (2012: £24.8m), which is a decrease of £5.6m. The principal reason for the decrease was the non-recurrence of additional costs in the prior period for the re-financing of the Revolving Credit Facility (RCF).

1.5 Profit before tax

Six months ended 30 June	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted profit before tax before reorganisation costs	**127.1**	114.5	11.0%	10.5%
Reorganisation costs	**-**	(15.7)		
Adjusted profit before tax	**127.1**	98.8	28.6%	28.0%
Amortisation of intangibles arising on acquisition	**(12.5)**	(11.5)		
Transaction-related costs	**(2.7)**	(1.1)		
Share of joint venture tax	**(5.8)**	(8.3)		
Profit before tax before exceptional item	**106.1**	77.9	36.2%	35.6%
Exceptional item	**-**	31.0		
Profit before tax	**106.1**	108.9	(2.6%)	(3.1%)

Adjusted profit before tax (excluding the impact of reorganisation costs incurred in the six months to 30 June 2012) increased by 11.0% to £127.1m (10.5% at constant currency). Profit before tax was broadly in line with the prior period, the six month period to 30 June 2012 benefitting from an exceptional gain on disposal of £31.0m, partly offset by reorganisation costs of £15.7m.

1.6 Tax

Six months ended 30 June	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted tax before reorganisation costs	**(30.6)**	(28.7)	6.6%	5.9%
Tax on reorganisation costs	**-**	3.8		
Adjusted tax	**(30.6)**	(24.9)	22.9%	22.1%
Tax on amortisation of intangibles arising on acquisition	**2.9**	2.7		
Tax on transaction-related costs	**-**	0.2		
Share of joint venture tax	**5.8**	8.3		
Tax	**(21.9)**	(13.7)	59.9%	58.4%
Adjusted effective tax rate before reorganisation costs*	**24.1%**	25.1%		

* Adjusted effective tax rate excludes the tax effect on adjusted items and includes the tax effect of the proportional consolidated results of joint ventures.

The Adjusted effective tax rate was 24.1% in the period compared with 25.1% in the comparable period (excluding the impact of reorganisation costs incurred in 2012). The reduction in the tax rate is primarily due to a combination of changes in the mix of taxable profits in different jurisdictions and the reduction in the UK headline tax rate from 24% to 23% from 1 April 2013.

1.7 Earnings per share (EPS)

Six months ended 30 June	2013 pence	2012 (restated) pence	Change	Change at constant currency
Adjusted earnings per share before reorganisation costs	**19.69**	17.44	12.9%	12.4%
Reorganisation costs	-	(2.42)		
Adjusted earnings per share	**19.69**	15.02	31.1%	30.5%
Amortisation of intangibles arising on acquisition	**(1.96)**	(1.79)		
Transaction-related costs	**(0.55)**	(0.18)		
Earnings per share before exceptional item	**17.18**	13.05	31.6%	31.0%
Exceptional item	**-**	6.30		
Earnings per share	**17.18**	19.35	(11.2%)	(11.6%)

Adjusted EPS (before the impact of reorganisation costs incurred last year) increased by 12.9% to 19.69p (12.4% growth at constant currency). Measures of basic EPS are calculated on a weighted average share base of 490.1m during the period (2012: 492.1m).

2. Dividend

Six months ended 30 June	2013 pence	2012 pence	Change
Dividend per share	**3.10**	2.65	17.0%

The Board has declared an interim dividend in light of the previously announced policy to progressively increase the dividend payout ratio. This will reduce the dividend cover over the period to 2015. Beyond that point we anticipate a policy of maintaining full year dividend cover of between 2.5 and 3 times, therefore reverting to increasing the total dividend each year broadly in line with the increase in underlying earnings. The interim dividend of 3.10p per share, represents a 17.0% increase on the 2012 interim dividend. The interim dividend will be paid on 18 October 2013 to shareholders on the register as at 6 September 2013.

3. Cash flow

The Group generated a free cash inflow of £29.0m (2012: £0.9m), the increase arising principally as a result of the increase in Adjusted operating profit in the period, partly offset by the increase in working capital. The phasing of cash generation over the course of 2013 is anticipated to be broadly similar to the prior financial year.

As in previous periods, we have designed the analysis to show the underlying cash performance of the Group.

Six months ended 30 June	**2013** **£m**	2012 (restated) £m
Adjusted operating profit excluding joint ventures and reorganisation costs	**117.3**	101.3
Reorganisation costs	**-**	(15.7)
Adjusted operating profit excluding joint ventures	**117.3**	85.6
Non cash items	**29.0**	25.4
Adjusted EBITDA excluding joint ventures*	**146.3**	111.0
Working capital movement	**(93.2)**	(73.4)
Adjusted operating cash flow excluding joint ventures	**53.1**	37.6
Interest	**(18.2)**	(25.5)
Tax	**(8.8)**	(15.5)
Net expenditure on tangible and intangible assets**	**(21.6)**	(27.1)
Dividends from joint ventures	**24.5**	31.4
Free cash flow	**29.0**	0.9
Disposal of subsidiaries and operations net of cash acquired	**(2.1)**	132.8
Acquisition of subsidiaries net of cash acquired	**(18.6)**	(67.5)
Transaction-related costs	**(0.5)**	(1.3)
Purchase of own shares and issue proceeds of share capital	**(14.8)**	4.7
Financing***	**112.9**	(72.0)
Special pension contributions	**(19.2)**	-
Dividends paid	**(36.4)**	(28.9)
Net increase/(decrease) in cash and cash equivalents before exchange	**50.3**	(31.3)
Exchange gain/(loss)	**0.8**	(2.2)
Net increase/(decrease) in cash and cash equivalents	**51.1**	(33.5)

Notes:
*Adjusted EBITDA excluding joint ventures is earnings before interest, tax, depreciation, intangible amortisation, profit on disposals of subsidiaries and operations and other non cash items.
**Net expenditure on tangible and intangible assets excludes assets funded under finance lease arrangements.
***Financing is stated net of directly reimbursed capital expenditure.

3.1 Adjusted operating cash flow excluding joint ventures

Adjusted operating cash flow excluding joint ventures of £53.1m (2012: £37.6m) reflects a conversion of Adjusted EBITDA into cash of 36.3% (2012: 33.9%).

The increase in the working capital movement includes the previously described effects of the timing of transition and mobilisation of new contract awards and the increased level of investment in supporting growth of our BPO business.

3.2 Interest

Net interest paid decreased by £7.3m to £18.2m, principally due to the payment in 2012 of facility fees relating to the refinancing of the Group's committed bank facilities.

3.3 Tax

Tax paid at £8.8m (2012: £15.5m), remains lower than the equivalent charge in the income statement principally as a result of the availability of accelerated capital allowances and other timing differences.

3.4 Expenditure on tangible and intangible assets

Gross expenditure on tangible and intangible assets was £31.5m (2012: £37.4m). This represents 1.5% of revenue (2012: 2.0%). After disposal proceeds of £9.9m (2012: £10.3m), net capital expenditure was £21.6m (2012: £27.1m).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £24.5m (2012: £31.4m), reflecting a slightly higher than normal conversion rate of joint ventures' profit after tax into dividends of 107% (2012: 106%).

3.6 Purchase of own shares and issue proceeds of share capital

The net £14.8m cash outflow in the period related to a £16.0m (2012: nil) outflow for the Employee Share Ownership Trust (ESOT) in order to satisfy options granted under the Group's share option schemes and £1.2m (2012: £4.7m) of proceeds from the issue of share capital and exercise of share options. The comparative period was an inflow of £4.7m as the purchase of own shares for the ESOT of £16.0m occurred in the second half of the year.

3.7 Financing

The inflow from financing of £112.9m (2012: outflow of £72.0m) is primarily due to additional private placements taken out in the period, less repayment of other loans. US private placements increased by £187.7m from 31 December 2012 to £648.5m. Further detail on sourcing of funding is supplied in section 7 below.

3.8 Special pension contributions

The special pension contributions of £19.2m relate to a £16.8m payment to fund the deficit on the Vertex pension fund prior to its transfer into the Group's largest defined benefit scheme, Serco Pension and Life Assurance Scheme (SPLAS), and £2.4m in relation to deficit recovery funding of the Walsall defined benefit pension scheme. The Vertex payment enables their separate defined benefit scheme to be closed and thereby reduces ongoing administration costs.

3.9 Reconciliation of free cash flow

The table below reconciles the net cash from operating activities in the condensed consolidated cash flow statement to the free cash flow at the beginning of Section 3 of the Finance Review.

Six months ended 30 June	2013 £m	2012 £m
Operating activities:		
Net cash inflow from operating activities before special pension contributions	43.8	19.5
Investing activities:		
Net cash (outflow)/inflow from investing activities	(26.4)	58.4
Less: Increase in security deposits	-	1.8
Less: Costs/(proceeds) on disposal of subsidiaries and operations	2.1	(132.8)
Less: Acquisition of subsidiaries, net of cash acquired	18.6	67.5
Financing activities:		
Interest paid	(19.5)	(26.5)
Transaction-related costs	0.5	1.3
Directly reimbursed capital expenditure and other financing items	9.9	11.7
Free cash flow	**29.0**	0.9

4. Acquisitions and disposals

Deferred consideration payments in relation to prior year acquisitions totalled £18.6m. This represented £11.9m in relation to the acquisition of Intelenet and £6.7m in relation to the acquisition of The Listening Company.

Incremental costs arising from transaction activity incurred in the period totalled £2.7m and the related cash spend was £0.5m.

5. Net debt

	At 30 June 2013 £m	At 30 June 2012 £m	At 31 December 2012 £m
Group - cash and cash equivalents	193.9	161.1	142.8
Group - loans	(858.5)	(777.0)	(699.5)
Group - obligations under finance leases	(66.9)	(57.3)	(50.2)
Group recourse net debt	**(731.5)**	(673.2)	(606.9)
Group non recourse debt	(22.6)	(19.7)	(25.1)
Net debt	**(754.1)**	(692.9)	(632.0)

Adjusted net debt, which includes the proportional share of joint venture net cash of £72.7m, is £681.4m (30 June 2012: £641.7m, 31 December 2012: £580.7m). A reconciliation of adjusted debt is presented in section 5.3 below.

5.1 Group recourse net debt

In the period, Group recourse net debt increased by £124.6m to £731.5m. Sources of funding are described in section 7 below.

Cash and cash equivalents includes encumbered cash of £9.4m (31 December 2012: £7.5m). This is cash relating to customer advance payments.

5.2 Group non recourse debt

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

In the period, Group non recourse debt decreased by £2.5m to £22.6m. The decrease is due to payments of £3.5m made in line with the debt repayment schedule on our Driver Examination Services contract in Canada, less additional asset financing of the National Physical Laboratory contract.

5.3 Reconciliation of adjusted net debt

Adjusted net debt increased by £100.7m since 31 December 2012, as reconciled below:

Six months ended 30 June	**2013 £m**	2012 £m
Adjusted net debt at start of period	**(580.7)**	(633.9)
Net increase/(decrease) in group cash and cash equivalents	**51.1**	(33.5)
Net (increase)/decrease in group loans	**(159.0)**	42.4
Net increase in group obligations under finance leases	**(16.7)**	(12.3)
Net decrease/(increase) in group obligations under non recourse loans	**2.5**	(4.2)
Net increase/(decrease) in joint venture net cash	**21.4**	(0.2)
Adjusted net debt at end of period	**(681.4)**	(641.7)

6. Pensions

The Group is a sponsor of a number of defined benefit schemes and defined contribution schemes. At 30 June 2013, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £12.2m (31 December 2012: net asset of £22.4m). The pension scheme asset base is £1.4bn.

Defined benefit pension schemes

	At 30 June 2013 **£m**	At 31 December 2012 (restated) £m
Group schemes – non contract specific	**26.7**	45.5
Contract specific schemes	**(12.1)**	(13.8)
Net retirement benefit asset	**14.6**	31.7
Intangible assets arising from rights to operate franchises and contracts	**2.0**	3.2
Deferred tax liabilities	**(4.4)**	(12.5)
Net balance sheet asset	**12.2**	22.4

Serco has two main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under IFRS. These are:

Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes we charge the actuarial gain or loss for the period to the consolidated statement of comprehensive income (the SOCI);

Contract specific – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the period to the SOCI, recognise a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortise the intangible asset to the income statement over the contract or franchise life.

Serco has limited commercial risk in relation to the contract specific schemes, due either to the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Amongst our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2013, SPLAS had a surplus of £34.2m (31 December 2012: surplus of £69.7m). This is calculated under IAS 19 Revised using market-derived rates at 30 June 2013. It therefore reflects the effect of the market conditions on investment returns in the period.

The estimated actuarial deficit of SPLAS, calculated using Trustee assumptions, as at 30 June 2013 was approximately £26.5m (2012: £10.9m). The value calculated in the latest triennial review was a deficit of £24m at 5 April 2012. We continue to review the level of benefits and contributions under the scheme in the light of our business needs and changes to pension legislation.

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

Pension assumption sensitivities

	Assumption	Change in assumption	Change in present value of scheme liabilities
Discount rate	4.60% - 4.80%	+0.5% (0.5%)	(9%) - (12%) +10% - 14%
Price inflation	3.40% - 3.50% (RPI) and 2.60% - 2.70% (CPI)	+0.5% (0.5%)	+8% - 12% (8%) - (11%)
Salary	3.80% - 3.90%	+0.5% (0.5%)	+1% - 5% (1%) - (3%)
Longevity	22.4 – 27.7*	Increase by one year	+2%

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

7. Treasury

The Group has committed bank credit of £730.0m (31 December 2012: £730.0m). This five-year multi-currency revolving credit facility, which was signed on 28 March 2012, matures in March 2017. As at 30 June 2013, £170.0m had been drawn down (31 December 2012: £177.6m).

In addition to the bank facility, Serco has US private placements totalling £648.5m (31 December 2012: £460.8m) which will be repaid between 2013 and 2024. This includes $240.0m of new loan notes issued in May 2013.

All of the Group's credit facilities detailed above are unsecured.

8. Going concern

The Group’s revenues are largely derived from long-term contracts which, historically, have been relatively resilient to changes in the general economy. The contract portfolio is diverse and a downturn in any particular market, sector or geography has, therefore, a more limited effect on the Group as a whole. In addition, with an order book of £18.5bn and high visibility of future revenue streams (98% in 2013; 82% in 2014 and 72% in 2015), the Group is well placed to manage its business risks despite the current uncertain economic climate.

The Group’s principal financing is through a revolving credit facility and US private placements. As at 30 June 2013, the Group had approximately £1,378.5m of committed credit facilities, with headroom of approximately £560.0m. The revolving credit facility matures in March 2017, whilst repayments of the US private placements occur between 2013 and 2024. The Group fully expects to meet these repayments through operational cash flows. Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

The Directors have acknowledged the guidance “An update for Directors of Listed Companies: Responding to heightened country and currency risk in interim financial reports” published by the Financial Reporting Council in June 2012. The current economic environment remains uncertain, however, with the broad base of our contract portfolio, the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for the foreseeable future.

9. Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco’s results and operations are set out on pages 78 to 84 of the 2012 Annual Report and Accounts and the key headline risks for the remainder of 2013 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. While the Group's view of its principal risks and uncertainties for the remaining six months of the financial year remains substantially unchanged, 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.

(i) Market risks

- Significant change in government policies and awards, expenditure levels and budgetary constraints
- Failure to win a strategic or significant bid or rebid

(ii) Operational risks

- Harm to the Group's reputation could adversely impact business
- Failure of significant programmes, including operating within agreed fixed costs
- Major information security breach
- Major accident or incident
- Major IT failure or prolonged loss of critical IT systems

(iii) Governance risks

- Significant incident of bribery or corrupt practice

(iv) People risks

- Failure to build depth and capability of leaders "Fit for Future"

(v) Finance risks

- The impairment of goodwill could adversely impact reported results
- Fluctuations in foreign currency exchange rates that are not effectively hedged
- Negative fluctuations in interest rates

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 (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

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

By order of the Board,

Christopher Hyman Chief Executive	Andrew Jenner Finance Director

28 August 2013

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 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 16. 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 International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 August 2013

Condensed consolidated income statement

For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (unaudited)**	Six months ended 30 June 2012 (unaudited and restated)		
			Before exceptional item	Exceptional item	Total
	Note	**£m**	£m	£m	£m
Adjusted revenue		**2,548.5**	2,341.7	-	2,341.7
Less: Share of revenue of joint ventures		**(435.2)**	(436.2)	-	(436.2)
Revenue	2	**2,113.3**	1,905.5	-	1,905.5
Cost of sales		**(1,829.4)**	(1,642.9)	-	(1,642.9)
Gross profit		**283.9**	262.6	-	262.6
Administrative expenses		**(166.6)**	(177.0)	-	(177.0)
Other expenses – amortisation of intangibles arising on acquisition		**(12.5)**	(11.5)	-	(11.5)
Other expenses – transaction-related costs		**(2.7)**	(1.1)	-	(1.1)
Share of profits in joint ventures, net of interest and tax		**23.0**	29.5	-	29.5
Net profit on disposal of subsidiaries and operations		**-**	-	31.0	31.0
Operating profit		**125.1**	102.5	31.0	133.5
Investment revenue	3	**2.6**	2.7	-	2.7
Finance costs	3	**(21.6)**	(27.3)	-	(27.3)
Profit before tax		**106.1**	77.9	31.0	108.9
Tax		**(21.9)**	(13.7)	-	(13.7)
Profit for the period		**84.2**	64.2	31.0	95.2
Attributable to:					
Equity holders of the parent		**84.2**	64.2	31.0	95.2
Non-controlling interest		**-**	-	-	-
Earnings per share (EPS)					
Basic EPS	5	**17.18p**	13.05p	6.30p	19.35p
Diluted EPS	5	**16.72p**	12.76p	6.16p	18.92p

Non GAAP Measures**				
Adjusted revenue – ongoing activities	**£2,548.5m**	£2,269.4m	-	£2,269.4m
Adjusted operating profit – ongoing activities*	**£146.3m**	£135.5m	-	£135.5m
Adjusted profit before tax*	**£127.1m**	£114.5m	-	£114.5m
Adjusted operating margin*	**5.7%**	5.9%	-	5.9%
Adjusted earnings per share*	**19.69p**	17.44p	-	17.44p

*Adjusted measures are stated before reorganisation costs of £15.7m incurred in 2012.
** Definitions of non GAAP adjusted measures are provided on page 2.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (unaudited) £m**	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
Profit for the period		**84.2**	95.2	241.0
Other comprehensive income for the period:				
Items that will not be reclassified subsequently to profit or loss:				
Net actuarial loss on defined benefit pension schemes[1]	13	**(34.0)**	(12.6)	(117.0)
Actuarial (loss)/gain on reimbursable rights[1]	13	**(7.9)**	(50.2)	34.3
Tax relating to items not reclassified[3]		**10.1**	16.6	23.0
Share of other comprehensive income/(expense) in joint ventures		**1.8**	1.6	(0.9)
Items that may be reclassified subsequently to profit or loss:				
Net exchange loss on translation of foreign operations[2]		**(5.7)**	(5.0)	(18.6)
Fair value gain/(loss) on cash flow hedges during the period[2]		**4.7**	(9.0)	(4.1)
Recycling of cumulative net hedging reserve[2]		**-**	(0.6)	-
Tax relating to items that may be reclassified[3]		**(1.4)**	5.8	4.1
Share of other comprehensive expense in joint ventures		**(0.6)**	(1.1)	(0.4)
Total comprehensive income for the period		**51.2**	40.7	161.4
Attributable to:				
Equity holders of the parent		**51.1**	40.7	160.8
Non-controlling interest		**0.1**	-	0.6

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

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

3 Of the tax credit, £10.1m (30 June 2012: £16.6m, 31 December 2012: £23.0m) was taken to the retirement benefit obligations reserve; and debit of £1.4m (30 June 2012: credit of £5.8m, 31 December 2012: credit of £4.1m) was taken to the hedging and translation reserve.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2013

	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 £m	Non-controlling interest £m
At 1 January 2012 (unaudited and restated)	9.9	322.7	0.1	703.5	(78.9)	66.1	(48.2)	28.6	1,003.8	-
Total comprehensive income for the period	-	-	-	95.7	(46.2)	-	-	(8.8)	40.7	-
Shares transferred to option holders on exercise of share options	0.1	3.5	-	-	-	(3.0)	4.1	-	4.7	-
Dividends paid	-	-	-	(28.9)	-	-	-	-	(28.9)	-
Expense in relation to share-based payment	-	-	-	-	-	3.7	-	-	3.7	-
Tax charge in relation to share-based payment	-	-	-	-	-	3.7	-	-	3.7	-
At 30 June 2012 (unaudited and restated)	10.0	326.2	0.1	770.3	(125.1)	70.5	(44.1)	19.8	1,027.7	-
Total comprehensive income for the period	-	-	-	143.4	(13.5)	-	-	(9.8)	120.1	0.6
Shares transferred to option holders on exercise of share options	-	0.3	-	-	-	(0.6)	1.3	-	1.0	-
Dividends paid	-	-	-	(13.0)	-	-	-	-	(13.0)	(0.4)
Expense in relation to share-based payment	-	-	-	-	-	8.4	-	-	8.4	-
Tax credit in relation to share-based payment	-	-	-	-	-	(0.6)	-	-	(0.6)	-
Purchase of own shares for Employee Share Ownership Trust (ESOT)	-	-	-	-	-	-	(16.0)	-	(16.0)	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	1.1
At 31 December 2012 (unaudited and restated)	**10.0**	**326.5**	**0.1**	**900.7**	**(138.6)**	**77.7**	**(58.8)**	**10.0**	**1,127.6**	**1.3**
Total comprehensive income for the period	**-**	**-**	**-**	**85.4**	**(31.8)**	**-**	**-**	**(2.5)**	**51.1**	**0.1**
Shares transferred to option holders on exercise of share options	**-**	**1.1**	**-**	**-**	**-**	**(1.0)**	**1.1**	**-**	**1.2**	**-**
Dividends paid	**-**	**-**	**-**	**(36.4)**	**-**	**-**	**-**	**-**	**(36.4)**	**-**
Expense in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**5.9**	**-**	**-**	**5.9**	**-**
Tax credit in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**(3.4)**	**-**	**-**	**(3.4)**	**-**
Purchase of own shares for Employee Share Ownership Trust (ESOT)	**-**	**-**	**-**	**-**	**-**	**-**	**(16.0)**	**-**	**(16.0)**	**-**
At 30 June 2013 (unaudited)	**10.0**	**327.6**	**0.1**	**949.7**	**(170.4)**	**79.2**	**(73.7)**	**7.5**	**1,130.0**	**1.4**

Condensed consolidated balance sheet

At 30 June 2013

	Note	**At 30 June 2013 (unaudited) £m**	At 30 June 2012 (unaudited and restated) £m	At 31 December 2012 (unaudited and restated) £m
Non-current assets				
Goodwill		**1,334.7**	1,221.7	1,312.1
Other intangible assets		**205.4**	189.9	215.7
Property, plant and equipment		**187.4**	175.3	176.9
Interests in joint ventures		**11.5**	35.0	11.9
Trade and other receivables		**73.4**	75.1	49.2
Retirement benefit assets	13	**34.2**	71.0	69.7
Deferred tax assets		**43.8**	47.3	40.1
Derivative financial instruments	14	**0.8**	0.4	0.1
		1,891.2	1,815.7	1,875.7
Current assets				
Inventories		**67.0**	52.5	60.3
Trade and other receivables		**848.6**	761.0	770.9
Current tax assets		**21.0**	12.7	24.6
Cash and cash equivalents		**193.9**	161.1	142.8
Derivative financial instruments	14	**6.7**	1.7	2.7
		1,137.2	989.0	1,001.3
Total assets		**3,028.4**	2,804.7	2,877.0
Current liabilities				
Trade and other payables		**(757.9)**	(706.0)	(757.3)
Current tax liabilities		**(13.9)**	(3.3)	(9.6)
Obligations under finance leases		**(14.2)**	(9.8)	(10.7)
Provisions	9	**(10.2)**	(9.0)	(11.5)
Loans		**(49.0)**	(86.1)	(64.0)
Derivative financial instruments	14	**(13.0)**	(14.0)	(13.8)
		(858.2)	(828.2)	(866.9)
Non-current liabilities				
Trade and other payables		**(40.9)**	(57.6)	(42.3)
Obligations under finance leases		**(52.7)**	(47.5)	(39.5)
Loans		**(833.7)**	(710.7)	(661.8)
Derivative financial instruments	14	**(18.7)**	(28.3)	(24.5)
Retirement benefit obligations	13	**(19.6)**	(28.0)	(38.0)
Provisions	9	**(38.6)**	(54.7)	(44.7)
Deferred tax liabilities		**(34.6)**	(22.0)	(30.4)
		(1,038.8)	(948.8)	(881.2)
Total liabilities		**(1,897.0)**	(1,777.0)	(1,748.1)
Net assets		**1,131.4**	1,027.7	1,128.9
Equity				
Share capital		**10.0**	10.0	10.0
Share premium account		**327.6**	326.2	326.5
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**949.7**	770.3	900.7
Retirement benefit obligations reserve		**(170.4)**	(125.1)	(138.6)
Share-based payment reserve		**79.2**	70.5	77.7
Own shares reserve		**(73.7)**	(44.1)	(58.8)
Hedging and translation reserve		**7.5**	19.8	10.0
Equity attributable to equity holders of the parent		**1,130.0**	1,027.7	1,127.6
Non-controlling interest		**1.4**	-	1.3
Total equity		**1,131.4**	1,027.7	1,128.9

Condensed consolidated cash flow statement

For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (unaudited)**	Six months ended 30 June 2012 (unaudited and restated)	Year ended 31 December 2012 (unaudited and restated)
		£m	£m	£m
Net cash inflow from operating activities before special pension contributions		**43.8**	19.5	220.9
Special contributions to defined benefit pension schemes		**(19.2)**	-	-
Net cash inflow from operating activities	7	**24.6**	19.5	220.9
Investing activities				
Interest received		**1.3**	1.0	2.5
Dividends received from joint ventures		**24.5**	31.4	80.6
Increase in security deposits		**-**	(1.8)	-
Proceeds from disposal of property, plant and equipment and intangible assets		**3.0**	1.5	21.0
(Costs)/proceeds on disposal of subsidiaries and operations		**(2.1)**	132.8	131.0
Acquisition of subsidiaries, net of cash acquired (excluding acquisition-related costs)	6	**(18.6)**	(67.5)	(141.8)
Purchase of other intangible assets		**(13.8)**	(18.8)	(49.9)
Purchase of property, plant and equipment		**(20.7)**	(20.2)	(47.4)
Net cash (outflow)/inflow from investing activities		**(26.4)**	58.4	(4.0)
Financing activities				
Interest paid		**(19.5)**	(26.5)	(47.1)
Dividends paid	4	**(36.4)**	(28.9)	(41.9)
Non-controlling interest dividends paid		**-**	-	(0.4)
Cash outflow from matured derivative financial instruments		**-**	(1.4)	-
Repayment of loans		**(44.7)**	(420.5)	(365.3)
Repayment of non recourse loans		**(4.9)**	(4.0)	(8.7)
New loan advances		**168.9**	362.3	216.3
Capital element of finance lease advances/(repayments)		**3.5**	5.1	(2.4)
Purchase of own shares for Employee Share Ownership Trust (ESOT)		**(16.0)**	-	(16.0)
Proceeds from issue of share capital and exercise of share options		**1.2**	4.7	5.7
Net cash inflow/(outflow) from financing activities		**52.1**	(109.2)	(259.8)
Net increase/(decrease) in cash and cash equivalents		**50.3**	(31.3)	(42.9)
Cash and cash equivalents at beginning of period		**142.8**	194.6	194.6
Net exchange gain/(loss)		**0.8**	(2.2)	(8.9)
Cash and cash equivalents at end of period		**193.9**	161.1	142.8

Notes to the condensed set of financial statements

For the six months ended 30 June 2013

1. General information, going concern and accounting policies

The information for the year ended 31 December 2012 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, 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 IFRSs 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 34 'Interim Financial Reporting', as adopted by the EU.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating Review on pages 8 to 23. The Finance Review includes a summary of the Group's financial position, its cash flows and borrowing facilities.

The Group's revenues are largely derived from long-term contracts with governments which historically have been relatively resilient to changes in the general economy. The contract portfolio is diverse and therefore a downturn in any particular market, sector or geography has a more limited effect on the Group as a whole. In addition, with an order book of £18.5bn and high visibility of future revenue streams, the Group is well placed to manage its business risks despite the current economic climate.

The Group has committed bank credit of £730.0m (31 December 2012: £730.0m). As at 30 June 2013, £170.0m had been drawn down on this bank facility. The headroom on the facility was £560.0m. In addition to the bank credit facility, Serco has private placements totalling £648.5m which will be repaid between 2013 and 2024.

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

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

Changes in Accounting Policies
In 2013 there were two significant changes to accounting under International Financial Reporting Standards ('IFRS') which have affected Serco's 2013 results and required the restatement of 2012 comparative figures. These relate to changes in the joint venture accounting rules (IFRS 11 "Joint Ventures") and to the pension accounting rules (IAS 19 Revised "Employee Benefits").

The change to joint venture accounting rules (IFRS 11) removes the option for proportional consolidation of joint ventures and instead requires equity accounting for joint ventures. The effect on the 2012 results for this change, before the impact of the IAS 19 Revised changes, is to reduce statutory reported revenue by £852.9m (six months ended 30 June 2012: £436.2m) and profit before tax by £15.1m (six months ended 30 June 2012: £8.6m). There is no impact on post tax profits, earnings per share, or net assets from this change.

The change to the pension accounting rules (IAS 19 Revised) requires pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of asset return. After accounting for IFRS 11, the additional effect on the 2012 results for this

1. General information, going concern and accounting policies (continued)

change is to reduce pre tax profits by £5.8m (six months ended 30 June 2012: £3.0m) and to reduce post tax profits by £4.9m (six months ended 30 June 2012: £2.5m).

In the current period the Group also adopted the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" and IFRS 13 "Fair Value Measurements".

The amendments to IAS 1 require items of other comprehensive income to be grouped together by those items that will be reclassified subsequently to profit and loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been restated to reflect the change. The effect of these changes is evident from the condensed statement of consolidated income.

IFRS 13 has impacted the measurement of fair value for certain assets and liabilities as well as introducing new disclosures, as set out in note 14.

2. Segmental information

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance. Details of the different products and services provided to each operating segment are included in the Operating Review section of this report. The Group's reportable operating segments under IFRS 8 are:

Reportable segments	**Operating segments**
UK & Europe	UK and European frontline services in areas including home affairs, defence, health, transportation and local government direct services;
Americas	US defence frontline and federal civilian agency operations; Canadian operations;
AMEAA	Frontline contracts in Australasia, Middle East, Asia (including Hong Kong and India) and Africa; and
Global Services	Global BPO middle and back office services.

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2013. The accounting policies of the reportable segments are the same as those described in the summary of the significant accounting policies which are described in the Group's latest Annual Report and Accounts, except as described in note 1.

Reportable segments

Six months ended 30 June 2013 (unaudited)	**UK & Europe £m**	**Americas £m**	**AMEAA £m**	**Global Services £m**	**Corporate £m**	**Total £m**
Revenue						
Adjusted revenue	**1,285.1**	**374.6**	**500.2**	**388.6**	**-**	**2,548.5**
Less: Share of joint venture revenue	**(387.9)**	**(0.4)**	**(46.9)**	**-**	**-**	**(435.2)**
Revenue	**897.2**	**374.2**	**453.3**	**388.6**	**-**	**2,113.3**
Result						
Adjusted operating profit	**80.1**	**29.8**	**38.8**	**20.7**	**(23.1)**	**146.3**
Amortisation of intangibles arising on acquisition	**(0.2)**	**(7.0)**	**(1.3)**	**(4.0)**	**-**	**(12.5)**
Transaction-related costs	**(0.8)**	**-**	**-**	**(1.9)**	**-**	**(2.7)**
Share of joint venture tax and interest	**(5.0)**	**-**	**(1.0)**	**-**	**-**	**(6.0)**
Operating profit	**74.1**	**22.8**	**36.5**	**14.8**	**(23.1)**	**125.1**
Investment revenue						**2.6**
Finance costs						**(21.6)**
Profit before tax						**106.1**
Tax						**(21.9)**
Profit after tax						**84.2**

2. Segmental information (continued)

Six months ended 30 June 2012 (unaudited and restated)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Revenue						
Adjusted revenue	1,266.3	380.9	400.1	294.4	-	2,341.7
Less: Share of joint venture revenue	(368.0)	(0.4)	(67.8)	-	-	(436.2)
Revenue	898.3	380.5	332.3	294.4	-	1,905.5
Result						
Adjusted operating profit before reorganisation costs	86.0	29.6	26.7	18.1	(21.1)	139.3
Reorganisation costs	(7.4)	-	-	(3.7)	(4.6)	(15.7)
Adjusted operating profit	78.6	29.6	26.7	14.4	(25.7)	123.6
Amortisation of intangibles arising on acquisition	(0.2)	(6.9)	(0.1)	(4.3)	-	(11.5)
Transaction-related costs	-	-	-	(1.1)	-	(1.1)
Share of joint venture tax and interest	(8.0)	-	(0.5)	-	-	(8.5)
Operating profit before exceptional items	70.4	22.7	26.1	9.0	(25.7)	102.5
Net profit on disposal of subsidiaries and operations	31.0	-	-	-	-	31.0
Operating profit	101.4	22.7	26.1	9.0	(25.7)	133.5
Investment revenue						2.7
Finance costs						(27.3)
Profit before tax						108.9
Tax						(13.7)
Profit after tax						95.2

Year ended 31 December 2012 (unaudited and restated)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Revenue						
Adjusted revenue	2,561.1	753.4	883.0	715.5	-	4,913.0
Less: Share of joint venture revenue	(723.4)	(0.7)	(128.8)	-	-	(852.9)
Revenue	1,837.7	752.7	754.2	715.5	-	4,060.1
Result						
Adjusted operating profit	177.1	55.2	64.3	62.1	(44.6)	314.1
Amortisation of intangibles arising on acquisition	(0.4)	(13.7)	(0.3)	(9.7)	-	(24.1)
Transaction-related costs	(0.1)	-	(1.8)	(1.8)	-	(3.7)
Share of joint venture tax and interest	(10.6)	-	(4.1)	-	-	(14.7)
Operating profit before exceptional items	166.0	41.5	58.1	50.6	(44.6)	271.6
Net profit on disposal of subsidiaries and operations	31.0	-	-	(25.4)	-	5.6
Exceptional donation to Serco Foundation	-	-	-	-	(5.0)	(5.0)
Operating profit	197.0	41.5	58.1	25.2	(49.6)	272.2
Investment revenue						6.4
Exceptional other gain						51.1
Finance costs						(48.6)
Profit before tax						281.1
Tax						(40.1)
Profit after tax						241.0

2. Segmental information (continued)

Segment assets

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
UK & Europe	**735.0**	816.2	678.6
Americas	**635.2**	648.4	604.5
AMEAA	**481.1**	327.4	460.9
Global Services	**889.0**	718.5	844.9
Corporate assets	**19.2**	67.2	74.2
Total segment assets	**2,759.5**	2,577.7	2,663.1
Unallocated assets	**268.9**	227.0	213.9
Consolidated total assets	**3,028.4**	2,804.7	2,877.0

Segment assets exclude all derivative financial instruments, current and deferred taxation assets, loans to joint ventures and cash.

Segment liabilities

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
UK & Europe	**(279.6)**	(241.8)	(313.1)
Americas	**(97.7)**	(109.1)	(93.7)
AMEAA	**(171.8)**	(125.7)	(146.3)
Global Services	**(232.8)**	(253.5)	(256.1)
Corporate liabilities	**(36.5)**	(61.5)	(28.4)
Total segment liabilities	**(818.4)**	(791.6)	(837.6)
Unallocated liabilities	**(1,078.6)**	(985.4)	(910.5)
Consolidated total liabilities	**(1,897.0)**	(1,777.0)	(1,748.1)

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

Geographic analysis

	Six months ended 30 June 2013		Six months ended 30 June 2012		Year ended 31 December 2012	
	Revenue (unaudited) £m	**Non-current assets (unaudited) £m**	Revenue (unaudited and restated) £m	Non-current assets (unaudited and restated) £m	Revenue (unaudited and restated) £m	Non-current assets (unaudited and restated) £m
United Kingdom	**1,029.1**	**778.5**	907.1	780.3	2,008.7	781.2
United States	**346.1**	**466.0**	351.5	455.4	694.4	437.5
Australia	**423.0**	**196.9**	313.7	98.2	700.3	192.5
Other countries	**315.1**	**402.6**	333.2	431.6	656.7	421.7
Total	**2,113.3**	**1,844.0**	1,905.5	1,765.5	4,060.1	1,832.9

Non-current assets exclude derivative financial instruments, deferred tax assets and loans to joint ventures.

3. Investment revenue and finance costs

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
Interest receivable on other loans and deposits	**1.4**	1.2	2.5
Net interest receivable on retirement benefit obligations	**1.2**	1.5	3.9
Investment revenue	**2.6**	2.7	6.4
Interest payable on non recourse loans	**(0.5)**	(0.4)	(0.9)
Interest payable and amortisation of capitalised financing transaction costs on other loans	**(18.9)**	(24.6)	(43.0)
Interest payable on obligations under finance leases	**(1.2)**	(1.3)	(2.8)
Movement in discount on provisions and deferred consideration	**(1.0)**	(1.0)	(1.9)
Finance costs	**(21.6)**	(27.3)	(48.6)

4. Dividends

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited) £m	Year ended 31 December 2012 (audited) £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2012 of 7.45p per share on 488.3 million ordinary shares	**36.4**	-	-
Final dividend for the year ended 31 December 2011 of 5.90p per share on 490.2 million ordinary shares	**-**	28.9	28.9
Interim dividend for the year ended 31 December 2012 of 2.65p per share on 488.2 million ordinary shares	**-**	-	13.0
	36.4	28.9	41.9

The declared interim dividend is 3.10p per ordinary share on 486.9 million shares, representing a payment of £15.1m (2012: interim dividend of 2.65p per ordinary share on 488.2 million shares, representing a payment of £13.0m).

The declared interim dividend was approved by the Board on 28 August 2013 and has not been included as a liability as at 30 June 2013.

5. Earnings per share

Basic and diluted earnings per share (EPS) have been calculated in accordance with IAS 33 Earnings per Share. EPS is shown both before and after adjusting items to assist in the understanding of the underlying performance of the business. Adjusting items comprise net profit on disposals, amortisation of intangible assets arising on acquisition and transaction-related costs.

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

Number of shares	**Six months ended 30 June 2013 (unaudited) Millions**	Six months ended 30 June 2012 (unaudited) Millions	Year ended 31 December 2012 (audited) Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**490.1**	492.1	491.2
Effect of dilutive potential ordinary shares: share options	**13.4**	11.2	11.7
Weighted average number of ordinary shares for the purpose of diluted EPS	**503.5**	503.3	502.9

Earnings per share	**Six months ended 30 June 2013**		Six months ended 30 June 2012		Year ended 31 December 2012	
	Earnings (unaudited) £m	**Per share amount (unaudited) Pence**	Earnings (unaudited and restated) £m	Per share amount (unaudited and restated) Pence	Earnings (unaudited and restated) £m	Per share amount (unaudited and restated) Pence
Profit for the period	**84.2**		95.2		241.0	
Less: Non controlling interest	**-**		-		(0.6)	
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**84.2**	**17.18**	95.2	19.35	240.4	48.94
Add back:						
Exceptional profit on disposal of subsidiaries, net of tax of £nil (30 June 2012: tax of £nil, 31 December 2012; tax credit of £5.3m)	-	-	(31.0)	(6.30)	(10.9)	(2.22)
Exceptional donation to Serco Foundation, net of tax of £nil (30 June 2012: £nil, 31 December 2012: £1.2m)	**-**	**-**	**-**	**-**	3.8	0.77
Exceptional gain on step acquisition accounting, net of tax of £nil (30 June 2012: £nil, 31 December 2012: £nil)	**-**	**-**	**-**	**-**	(51.1)	(10.40)
Amortisation of intangible assets arising on acquisition, net of tax of £2.9m (30 June 2012: £2.7m, 31 December 2012: £5.4m)	**9.6**	**1.96**	8.8	1.79	18.7	3.81
Transaction-related costs, net of tax of £nil (30 June 2012: £0.2m, 31 December 2012: £0.5m)	**2.7**	**0.55**	0.9	0.18	3.2	0.65
Adjusted earnings*	**96.5**	**19.69**	73.9	15.02	204.1	41.55
Earnings for the purpose of basic EPS	**84.2**	**17.18**	95.2	19.35	240.4	48.94
Effect of dilutive potential ordinary shares	**-**	**(0.46)**	-	(0.43)	-	(1.14)
Diluted EPS	**84.2**	**16.72**	95.2	18.92	240.4	47.80

*Adjusted earnings in 2012 are stated after reorganisation earnings of £11.9m, representing £15.7m of reorganisation costs, net of tax of £3.8m.

6. Acquisitions and disposals

Deferred consideration payments in relation to prior year acquisitions were made in the period totalling £18.6m. This represented £11.9m in relation to Intelenet and £6.7m in relation to The Listening Company.

Incremental costs arising from transaction activity incurred in the period totalled £2.7m and the related cash spend was £0.5m.

After a review of the provisional acquisition accounting for Vertex Public Services Limited, recognised in the 2012 accounts, the comparative information in relation to this acquisition has been adjusted retrospectively to increase the fair value of deferred tax assets recognised by £2.3m offset by a decrease in goodwill of £2.3m.

After a review of the provisional acquisition accounting for DMS Maritime PTY Limited, recognised in the 2012 accounts, the comparative information in relation to this acquisition has been adjusted retrospectively to reduce the fair value of intangible assets recognised by £7.9m, offset by an increase in goodwill of £7.2m and a decrease in the deferred tax liability of £0.7m.

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

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
Operating profit for the period	**125.1**	133.5	272.2
Adjustments for:			
Share of profits in joint ventures	**(23.0)**	(29.5)	(62.5)
Share-based payment expense	**5.9**	3.7	12.1
Depreciation and impairment of property, plant and equipment	**21.2**	24.2	46.1
Amortisation and impairment of intangible assets	**24.6**	20.1	45.0
Profit on disposal of subsidiaries and operations	**-**	(31.0)	(5.6)
(Profit)/loss on disposal of property, plant and equipment	**(0.1)**	1.9	(0.9)
Movement in provisions	**(9.2)**	(12.0)	(19.4)
Other non cash movements	**(0.9)**	-	(2.8)
Operating cash inflow before movements in working capital	**143.6**	110.9	284.2
Increase in inventories	**(8.0)**	(4.9)	(2.2)
Increase in receivables	**(96.3)**	(93.5)	(61.1)
Increase in payables	**13.3**	22.5	33.6
Special contributions to defined benefit pension scheme	**(19.2)**	-	-
Cash generated by operations	**33.4**	35.0	254.5
Tax paid	**(8.8)**	(15.5)	(33.6)
Net cash inflow from operating activities	**24.6**	19.5	220.9

8. Analysis of net debt

	Cash and cash equivalents £m	Non recourse loans £m	Other loans £m	Obligations under finance leases £m	Total £m
At 1 January 2012 (unaudited and restated)	194.6	(15.5)	(819.4)	(44.9)	(685.2)
Cash flow	(30.8)	(4.3)	58.2	(5.1)	18.0
Acquisitions	0.7	-	-	-	0.7
Disposals	(1.2)	-	(24.6)	-	(25.8)
Exchange differences	(2.2)	0.1	8.8	0.1	6.8
Non cash movements	-	-	-	(7.4)	(7.4)
At 30 June 2012 (unaudited and restated)	161.1	(19.7)	(777.0)	(57.3)	(692.9)
Cash flow	(12.4)	(5.4)	90.8	7.5	80.5
Acquisitions	-	-	(30.4)	-	(30.4)
Disposals	0.9	-	0.2	6.2	7.3
Exchange differences	(6.8)	-	16.9	0.2	10.3
Non cash movements	-	-	-	(6.8)	(6.8)
At 31 December 2012 (unaudited and restated)	142.8	(25.1)	(699.5)	(50.2)	(632.0)
Cash flow	50.3	4.9	(124.2)	(3.5)	(72.5)
Exchange differences	0.8	(0.2)	(34.8)	(0.1)	(34.3)
Non cash movements	-	(2.2)	-	(13.1)	(15.3)
At 30 June 2013 (unaudited)	**193.9**	**(22.6)**	**(858.5)**	**(66.9)**	**(754.1)**

9. Provisions

	Employee Related[1] £m	Property[2] £m	Contract[3] £m	Other[4] £m	Total £m
At 1 January 2012 (unaudited and restated)	12.5	8.8	26.1	16.6	64.0
Arising on acquisitions	-	1.0	3.3	2.3	6.6
Charged to income statement	1.1	0.1	0.4	6.8	8.4
Released to income statement	(0.4)	(0.1)	(2.1)	(1.1)	(3.7)
Utilised during the period	(0.2)	(0.6)	(7.9)	(1.4)	(10.1)
Derecognised on disposals	(0.1)	-	-	-	(0.1)
Unwinding of discount	-	0.1	0.1	-	0.2
Exchange differences	(0.1)	(0.2)	(0.9)	(0.4)	(1.6)
At 30 June 2012 (unaudited and restated)	12.8	9.1	19.0	22.8	63.7
Arising on acquisitions	1.0	0.6	3.1	(2.2)	2.5
Charged to income statement	0.3	-	(0.4)	2.1	2.0
Released to income statement	-	(0.6)	(3.6)	1.1	(3.1)
Utilised during the period	(0.4)	(1.1)	(3.4)	(3.3)	(8.2)
Unwinding of discount	-	0.1	0.2	-	0.3
Exchange differences	(0.4)	(0.2)	-	(0.4)	(1.0)
At 31 December 2012 (unaudited and restated)	13.3	7.9	14.9	20.1	56.2
Charged to income statement	**3.2**	**-**	**0.3**	**4.7**	**8.2**
Released to income statement	**-**	**(0.1)**	**(1.2)**	**(4.5)**	**(5.8)**
Utilised during the period	**(1.7)**	**(1.7)**	**(4.4)**	**(3.8)**	**(11.6)**
Unwinding of discount	**-**	**0.1**	**0.2**	**-**	**0.3**
Exchange differences	**0.3**	**0.4**	**0.1**	**0.7**	**1.5**
At 30 June 2013 (unaudited)	**15.1**	**6.6**	**9.9**	**17.2**	**48.8**
Analysed as:					
Current	**-**	**0.8**	**3.9**	**5.5**	**10.2**
Non-current	**15.1**	**5.8**	**6.0**	**11.7**	**38.6**
	15.1	**6.6**	**9.9**	**17.2**	**48.8**

1. Employee related provisions relate to long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts.

2. Property provisions relate to leased properties which are either under-utilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be required. Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations as they fall due over the next ten years.

3. Contract provisions primarily relate to Intelenet where, as required under IAS 37, a provision has been taken for a loss making onerous contract. Management has used the present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the next seven years in determining the provision.

4. Other provisions are held for 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.

10. Joint ventures

The Group's interest in joint ventures is reported in the condensed set of consolidated financial statements using the equity accounting method where only the share of post tax results of joint ventures are reflected in operating profit.

The proportionate share of the joint ventures' results is as follows:

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited and restated) £m	Year ended 31 December 2012 (unaudited and restated) £m
Revenue	**435.2**	436.2	852.9
Operating profit	**29.0**	38.0	77.2
Investment revenue	**-**	0.3	0.7
Finance costs	**(0.2)**	(0.5)	(1.0)
Profit before tax	**28.8**	37.8	76.9
Tax	**(5.8)**	(8.3)	(14.4)
Share of post-tax results of joint ventures	**23.0**	29.5	62.5

11. Related party transactions

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

	Six months ended 30 June 2013 (unaudited) £m	Six months ended 30 June 2012 (unaudited) £m	Year ended 31 December 2012 (audited) £m
Royalties and management fees receivable	**1.1**	1.1	2.3
Dividends receivable	**24.5**	31.4	80.6
	25.6	32.5	82.9

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

	At 30 June 2013 (unaudited) £m	At 30 June 2012 (unaudited) £m	At 31 December 2012 (audited) £m
Current:			
Loans	**0.1**	1.3	1.0
Non-current:			
Loans	**2.6**	2.5	2.6

12. Share-based payments

In accordance with IFRS 2, a charge of £5.9m (30 June 2012: £3.7m, 31 December 2012: £12.1m) relating to the fair value of share schemes granted since 7 November 2002, has been charged to the condensed consolidated income statement.

13. Defined benefit schemes

The service cost included in operating profit is £9.3m (6 months ended 30 June 2012 restated: £12.1m). Included in investment revenue and finance costs is a credit of £1.2m (6 months ended 30 June 2012 restated: £1.5m) 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 2013 was approximately £26.5m (2012: £10.9m). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2012 and resulted in an actuarially assessed deficit of £24m. Following this review, the Group agreed with the Trustees to a small increase in contributions, bringing cash contributions up to 33% of members' pensionable salaries until 2021. 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 2013 (unaudited)	**Contract specific £m**	**Non contract specific £m**	**Total £m**
Fair value of scheme assets	**212.9**	**1,175.2**	**1,388.1**
Present value of scheme liabilities	**(287.3)**	**(1,152.9)**	**(1,440.2)**
Net amount recognised	**(74.4)**	**22.3**	**(52.1)**
Members' share of deficit	**-**	**4.3**	**4.3**
Franchise adjustment	**62.3**	**-**	**62.3**
Effect of IFRIC 14	**-**	**0.1**	**0.1**
Net retirement benefit (obligation)/asset	**(12.1)**	**26.7**	**14.6**
Analysed as:			
Retirement benefit obligations	**(12.1)**	**(7.5)**	**(19.6)**
Retirement benefit assets	**-**	**34.2**	**34.2**
	(12.1)	**26.7**	**14.6**
Related assets			
Intangible assets	**2.0**	**-**	**2.0**

At 30 June 2012 (unaudited and restated)	Contract specific £m	Non contract specific £m	Total £m
Fair value of scheme assets	162.7	1,136.5	1,299.2
Present value of scheme liabilities	(218.2)	(1,027.7)	(1,245.9)
Net amount recognised	(55.5)	108.8	53.3
Members' share of deficit	-	2.0	2.0
Franchise adjustment	46.7	-	46.7
Effect of IFRIC 14	-	(59.0)	(59.0)
Net retirement benefit (obligation)/asset	(8.8)	51.8	43.0
Analysed as:			
Retirement benefit obligations	(8.8)	(19.2)	(28.0)
Retirement benefit assets	-	71.0	71.0
	(8.8)	51.8	43.0
Related assets			
Intangible assets	2.2	-	2.2

13. Defined benefit schemes (continued)

At 31 December 2012 (unaudited and restated)	Contract specific £m	Non contract specific £m	Total £m
Fair value of scheme assets	198.3	1,155.8	1,354.1
Present value of scheme liabilities	(280.4)	(1,115.3)	(1,395.7)
Net amount recognised	(82.1)	40.5	(41.6)
Members' share of deficit	-	4.1	4.1
Franchise adjustment	68.3	-	68.3
Effect of IFRIC 14	-	0.9	0.9
Net retirement benefit (obligation)/asset	(13.8)	45.5	31.7
Analysed as:			
Retirement benefit obligations	(13.8)	(24.2)	(38.0)
Retirement benefit assets	-	69.7	69.7
	(13.8)	45.5	31.7
Related assets			
Intangible assets	3.2	-	3.2

	At 30 June 2013 (unaudited) %	At 30 June 2012 (unaudited) %	At 31 December 2012 (audited) %
Main assumptions:			
Rate of salary increases	**3.80 – 3.90**	3.30	3.40
Rate of increase in pensions in payment (CPI)	**2.60 – 2.70**	2.10	2.20
Rate of increase in pensions in payment (RPI)	**3.40 – 3.50**	2.90	3.00
Rate of increase in deferred pensions (CPI)	**2.60 – 2.70**	2.10	2.20
Rate of increase in deferred pensions (RPI)	**3.40 – 3.50**	2.90	3.00
Inflation assumption (CPI)	**2.60 – 2.70**	2.10	2.20
Inflation assumption (RPI)	**3.40 – 3.50**	2.90	3.00
Discount rate	**4.60 – 4.80**	4.70	4.30

	At 30 June 2013 (unaudited) Years	At 30 June 2012 (unaudited) Years	At 31 December 2012 (audited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	**22.4 – 22.9**	21.0	21.0
Current pensioners at 65 – female	**24.7 – 25.8**	23.5	23.5
Future pensioners at 65 – male	**24.2 – 24.9**	22.5	22.5
Future pensioners at 65 – female	**26.7 – 27.7**	24.6	24.6

14. Financial Instruments

(i) Hierarchy of fair value
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: derived from unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2: derived from other observable market data for the assets or liabilities; and
Level 3: derived from valuation techniques using data that is not based on observable market data.

Based on the above, the derivative financial instruments held by the Group at 30 June 2013, are considered to fall into Level 2.

The Group held the following financial instruments which fall within the scope of IAS 39 Financial Instruments: Recognition and Measurement:

	Carrying amount (measurement basis)		**Comparison fair value**	Carrying amount (measurement basis)		Comparison fair value
	Amortised Cost	**Fair value hierarchy - Level 2**		Amortised Cost	Fair value hierarchy - Level 2	
	30 June 2013 (unaudited)	**30 June 2013 (unaudited)**	**30 June 2013 (unaudited)**	31 December 2012 (unaudited and restated)	31 December 2012 (unaudited and restated)	31 December 2012 (unaudited and restated)
	£m	**£m**	**£m**	£m	£m	£m
Loans and receivables:						
Trade receivables	**574.6**		**574.6**	560.3		560.3
Loan receivables	**1.5**		**1.5**	1.2		1.2
Derivative financial assets:						
Derivative financial instruments: non-current		**0.8**			0.1	
Derivative financial instruments: current		**6.7**			2.7	
Financial liabilities at amortised cost:						
Trade payables	**(183.7)**		**(183.7)**	(147.9)		(147.9)
Loans	**(882.7)**		**(869.7)**	(725.8)		(747.4)
Derivative financial liabilities:						
Derivative financial instruments: current		**(13.0)**			(13.8)	
Derivative financial instruments: non-current		**(18.7)**			(24.5)	

Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments.

14. Financial Instruments (continued)

(ii) Fair value of derivative financial instruments
The fair valuation of derivative financial instruments results in a net liability of £24.2m (2012: £35.5m), comprising non-current assets of £0.8m (2012: £0.1m), current assets of £6.7m (2012: £2.7m), current liabilities of £13.0m (2012: £13.8m) and non-current liabilities of £18.7m (2012: £24.5m).

	1 January 2013 (unaudited) £m	**Movement in fair value of cash flow hedges £m**	**Movement in fair value of non-designated hedges £m**	**30 June 2013 (unaudited) £m**
Currency swaps	**(0.6)**	**0.1**	**1.4**	**0.9**
Forward foreign exchange contracts	**(34.8)**	**4.8**	**5.0**	**(25.0)**
Interest rate swaps	**(0.1)**	**-**	**-**	**(0.1)**
Commodity futures contracts	**-**	**-**	**-**	**-**
	(35.5)	**4.9**	**6.4**	**(24.2)**

	1 January 2012 (unaudited and restated) £m	Movement in fair value of cash flow hedges £m	Movement in fair value of non-designated hedges £m	31 December 2012 (unaudited and restated) £m
Currency swaps	0.8	(0.9)	(0.5)	(0.6)
Forward foreign exchange contracts	(31.5)	(0.5)	(2.8)	(34.8)
Interest rate swaps	(0.6)	0.6	(0.1)	(0.1)
Commodity futures contracts	-	-	-	
	(31.3)	(0.8)	(3.4)	(35.5)

15. Restatement

IFRS 11 and IAS 19 Revised (IAS 19R) were adopted in 2013. IFRS 11 removes the option for proportional consolidation of joint ventures and requires equity accounting for joint ventures instead. IAS 19R principally requires the pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of asset return. These changes were applied retrospectively in accordance with IAS 8.

The impacts of these changes on the group's consolidated summarised income statement, consolidated summarised statement of comprehensive income, consolidated summarised balance sheet and consolidated summarised cash flow are shown below.

Six months ended 30 June 2012 (unaudited)		**Adjustments**		
	As disclosed £m	**IFRS 11 £m**	**IAS 19R* £m**	**Restated £m**
Revenue	**2,341.7**	**(436.2)**	**-**	**1,905.5**
Operating profit	**142.3**	**(7.5)**	**(1.3)**	**133.5**
Investment revenue	5.7	(1.3)	(1.7)	2.7
Finance costs	(27.5)	0.2	-	(27.3)
Profit before tax	**120.5**	**(8.6)**	**(3.0)**	**108.9**
Tax	(22.8)	8.6	0.5	(13.7)
Profit for the period	**97.7**	**-**	**(2.5)**	**95.2**
* IAS 19R adjustment after application of IFRS 11				
Earnings per share	**19.85p**	**-**	**(0.50p)**	**19.35p**
Other comprehensive income for the period	(57.0)	-	2.5	**(54.5)**
Total comprehensive income for the period	**40.7**	**-**	**-**	**40.7**

15. Restatement (continued)

Six months ended 30 June 2012 (unaudited)

	As disclosed £m	Adjustments: IFRS 11 £m	Adjustments: IAS 19R* £m	Restated £m
Balance sheet				
Non-current assets	1,971.0	(155.3)	-	1,815.7
Current assets	1,159.7	(170.7)	-	989.0
Total assets	**3,130.7**	**(326.0)**	**-**	**2,804.7**
Current liabilities	(972.8)	144.6	-	(828.2)
Non-current liabilities	(1,130.2)	181.4	-	(948.8)
Total liabilities	**(2,103.0)**	**326.0**	**-**	**(1,777.0)**
Net assets	**1,027.7**	**-**	**-**	**1,027.7**
Equity	**1,027.7**	**-**	**-**	**1,027.7**
Cash flow				
Net cash inflow from operating activities	51.3	(31.8)	-	19.5
Investing activities	25.0	33.4	-	58.4
Financing activities	(110.0)	0.8	-	(109.2)
Net decrease in cash and cash equivalents	**(33.7)**	**2.4**	**-**	**(31.3)**
Net exchange loss	(2.3)	0.1	-	(2.2)

Year ended 31 December 2012 (unaudited)

	As disclosed £m	Acquisition adjustments £m	Adjustments: IFRS 11 £m	Adjustments: IAS 19R* £m	Restated £m
Revenue	**4,913.0**	**-**	**(852.9)**	**-**	**4,060.1**
Operating profit	**287.6**	**-**	**(12.9)**	**(2.5)**	**272.2**
Exceptional other gain	51.1	-			51.1
Investment revenue	12.4	-	(2.7)	(3.3)	6.4
Finance costs	(49.1)	-	0.5	-	(48.6)
Profit before tax	**302.0**	**-**	**(15.1)**	**(5.8)**	**281.1**
Tax	(56.1)	-	15.1	0.9	(40.1)
Profit for the year	**245.9**	**-**	**-**	**(4.9)**	**241.0**

* IAS 19R adjustment after application of IFRS 11

	As disclosed £m	Acquisition adjustments £m	Adjustments: IFRS 11 £m	Adjustments: IAS 19R* £m	Restated £m
Earnings per share	**49.94p**	**-**	**-**	**(1.00p)**	**48.94p**
Other comprehensive income for the year	(84.5)	-	-	4.9	**(79.6)**
Total comprehensive income for the year	**161.4**	**-**	**-**	**-**	**161.4**
Balance sheet					
Non-current assets	2,103.4	(0.7)	(227.0)	-	1,875.7
Current assets	1,143.7	-	(142.4)	-	1,001.3
Total assets	**3,247.1**	**(0.7)**	**(369.4)**	**-**	**2,877.0**
Current liabilities	(997.8)	-	130.9	-	(866.9)
Non-current liabilities	(1,120.4)	0.7	238.5	-	(881.2)
Total liabilities	**(2,118.2)**	**0.7**	**369.4**	**-**	**(1,748.1)**
Net assets	**1,128.9**	**-**	**-**	**-**	**1,128.9**
Equity	**1,128.9**	**-**	**-**	**-**	**1,128.9**
Cash flow					
Net cash inflow from operating activities	303.4	-	(82.5)	-	220.9
Investing activities	(89.2)	-	85.2	-	(4.0)
Financing activities	(261.4)	-	1.6	-	(259.8)
Net decrease in cash and cash equivalents	**(47.2)**	**-**	**4.3**	**-**	**(42.9)**
Net exchange loss	(9.0)	-	0.1	-	(8.9)

15. Restatement (continued)

The effect of applying IFRS 11 on the 2012 results is to reduce statutory reported revenue by £852.9m for the year ended 31 December 2012 and by £436.2m for the six months ended 30 June 2012. Profit before tax is reduced by £15.1m for the year ended 31 December 2012 and by £8.6m for the six months ended 30 June 2012. There is no impact on post tax profits, earnings per share, or net assets from this change.

After accounting for IFRS 11, the additional effect when applying IAS 19R on the 2012 results is a reduction in profit before tax of £5.8m for the year ended 31 December 2012 and of £3.0m for the six months ended 30 June 2012. Profit after tax is reduced by £4.9m for the year ended 31 December 2012 and by £2.5m for the six months ended 30 June 2012. Earnings per share reduced by 1.00p to 48.94p for the year ended 31 December 2012 and by 0.50p to 19.35p for the six months ended 30 June 2012. There is no impact on net assets from these changes.

After a review of the provisional acquisition accounting for Vertex Public Services Limited and DMS Maritime PTY Limited, recognised in the 2012 accounts, the comparative information in relation to these acquisitions has been adjusted retrospectively. The effect is to decrease non-current assets by £0.7m and to decrease non-current liabilities by £0.7m.

16. Post balance sheet events and contingent liabilities

On 17 May 2013, the Ministry of Justice (MoJ) commissioned an independent audit of the billing arrangements under the electronic monitoring contracts held by both Serco and G4S. On 11 July 2013, a statement was made in the House of Commons that the initial findings from the audit had highlighted matters of potential concern in relation to billing arrangements by both companies. In response to these findings, Serco has agreed with the MoJ that a detailed independent investigation into this contract and a separate review of other MoJ contracts held by Serco should continue with Serco's full cooperation.

Separately, the Cabinet Office is undertaking a wider review across other UK central government contracts, which Serco will also be cooperating fully with and will also be supported by external advisers. The outcome of these reviews, together with any related financial consequences, will not be known until their conclusion.

On 28 August 2013, a further statement was issued saying that the MoJ, together with Serco, had jointly referred a matter relating to the misreporting of data on the Prisoner Escorting and Custodial Services (PECS) contract to the police. Serco have also agreed to a three month programme to restore performance on the PECS contract. In that time, if the performance requirements are met, then the contract will be retained. On the same date, Serco also agreed to repay profits earned on the contract since it was renewed in 2011. This amount is estimated to be approximately £2m which will be expensed in the second half of 2013. Serco have also agreed to forgo any future profits on the contract.