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Stock Exchange Announcement

29 August 2012

Good performance held back by challenging US conditions

Serco Group plc – 2012 half year results

6 months to 30 June	2012	2011	Change
Revenue	£2,341.7m	£2,245.8m	+4.3%
Adjusted operating profit (i.e. excludes exceptional items) before reorganisation costs	£139.6m	£133.8m	+4.3%
Adjusted operating profit (i.e. excludes exceptional items)	£123.9m	£133.8m	(7.4%)
Operating profit*	£142.3m	£122.0m	+16.6%
Adjusted profit before tax (i.e. excludes exceptional items) before reorganisation costs	£117.8m	£123.6m	(4.7%)
Adjusted profit before tax (i.e. excludes exceptional items)	£102.1m	£123.6m	(17.4%)
Profit before tax*	£120.5m	£111.8m	+7.8%
Adjusted earnings per share (i.e. excludes exceptional items) before reorganisation costs	17.94p	18.74p	(4.3%)
Adjusted earnings per share (i.e. excludes exceptional items)	15.52p	18.74p	(17.2%)
Earnings per share*	19.85p	16.74p	+18.6%
Dividend per share	2.65p	2.50p	+6.0%
Group free cash flow	£0.9m	£51.8m	(£50.9m)

* Includes £31m exceptional net profit on disposals of subsidiaries and operations; full definitions of adjusted measures are provided on page 2 and the income statement is presented on page 25

Excellent contract win performance
- £4.2bn of awards in the period (2011: £2.5bn); £3.7bn signed and £0.5bn appointed preferred bidder
- Increase in order book to £19.4bn as at 30 June 2012 (£17.9bn at 31 December 2011)
- 98% revenue visibility for 2012, 83% for 2013 and 71% for 2014

Challenging US market conditions largely offset by resilience of broad portfolio
- Conditions remain very difficult and uncertain for US federal outsourcing market
- Further excellent revenue growth in AMEAA and areas of improvement in the UK have provided balance
- Successful launch of Global Services BPO division; excellent underlying revenue growth in the period
- Of total Group revenue: 46% is now generated outside the UK (2011: 42%); 13% is Business Process Outsourcing (BPO) (2011: 10%)

Strong pipeline including newly identified prospects
- An estimated £31bn total value of opportunities reflects ongoing demand for efficient, high quality and innovative service provision
- New opportunities added across frontline services markets; strong increase in the AMEAA region; expected further opening up of certain UK public sector markets
- Strong growth prospects in the global BPO market with both private and public sector customers

Proactive portfolio management and organisational changes position the Group for the future
- Intelenet fully integrated within Global Services and delivering to plan
- Additional recent infill acquisitions such as Vertex UK public sector BPO operations bring further capabilities and market access
- Exits from non-core operations reflect focus on strategic fit, performance and returns
- Reorganisation successfully concluded: cost impact on first half profits to be recovered in the second half as expected

Remain confident in the overall outlook
- Forecasts reflect a balance of risks and opportunities across our markets
- 2012 expected to deliver another year of good organic revenue growth for the Group overall; first half decline of 2% to improve to a strong second half growth driven by previously announced contract wins
- 2012 Adjusted operating margin to increase by a similar amount to 2011, reflecting second half revenue growth and underlying efficiencies
- Action taken this year will position the Group well for future growth in revenue and profits

Christopher Hyman, Chief Executive of Serco Group plc, said: "I am pleased with the overall performance of the business over the last six months, particularly the quality and efficiency of the services delivered by our people. As we continue to build Serco's international portfolio, our newly established global Business Process Outsourcing division has already seen a high level of contract wins and many with private sector customers. Our business in Australasia and the Middle East continues to grow strongly and, while significant challenges in the US remain, we see conditions in the UK starting to improve. The recent level of new contract wins across the group will help us deliver the anticipated strong financial performance in the second half of the year."

Notes:

Adjusted operating profit and Adjusted profit before tax are before amortisation of intangibles arising on acquisitions, acquisition-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.

Adjusted earnings per share is calculated on the basis of earnings before amortisation of intangibles arising on acquisitions, acquisition-related costs and exceptional items (being profits or losses on disposals of subsidiaries and operations), together with the tax effect of these adjusting items.

Given the timing of implementation costs for the Group's reorganisation activity undertaken in the first half of the year, to aid comparability we have also provided underlying measures of financial performance. These are based on the above definitions but are also before the £15.7m of reorganisation costs.

Group 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.

Performance at constant currency has been calculated by translating non-Sterling revenue and earnings for the half year to 30 June 2012 into Sterling at the average exchange rates for the same period in 2011.

The order book is the value of future revenues based on all existing signed contracts. It excludes contracts at the preferred bidder stage and excludes the award of Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles where we are one of a number of companies able to bid for specific task orders within the IDIQ. New IDIQ awards enable us to compete for specific task orders issued under the IDIQ, with the value of the task orders 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.

For further information please contact Serco:

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Presentation

A presentation for investors and analysts will be held at Holborn Bars, 138-142 Holborn, London EC1N 2NQ at 9.30am today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Overview

The first half of 2012 has seen some very positive progress, particularly in terms of the substantial level of contract awards and the continued significant progress in ensuring that our business is positioned to deliver strongly for the future. Revenue and Adjusted operating profit before reorganisation costs both grew 4% to £2,342m and £139.6m respectively. After reorganisation costs and higher net financing costs, Adjusted profit before tax was reduced to £102.1m for the period. However, as previously indicated, our financial performance (including revenue growth, margin progression and free cash generation) will be weighted to the second half of the year when we expect a strong financial result.

After achieving an excellent level of contract awards totalling £4.2bn in the period, our order book has grown to £19.4bn. The pipeline of identified opportunities has been replenished to stand now at an estimated £31bn. Our proactive portfolio management has seen both acquisitions and disposals to appropriately position the Group strategically for the future, with the successful completion of the reorganisation activity also supporting this. Challenging US market conditions remain, although balance is provided from very strong revenue growth in AMEAA, areas of improvement in the UK, and the successful launch of our Global Services BPO division which achieved excellent underlying growth and has strong future prospects. The Group has therefore continued to demonstrate that our global reach and breadth of operations provides both access to future growth and resilience in times of varied market conditions. We remain, therefore, confident in the outlook for the full financial year and beyond.

Summary of financial result for the period

For the first half of 2012, reported Group revenues were £2,341.7m, representing total growth of 4.3%. Growth at constant currency was 4.2%. Organic revenues, excluding acquisitions and currency effects, declined by 2.1%, the impact of challenging US market conditions being largely offset by growth in other parts of our broad portfolio.

The period saw further very strong revenue growth in AMEAA - up 22% organically. Global Services, our newly created BPO division, achieved underlying growth of over 20% but this was outweighed by the effects of the transfer of the Bradford education contract and the government funding cuts to our previous work for the Regional Development Agencies, resulting in an organic revenue decline of 11%. Our UK & Europe frontline services division saw an organic revenue decline of 1% as the headwind from fewer contracts in the welfare to work market offset other improvements. Conditions that remain very difficult and uncertain for the US federal outsourcing market resulted in a 16% decline in organic revenues for the Americas division. Our divisional performance is described fully in the Operating Review.

Adjusted operating profit, before reorganisation costs of £15.7m, increased by 4.3% to £139.6m, representing an operating margin maintained at 6.0%. Net finance costs were £11.6m higher, principally reflecting the incremental cost of funding the acquisitions made in 2011. Adjusted profit before tax, before reorganisation costs, declined by 4.7% to £117.8m, and Adjusted earnings per share before reorganisation costs declined by 4.3% to 17.94p. The financial performance for the period was further reduced by the reorganisation costs, but the successful completion of this programme will result in the delivery of savings in the second half, leading to a broadly neutral impact for the full year. Following successful portfolio management activity, there was a £31.0m net exceptional profit on disposals of subsidiaries and operations in the period, leading to growth in unadjusted financial performance when the impact of these one-off exceptional gains is included.

Group free cash flow was £0.9m compared with £51.8m in 2011. Cash reorganisation costs were approximately £12m in the period. The remainder of the reduction was driven principally by a greater working capital outflow. Around £30m reflected the timing of a small number of customer payments around the half-year balance sheet date that have now subsequently been received, as well as the timing of transition and mobilisation stages on new contract awards. There is also an approximate £10m effect from the typically higher level of working capital investment required for BPO-related contracts.

Our policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. Accordingly, the Board has declared an interim dividend of 2.65p per share, representing an increase of 6% on the 2011 dividend. The interim dividend will be paid on 19 October 2012 to shareholders on the register on 7 September 2012.

Our earnings, cash flow, financing and related matters are described fully in the Finance Review.

Excellent contract win performance

In the first half of 2012, across our wide portfolio of markets and geographies, we signed contracts valued at £3.7bn and were appointed preferred bidder for a further £0.5bn. The total £4.2bn of awards compares with £2.5bn in the equivalent period in 2011. Our wins included smaller and medium-sized awards which are fundamental to our growth, as well as significant rebids, extensions, expansions and new contracts. As a result of the substantial level of awards, our order book grew to £19.4bn at 30 June 2012 (£17.9bn at 31 December 2011).

The period's notable contract awards, along with approximate total value and contract length where appropriate, included:

- Ferry services to the Northern Isles in Scotland (£350m over six years);
- UK asylum applicant support services (£175m over five years);
- NHS Suffolk community health services (£140m over three years);
- Integrated facilities management for East Kent NHS Foundation Trust (£140m over ten years);
- Next pricing period signed for Atomic Weapons Establishment (AWE) management and operation (£1.5bn over five years);
- Pre-deployment training and support for the British Army (£55m over three years);
- Leadership for corporate services (DBS) for the UK Ministry of Defence (£36m over four years);
- Procurement services for Defence Science & Technology Laboratory (Dstl) (£90m over nine years);
- US Army base closure support in Afghanistan (US$57m over three years);

- US IDIQ task orders - across areas including IT services & solutions, human capital management and logistics & programme management - totalling over US$40m
- Wiri Prison operating contract in New Zealand (majority of maximum NZ$900m total price over 25 years);
- Young Adults Facility in Western Australia (A$50m over five years);
- Major BPO contract with leading UK retailer Shop Direct Group (£430m over ten years);
- Anglia Support Partnership shared services operation for UK health sector (£120m over four years);
- Customer support services for large Indian financial services organisation (£31m over three years);
- Loyalty programme support for global online travel company (US$34m over three 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.

Visibility of future earnings remains high due to the signed contracts that make up our order book, contracts that we expect to extend and rebid, and contracts at the preferred bidder stage which we expect to sign. At 30 June 2012, revenue visibility was 98% for 2012, 83% for 2013 and 71% for 2014.

Challenging US market conditions largely offset by resilience of broad portfolio

A key element of the Group's strategy is to build a balanced portfolio, aiming to reduce risk and increase opportunities across markets. This reduces our exposure to market fluctuations, enables us to select the best opportunities whichever market they are in, and allows us to transfer expertise from one market to another.

In the US federal outsourcing market conditions remain very difficult, significantly impacting the performance of our Americas division. However, offset has been provided by further very strong revenue growth in the AMEAA region and areas of improvement in the UK.

In addition, the launch of our Global Services BPO division has been a key part of positioning Serco to access attractive markets. In the period, the underlying revenue growth in our BPO-related operations was excellent, and the division achieved awards totalling over £800m. Research by NelsonHall, the leading analyst and advisory firm for the BPO industry, ranks Serco's level of contract awards in 2012 to date as top amongst global BPO providers.

The breadth of our portfolio is such that 46% of total Group revenue is now generated outside the UK, an increase from 42%. Our BPO operations now account for 13% of Group revenue, up from 10%, and BPO is expected to increase significantly further as a proportion of the Group's revenue mix.

Strong pipeline including newly identified prospects

A significant level of opportunities was successfully converted to awards in the period. Newly identified prospects across our portfolio have increased the pipeline to an estimated total value of £31bn. The increase reflects the ongoing demand for efficient, high quality and innovative service provision from public and private sector customers around the world.

There is a strong pipeline increase in AMEAA, with new opportunities including those in the growing health markets in the region, and in the justice sector. There remain substantial prospects in defence support, transportation markets and integrated facilities management services.

In the UK, markets continue to show stabilisation and increasing signs of improvement. There are further indications of new markets opening up, supported by the agenda for public service reform. New opportunities include those driven by the growth in commissioning of health services, defence organisation strategic partnerships and competition being introduced to numerous areas of the home affairs market. Near-term opportunities include the outcome of the current round of prison bids.

There are strong growth prospects in the global BPO market. New opportunities added in the period include further strategic partnerships with local authorities to transform their services, with prospects for future central government shared service centres also continuing to develop. In the private sector, further prospects are being pursued following significant recent wins across a number of vertical markets including life and pensions, retail, travel and utilities.

Proactive portfolio management and organisational changes position the Group for the future

In 2011 Serco added significant global capability in the fast growing, higher margin BPO market. The Intelenet acquisition was strategically important for Serco's development in this area, as were other smaller infill acquisitions such as The Listening Company in the UK and Excelior in Australia, with these adding specific customer contact capabilities and geographic reach. Intelenet is now fully integrated as part of Serco Global Services and is delivering to plan as set out at the time of the acquisition.

In June 2012 Serco acquired Vertex's UK public sector BPO operations, bringing additional expertise and strategic partnerships to support expansion into new areas of middle and back office support and at the same time increase Serco's operational scale. This will help develop future opportunities in both the local government and central government markets, with Vertex bringing significant customer referenceability and specific skills in HR and payroll, revenues and benefits, complex case management and administration services. While remaining primarily focused on organic growth, Serco will continue to look at potential acquisitions that bring new skills, capabilities and market access.

Our proactive portfolio management also involves ongoing assessment of our existing operations for their strategic fit, together with their expected future levels of performance and returns. As part of this, Serco made two disposals that were non-core to the future development of the Group. These were our Technical Services business which provided consulting and project solutions to the UK civil and nuclear defence markets, and secondly the majority of our mainly defence-related operations in Germany. We will continue to serve the defence and science sectors, focusing on our long-term contract model that looks to develop the best opportunities and a balanced portfolio.

The successful conclusion in the period of the Group's reorganisation has also enhanced the Group's position. This has created the new BPO division, our first global business, bringing together all of Serco's middle and back office skills and capabilities. This is improving the services we provide to customers and enabling better targeting of opportunities around the world in both the private and public sector. The reorganisation has also created a single UK & Europe division. This is supporting the delivery of better customer relationship management and service development, as well as increased internal efficiencies. Since 1 July 2012, the Global Services division has been operating a wider-reaching shared service centre for the Group itself. These organisational changes, which have led to headcount reductions in management and our own back office support functions, have resulted in costs of £15.7m in the first half of the year which will deliver equivalent savings in the second half of the year.

Remain confident in the overall outlook

Our forecasts reflect a balance of risks and opportunities. Whilst we expect challenging conditions to remain in the US, we anticipate further improvement in UK markets and strong performances from our AMEAA and Global Services BPO operations.

For 2012, we continue to expect to deliver another year of strong total revenue growth, including further good organic growth. The organic revenue decline of 2% in the first half of the year is anticipated to improve to strong growth in the second half, reflecting the excellent performance over recent months in securing new contract awards that will now flow through to revenues. Our expectations are also unchanged for an increase in our full-year operating margin similar to that achieved in 2011, reflecting the pick-up in second half revenue growth and the delivery of underlying efficiencies.

We remain confident in the overall outlook for Serco, the continued delivery of our strategic plan and further improving our financial performance.

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 outlines 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 at 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.

Revenue declined by 1% to £1,266m (2011: £1,284m), and represented 54% of Group revenue. Revenue on an organic basis also declined by 1%. Adjusted operating profit, before reorganisation costs and corporate expenses, increased by 7% to £86.3m (2011: £80.8m), with the margin increasing to 6.8% (2011: 6.3%). After reorganisation costs, Adjusted operating profit reduced to £78.9m.

Underlying revenues were marginally ahead excluding the impact of Serco now operating fewer contracts in the welfare to work market. The ongoing government austerity programme places pressure on discretionary spend with Serco, but this has been offset by the start of new contracts with these continuing to signal an improving outlook. The margin improvement largely reflects lower bid costs year-on-year and the delivery of operational efficiencies.

The creation of a single UK & Europe division has involved significant organisational change during the period both to increase our own efficiency and crucially also to support the delivery of better services for our customers. We are now in a stronger position to target future growth, including where customers are looking for more end-to-end services that combine frontline capability with middle and back office operations. In such instances, the UK & Europe division as the relationship lead will draw upon the skills and capabilities of the new Global Services division to deliver fully integrated services.

Home Affairs

Our operations across the Home Affairs market account for approximately 19% of UK & Europe revenues.

HMP Thameside, the new prison at Belmarsh West in London, became operational on 30 March 2012. The contract has a value to Serco of approximately £415m over 26½ years. This local Category B establishment has an operational capacity of 900 convicted and remand male prisoners, and is one of the most technologically advanced prisons in the world. It has, for example, advanced CCTV digital recording and monitoring, the latest drug and contrabands intervention equipment, biometric key vending for staff, and in-cell IT for prisoner education and administration.

Meanwhile the Payment by Results pilot underway at HMP & YOI Doncaster is beginning to show that it has real potential to reduce re-offending. Typical of the many innovative interventions in place are the Families First Programme, which supports prisoners' relationships with their partners and children, and Second Shot Productions, which teaches technical and creative skills in filming and graphic design. Both of these programmes recently won prestigious Butler Trust Awards.

In the welfare to work market, our Work Programme performance continues to be market-leading based on the quarterly performance data released to date by the Department for Work and Pensions. Based on the number of referrals and attachments, our two contracts are ranked top out of all 40, thereby continuing to rank Serco the top provider out of all 18.

Health

Our operations across Health account for approximately 8% of UK & Europe revenues.

Amongst our clinical capabilities, Serco's Cornwall and Isles of Scilly GP out-of-hours contract was recently found to be and reported as one of the best performing such contracts in the UK by The Primary Care Foundation, as part of its National Benchmarking Exercise. This was further supported by a survey carried out by Ipsos-Mori on behalf of the Department of Health. Since the out-of-hours service started, Serco has not scored less than 95% in the monthly patient satisfaction survey and over 86% of patients rate the service either excellent or good. The contract has also implemented actions to ensure that all areas identified by the recent Care Quality Commission report are fully compliant.

The transformation continues of Braintree Community Hospital after its takeover by Serco last year. Clinical services are high quality, readily accessible and built around consultant-led care, and the hospital has now established itself as a vital part of the NHS in mid Essex.

Our GSTS pathology joint venture is focused on delivering necessary efficiency improvements in 2012. Its management team has been further strengthened with the appointment of an independent Chairman, with this new role integral in helping GSTS take forward its strategy for modernising NHS pathology and implement its plans to deliver sustainable growth of the business.

Serco's track record and the strength of our overall health business have led to substantial developments during the period that are discussed later in more detail. These include a shared service centre for the NHS in the East of England; clinical services in community healthcare for NHS Suffolk; and non-clinical integrated facilities management for the East Kent Hospitals University NHS Foundation Trust.

Transport & Local Direct Services

Our operations across Transport and Local Direct Services account for approximately 35% of UK & Europe revenues.

Our London transport contracts - comprising the Docklands Light Railway (DLR), the Barclays Cycle Hire scheme and traffic management operations - have all achieved excellent operational performance during the period. Serco continues to support growth in regular journeys as well as annual events such as the London marathon, and successfully executed the significant additional workload involved in the Diamond Jubilee and the 2012 Olympic Games. The DLR in particular was a key part of the London 2012 Games transport network, with the Stratford International Extension opened last summer adding four new stations and connecting five Games venues. According to Transport for London and the Olympic Delivery Authority, during the period of the Olympic Games, over six million journeys were made on the DLR - up by over 100 per cent on normal levels. On the busiest day, the DLR carried a record-breaking 500,000 people. Also impressive was the fact that in July, Barclay's Cycle Hire rentals exceeded a million for the first time in any month.

Our other UK rail franchises in Northern Rail and Merseyrail are also supporting growth in passenger numbers and continued strong operational metrics. At Northern Rail, our performance has led to a further extension of the contract through to 1 April 2014, with the full rebid process therefore to begin next year.

In direct services for local authorities, a number of contracts became operational during the period. In April 2012, Serco began providing refuse and recycling services for 127,000 households in the London Borough of Wandsworth, helping the council to meet Government recycling targets and reduce costs such as landfill taxes. The contract is valued at £44m over eight years. Serco also has two new contracts with Mansfield District Council and Shropshire Council to provide a comprehensive and high quality range of health, leisure, fitness, wellbeing and community-focused services.

Defence & Science

Our operations across Defence and Science account for approximately 38% of UK & Europe revenues.

Our management and operation of the Atomic Weapons Establishment (AWE), as part of a joint venture with Lockheed Martin and Jacobs Engineering, has been achieving excellent results. The contract is delivering value for money for the Ministry of Defence (MoD) whilst achieving excellent performance in the quality and timeliness of our programme delivery. In recognition of this, arrangements for the next pricing period through to 31 March 2018 were successfully concluded.

During the period the Conventional Forensics Analysis Capability (CFAC) state-of-the-art laboratory was opened, where AWE is pooling its resources and expertise to support forensic specialists from the police, forensic science service providers and other organisations. At the National Physical Laboratory (NPL), which is also managed and operated by Serco, the Centre for Carbon Measurement was launched, ensuring the UK is a leading force in climate modelling, global carbon markets and green technology. Business and government have welcomed the project, highlighting its potential to reduce emissions and stimulate the economy.

In April 2012 Serco began operating a new contract for the MoD to provide training and support to the British Army prior to deployment on operations overseas. Known as the Contemporary Operating Environment Force (COEFOR), and awarded by the British Army's Headquarters, critical pre-deployment training includes language, culture and operational environment skills, and the creation of realistic training conditions to prepare UK military forces for operations in Afghanistan and other theatres around the world. The contract runs to December 2014 including an option year and has a total value of approximately £55m. A new Multi-Activity Contract (MAC) for RAF Valley, supporting their crucial role in training fast jet pilots for both the RAF and the Royal Navy, also became operational in the period.

Also starting in April 2012 was Serco's contract to provide an executive leadership team for Defence Business Services (DBS). DBS provides corporate services for the MoD such as civilian human resources, finance, information and security vetting. Serco will work with DBS staff to transform the organisation into a lean and effective shared services centre, building on private sector best practice. The contract is valued at around £36m over its initial four-year duration.

Serco has begun overseeing and delivering the Defence Science & Technology Laboratory's (Dstl) Helios programme, which will see the relocation of all of Dstl's activities from Fort Halstead to Porton Down and Portsdown West. The programme will help to support Dstl's future strategic goals, protect their capabilities and provide additional cost benefits, building on an already strong Total Facilities Management (TFM) partnership between Serco and Dstl.

UK & Europe – growth opportunities

The UK, accounting for the vast majority of the division's operations, shows signs of increasing activity and good growth potential. Competitive outsourcing supports the government's aim of achieving savings while improving services and social outcomes. The reform of public services provision will be an ongoing process, but the Cabinet Office and spending departments appear increasingly focussed on picking up the pace of bringing opportunities to market. The recent restructuring into a single division places Serco in a better position for future growth opportunities across the wider public sector, and we continue to strengthen our brand and account relationships at all levels, including central government, the devolved administrations in Scotland and London, in local government and in public service frontline organisations such as the police and NHS.

Home Affairs

After the initial market testing in 2011 of opening up to competition existing public sector prisons, Serco is currently bidding to add further prisons to the six we currently run in England and Scotland. A successful outcome would add additional revenues in 2013, with further public sector prisons likely to come to market; in England and Wales, there are currently 133 prisons with the private sector operating 14 of these. The programme forms part of the Ministry of Justice's 'Competition Strategy for Offender Services' set out in 2011.

In non-custodial sentencing, the Ministry of Justice has consulted on opening up to competition an approximate £600m per year market for probation services not directly provided by Probation Trusts. Community Payback schemes are a part of this, and Serco has successfully bid for London as the first region put to market. The contract, in partnership with the London Probation Trust, is due to start later this year and has an estimated total value to Serco of £38m over four years. The growing use of court fines is also expected to generate opportunities for our collection services business, as well as a larger opportunity for the overarching management of compliance and enforcement that would draw upon skills and capabilities from within the Global Services division. Serco is currently in the process of rebidding its electronic monitoring contracts in England and Wales, with the current arrangements coming to an end on 31 March 2013.

Serco will begin later this year the operation of its contract with the UK Border Agency (UKBA) to deliver the COMPASS project, providing accommodation, associated services and transport for asylum applicants in two regions of the UK; the five-year contract has an estimated total value of approximately £175m.

Serco was awarded places on the Health and Disability Assessment Services Framework for two Lots – UK National and Northern Ireland. We look forward to working with the Department for Work and Pensions, the Department for Social Development in Northern Ireland and other authorities in providing services which combine the highest standards of professionalism and fairness at the point of delivery with good value for the taxpayer. Serco is also shortlisted for the West Midlands police operational support framework agreement. This and similar opportunities are expected to see Serco well-placed to partner in the delivery of services considered non-core to frontline policing.

Health

The UK health market is being driven by the impact of fiscal pressure and the proposed structural reforms which require increased introduction of competitive forces.

In clinical services, we are developing opportunities to operate both hospital and community-based services. Since the period end Serco has now signed and is due to begin operating from October community health services in Suffolk. This three-year, £140m contract provides a wide range of services including community nursing, specialist nursing, management and operation of community hospitals, speech and language therapy, specialist children's services and community equipment services. The Department of Health currently spends £12bn per annum on community services, with this anticipated to grow, and the Department's national 'Transforming Community Services' guidance stipulates that all primary care trusts will no longer directly provide community services and will instead commission them.

There is a growing market for enabling services – both in the UK and elsewhere around the world – that combine facilities management, support services and patient administration to improve service quality and productivity. From July 2012, Serco has been providing integrated facilities management (FM) services to the East Kent Hospitals University NHS Foundation Trust, delivering services to three acute hospitals, two community hospitals and several small clinics in the area. The contract has a total value of approximately £140m over a maximum ten-year period. Further similar opportunities are being pursued.

Transport and Local Direct Services

Serco has begun operating lifeline freight and passenger ferry services to the Northern Isles in Scotland, building on our experience of managing and transforming critical local transport services such as Northern Rail, Scatsta Airport on the Shetland Islands and London's Woolwich Ferry. This six-year contract has a total value of approximately £350m, and contributes to revenue growth from the beginning of the second half of the current financial year. Our excellent credentials in transportation systems will support selecting future growth opportunities in the UK and elsewhere around the world. Our current contract for the DLR runs to 31 March 2013, with the potential for an extension for a further two years.

In local government frontline services, growth in environmental services and other areas of integrated facilities management such as leisure services may emerge. For example, Serco has recently won a new eight-year, £20m contract for waste and recycling services for Derbyshire Dales District Council which will begin in the coming months. Reductions in funding and increased service demands from citizens are also driving more interest in strategic partnering, service sharing and personalisation of services.

Defence & Science

The defence market is expected to develop further opportunities for support in areas such as infrastructure management, business process and whole enterprise outsourcing, and technical and engineering services. Serco will also seek similar opportunities in the science market and emerging markets for energy management.

Developing from Serco's operation of Defence Business Services and supported by the skills and capabilities of the Global Services division, we will be pursuing opportunities for strategic partnerships such as the Defence Infrastructure Organisation (DIO). The DIO is responsible for managing and maintaining land and property for the MoD in the UK and abroad, with the potential for further efficiencies to be achieved across its operations.

We are committed to managing and operating critical assets and research establishments, with the ongoing potential to add new responsibilities and expand existing customer relationships. Signing the next five-year pricing period for the Atomic Weapons Establishment will see Serco's share of revenue expected to remain around £300m a year, although under the agreed incentivisation arrangements the earnings and margin rate in the initial years will be similar to those achieved in the initial years of the current pricing period. We are currently also pursuing an extension to our contract for the National Physical Laboratory, and continue to review other whole enterprise outsourcing opportunities of Public Sector Research Establishments (PSREs).

Within the scope of the original Dstl contract, options can be exercised for additional Target Services. Last year Serco successfully began providing a new managed service for Calibration, Maintenance, Servicing and Repair (CSMR) of equipment critical to the delivery of science services. This enhanced the close working relationship between Serco and Dstl and has led to Serco now being awarded a further Target Service, which is to provide an end-to-end procurement service for laboratory assets across Dstl's three core sites, with a potential value of approximately £90m over the remaining nine years of the contract.

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.

Revenue on a constant currency as well as on an organic basis declined by 16%. Revenue on a reported currency basis, given the marginal strengthening of the US dollar, fell by 15% to £381m (2011: £446m) and represented 16% of Group revenue. Adjusted operating profit, before corporate expenses, reduced by 20% on a reported currency basis to £29.6m (2011: £37.0m), with the margin decreasing to 7.8% (2011: 8.3%).

The US federal contracting market has remained very difficult. Our decline in revenues, against a relatively robust performance in the comparative period, reflects the challenges that have faced the US Government's 2012 annual federal budgeting process, with a series of continuing resolutions again being necessary due to political difficulties in reaching agreement on funding. Both the Department of Defense and civilian agencies face the threat of future cuts, potentially on an automatic basis from the start of 2013 via a mechanism known as 'sequestration'. These factors have continued to severely disrupt the industry, with government agencies further postponing contract award announcements, delaying work under existing contracts and cancelling or reducing the scope of many contracts and task orders. Further pressures have included an increase in 'small business set asides' in our served markets that restrict our ability to be prime contractor in some cases, and the federal government shifting to awarding primarily on a methodology of "Lowest Price Technically Acceptable" rather than "Best Value".

Significant cost reduction was undertaken in 2011, allowing margins to be held at the time. Whilst cost actions have continued, the challenging market conditions have now led inevitably to some margin pressure, and are likely to continue to do so while the very difficult and uncertain environment persists.

Whilst revenues have reduced due to the delays, cancellations and scope reductions brought about by the market conditions, new task orders, contract awards and rebids do continue to be secured in numerous areas that are less affected by the general budgetary challenges.

Serco provides logistics expertise to the US Army under the Logistics Civil Augmentation Program (LOGCAP), where we provide programme management, cost analysis, logistics planning and administrative services around the world in support of the United States and allied forces during operations. Additional task orders awarded in the first half of the year are valued in total at US$12m.

Also for the US Army, we have been awarded a new contract for a full range of technical support services to assist in forecasts that reflect the changes in the political and military climate. The contract has a total value of US$9m over a maximum five years. Under an IDIQ vehicle with the US Navy, Serco has also been awarded a US$11m task order for similar work to provide forecasting models to support Navy personnel readiness. Under the same IDIQ a further US$4m task order has been awarded to provide counsellors in support of wounded Sailors and Coast Guardsmen.

Serco successfully rebid its contract to support undersea surveillance for the US Navy, where we provide programme management, policy development, procurement, technical research, configuration management outfitting and warehousing. The contract has a total value of US$19m over a maximum five years.

Serco has won new work supporting the US Air Force. We are part of the CACI team awarded an IT Service Provider contract for the NexGen enterprise transformation program that was established to provide the Air Force with accurate, real-time data necessary to make strategic decisions and better manage their resources. Serco will assist with the deployment of the integrated workplace management system to 170 Air Force bases around the world. For the US Air Force Materiel Command, Serco has also been awarded an additional task order valued at US$11m to provide analytical, technical, and program office support.

Serco provides a range of mission-critical engineering and IT services to the Department of Defence under the C4I2TSR contract vehicles (Command, Control, Communications, Computers, Intelligence, Technology, Surveillance, and Reconnaissance). These services include engineering, systems integration, hardware procurement, software development, technical support, installation testing operations and maintenance. Additional task orders awarded in the first half of year are valued in total at US$20m. Serco provides equivalent services to US Navy's Space and Naval Warfare Systems Command (SPAWAR) with further task orders under the Sea Enterprise IDIQ being won. During the period Serco was also officially granted ISO/IEC 20000 certification which measures our approach and capability in delivering world-class IT managed services.

Americas – growth opportunities

The federal contracting market is likely to face continued attrition due to the ongoing uncertainty regarding budgets, the upcoming Presidential election and the challenges facing Congress in dealing with the growing national debt. There remains the threat of sequestration, as included in last summer's debt ceiling deal, which is due to take effect from 2 January 2013 unless some form of agreement is reached by the government on tax and spending issues. In the meantime, more Continuing Resolutions are likely, which often limit commitments to new programs. As a result, we expect the outlook for spending on government services to remain unclear into 2013. Deltek, an industry studies forecasting group, expects that the budget addressable by government contractors could decline by 10% in fiscal 2013 and would not bottom out until fiscal 2014 at the earliest.

As is normal for our Americas division, there is a higher frequency of rebids than is typical for our operations elsewhere around the world. The development of our business will also be shaped by the successful outcome of rebids within a challenging market environment. Significant rebids due before the end of 2013 include contracts with the Federal Retirement Thrift Investment Board, Ontario Driver Examination Services, San Francisco parking services, the National Visa Center, the Department of Veteran Affairs and a major intelligence agency programme.

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 & Program Management; Communication & Information Systems; National Intelligence; Human Capital Management; Business Process Outsourcing; and Transportation & Asset Management. US government agencies are increasingly using multi-award contract vehicles to issue task orders on a rapid-cycle, competitive basis. Continuing to qualify for and win business under such IDIQ contract vehicles will be a key contributor to Serco's growth.

In the area of mission critical logistical support services, Serco has started in recent weeks a new contract valued in total at US$57m over a maximum three years. This supports the United States Forces Afghanistan (USFOR-A) base closure and transition initiative through the coordination of logistics and deconstruction of bases throughout Afghanistan. Similar to the services we provided in Iraq, Serco's Base Closure Assistance Teams (BCATs) are assisting military units with the key aspects of redeployment.

In IT services and solutions, Serco is one of 54 awardees on a government-wide acquisition contract (GWAC) with a ceiling value of US$20bn over a ten-year period. Serco will bid on a range of task orders for all federal civilian and Department of Defense (DoD) agencies that require services and solutions including biomedical IT systems, cloud computing, cybersecurity, mobility, telecommunications, and data center consolidation. Serco is also one of eight awards on a new Multiple Award Contract (MAC) framework supporting SPAWAR Systems Center (SSC) Atlantic with integrated Command and Control (C2) engineering and technical support services for command centers. This MAC has a potential ceiling value of US$145m over a maximum three years.

Serco was recently awarded a new contract beginning in the second half of the financial year to provide equipment and system upgrades to C4ISR equipment on Department of Defense Mine Resistant Ambush Protected (MRAP) vehicles. Serco will deploy teams to Afghanistan, Kuwait, and Qatar to analyse, install and test the systems on-site. The fifteen-month contract valued at US$73m has a nine-month base period and a six-month option period.

Serco was also recently awarded an expansion of work on its Army Career Alumni Program (ACAP) contract to provide career transition services to all Soldiers in the US Army. Previously covering only active Soldiers, the services will now also cover Army Guard and Army Reserves. Serco expects to hire approximately 250 additional employees at locations around the world to enable the delivery of these enhanced services. The contract expansion is valued at US$38m over the two remaining option years. Serco will continue to pursue task orders under our HRsolutions IDIQs which help to streamline the acquisition of human resource services for the US Army.

Serco has been awarded a place on the new Consultant, Advisory, and Technical Services (CATS) contract vehicle that will provide support services to the US Air Force Medical Service (AFMS) at 69 Air Force Medical Treatment Facilities in the United States and its territories. Serco is among 13 awardees on the IDIQ contract, which is valued at US$985m over a five-year ordering period. Serco will compete for task orders for Advisory & Assistance Services (A&AS) that will help reduce critical workload demands being placed on the Air Force

Medical Service. Services will include support in the areas of healthcare administration, executive assistance, financial analysis, business process consulting, policy analysis, engineering and technical services.

Serco Americas pipeline includes numerous further areas of longer term opportunity. For our Navy customers, we expect growth through modernisation work to extend the service life of the existing fleet. The Department of Defense is expected to increase its focus on areas such as Intelligence, Surveillance and Reconnaissance (ISR), unmanned flight, space and cybersecurity. Human capital management and transformation programmes are widening in scope to support future changes to the size and shape of the armed forces. BPO opportunities with federal and other customers will be pursued to deliver enhanced service and more cost-effective solutions. We plan to leverage our strong capabilities in economic cost analysis and programme management to support the Department of Defense's drive for cost savings. The transportation market is expected to provide opportunities for our air traffic control, traffic management systems and other transport infrastructure and operational management skills and capabilities. We will also continue to review markets in both North America and South America for potential to transfer more of Serco's skills and capabilities.

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.

Revenue on a reported currency basis grew 32% to £400m (2011: £302m), and represented 17% of Group revenue, up from 13% in 2011. Revenue on a constant currency basis grew by 29%. Excluding the contribution from acquisitions, revenue on an organic basis grew by 22%. Adjusted operating profit, before corporate expenses, reduced by 4% on a reported currency basis to £26.7m (2011: £27.9m), with the margin decreasing to 6.7% (2011: 9.2%).

The very strong organic growth reflects revenue from new contracts that were not in operation in the comparable period of 2011, as well as the expansion of existing contracts, particularly a considerable increase in the amount of work done for the Australian Department of Immigration and Citizenship (DIAC).

The reduction in margin principally reflects the continued return to a more normal level of margin on the DIAC contract, together with increased investment in management infrastructure and capability to develop the significant new growth opportunities in the region.

In Immigration Services in Australia, the pace of irregular maritime arrivals has not slowed throughout the first half of 2012, with arrivals continuing at record levels. While we managed the arrival of 4,892 people into immigration detention, a large number were placed on bridging visas or in community detention. We successfully managed the opening of new detention centres in the Northern Territory and Western Australia, and since the half year, the numbers of people in our care have increased; however, the number is still likely to fluctuate and future levels will also reflect prevailing government policy and the speed of visa processing. While it is not clear at this very early stage how the Australian Government's new off-shore processing legislation will impact our current operations, we are working very closely with DIAC and exploring a range of options. Serco continues to have a strong relationship with the customer, with both parties working to maintain a safe and stable network of centres, responding with humanity and respect in the operation of this sensitive contract.

A number of other contract awards in Australia generated incremental revenue versus the comparable period. Serco began operating on 31 July 2011 Court Security and Custodial Services (CSCS) for the Western Australian Department of Corrective Services. The contract has a value to Serco of around A$210m (approximately £140m) over five years (with potential to extend to 15 years in total), and has already achieved over 35,000 client movements. A new contract valued at A$50m over five years (with potential to extend to 15 years in total) for a new Young Adults Facility in Western Australia was signed in March 2012. Serco has also expanded its contracts compared with the same period last year at Acacia Prison in Western Australia and for the new South Queensland Correctional Centre (SQCC) which replaced the previous facility at Borallon.

Our involvement has been growing in the pre-operational phase of the new-build Fiona Stanley Hospital near Perth. Plans are on track for the opening in 2014, at which point Serco's full facilities management and support services contract to ensure the smooth running of the whole hospital will begin. Elsewhere in our transport operations, Great Southern Rail has continued to hold revenue broadly stable in adverse conditions for the Australian tourism market, but additional operating investment has been required in part to achieve this. In defence, DMS Maritime (our 50:50 joint venture with P&O Maritime Services) which provides harbour and offshore services to the Royal Australian Navy has continued to show good organic growth.

In New Zealand, Serco's operation of the Mount Eden Corrections facility in Auckland completed its transition in August 2011. This new contract is valued at NZ$300m over the full ten years.

In the Middle East, Serco began operating logistics and base support for the Australian Defence Force (ADF) in September 2011. This provides healthcare, maintenance, ground re-fuelling, accommodation and catering services in an initial two-year contract valued at A$50m. Service on the Dubai Metro has continued to see world class operational standards, with 99.9% of all trains on time. It has also added additional engineering and maintenance responsibilities required to support network expansion. Our integrated facilities management operations in the region have also delivered growth.

AMEAA – growth opportunities

The AMEAA region has experienced the fastest growth of our portfolio for a number of years and we continue to see good opportunities for further strong growth. Our existing operations in Australasia, the Middle East and India each present prospects. In addition, there is further growth potential from expanding into other regions as emerging market governments take steps to adopt international best practice in procurement processes to support their social infrastructure improvement programmes.

In the justice sector we see further opportunities in the operation of new-build and existing prisons as governments deal with capacity and efficiency challenges. For example, Serco's consortium has been selected by the New Zealand Government as preferred bidder for the new Wiri prison in Auckland. The value of Serco's 25-year operating contract remains to be confirmed, but forms the majority of the maximum potential price of NZ$900m which also includes design and construction. Our defence business in Australia has a strong base from which to expand services, including garrison and maritime support, engineering and maintenance.

In the emerging and rapidly growing health markets in the region, governments are increasingly looking to involve private sector provision. Across the region Serco will be pursuing potential opportunities for the operation of hospitals and related services, building on the strength of our UK operations and the recent Fiona Stanley Hospital win in Australia. Serco was also awarded a new support services contract for the Prince of Wales Hospital, one of the busiest in Hong Kong with over 1,000 beds and complex facilities. This contract for non-clinical facilities management has a total value of approximately HK$90m over two years.

In transport, Serco is seeking to leverage its international expertise particularly in urban transportation. Numerous bidding opportunities are expected to support metro systems in India and other locations, as well as in traffic management systems and other rail and road transportation operation and maintenance contracts. Serco is a global leader in air navigation, and sees opportunities to expand services both within the region and into new geographies such as North Africa. In July, Serco expanded its services to Erbil International Airport in Iraqi Kurdistan, in an initial contract valued at approximately £7m a year. Serco is awaiting a decision on its bid for operations for the Abu Dhabi Airport Company, which would increase the scope of our current operations.

Serco's operations of integrated facilities management contracts in the commercial and other sectors are expected to grow, particularly given ongoing completion of major construction projects in the UAE. Last year's acquisition of a small regional specialist in the region is delivering strong results, and we also expect to capitalise on Serco's new business development presence in the Kingdom of Saudi Arabia.

The AMEAA division will also be supported by the Global Services division in joint growth opportunities for its customers. For example, relationships, skills and capabilities will be pooled for opportunities such as providing shared services to government departments.

Global Services – operating review

Serco has created a new global BPO division, bringing together all of Serco's middle and back office skills and capabilities. The new Global Services division will improve the services we provide to customers and address a wider range of opportunities in both the private and public sectors. Customers around the world are increasingly looking for end-to-end services that combine frontline capability with middle and back office operations, helping them to drive more efficiency and better quality services. In addition to seeking specific BPO opportunities, the division will also work alongside the regional divisions to deliver fully integrated services for their customers. By the end of 2012, the establishment and growth of Serco Global Services will be such that it will have annual revenues in excess of $1 billion, placing us as a top tier international BPO organisation.

In the period under review, Global Services revenue on a reported currency basis grew 38% to £294m (2011: £214m). This represented 13% of Group revenue, up from 10% in 2011. Revenue on a constant currency basis grew by 43%. Excluding the contribution from acquisitions, principally Intelenet, revenue on an organic basis declined by 11%. In the prior period there were revenues from the Bradford education contract which transferred back to the Council in September 2011, and from our Business Link services the majority of which have now closed due to the government funding cuts borne by the Regional Development Agencies (RDAs). Excluding these two areas, underlying revenue growth for our new global BPO division has been over 20%.

Adjusted operating profit, before reorganisation costs and corporate expenses, increased by 68% on a reported currency basis to £18.1m (2011: £10.8m), with the margin increasing to 6.2% (2011: 5.1%). After reorganisation costs, Adjusted operating profit increased to £14.4m.

The overall margin increase in the period reflected a number of factors. The major positive influence was the contribution from the higher margin Intelenet operations. Partially offsetting this were increased investment costs supporting the creation of the new global BPO division and its strong pipeline of growth opportunities, together with the reduction from mid-2011 in our higher margin Business Link services.

The period under review has largely concluded the significant programme of operational integration of the acquisitions made in 2011, putting them together with Serco's previously existing strength in IT-enabled service delivery. There have been major investments in rolling out tools such as Workforce Management, as well as standardising and strengthening all management and compliance procedures. Significant investment has been made in IT integration, and this will continue to be a feature to place the business in the strongest position for future growth.

The acquisition of Intelenet is meeting our expectations as set out a year ago. Intelenet has been a key part of the strong underlying revenue growth for the whole of Serco Global Services. As well as incremental revenues already achieved, there have been numerous major strategic wins in the period which will add revenues from the second half of the year. These are covered in the growth opportunities section.

Numerous new private sector BPO operations began in the period. In retail, in a £55m ten-year contract with Freemans Grattan Holdings, Serco is delivering all aspects of customer contact services including customer enquiries, inbound and outbound sales, credit applications, payments, order processing, white mail and e-mail handling; Serco has also begun operating a contract for similar services for Ideal Shopping. For a large banking and financial services company in India, 1,800 customer contact employees are now delivering the customer enquiries, inbound and outbound sales, e-mail handling and web chat. For a leading global online travel company based in the US, Serco is supporting the booking processes for travel and hospitality services for an award-winning loyalty program. While for Pru Health, a leading UK-based healthcare insurance provider, Serco has set up off-shore delivery centres to provide back office services such as indexing, invoice processing, claims adjudication and policy maintenance.

In the public sector, The Anglia Support Partnership (ASP), which has an initial value of £120m over four years, began operating in April 2012. This is Serco's first shared services proposition in the emerging market for middle and back office support to the UK health sector. Current support services include operational and specialist IT, finance operations, employment services, contracts management, procurement, primary care support services, occupational health, risk management, catering and estates and property. The framework agreement also permits the call-off of additional services and other NHS organisations to access services.

The Peterborough City Council strategic partnership, which has an initial value of £100m over 10 years, saw the transfer to Serco of the in-house shared service centre late in 2011. Serco is already successfully growing this contract with further services such as procurement being brought into scope as part of the Council's transformation. The Hertfordshire County Council operations which commenced in April 2011 have also widened their scope, with staff numbers approximately double those of a year earlier. Additionally, Serco's property and IT joint venture with Glasgow City Council, known as ACCESS, has seen Information, Communications and Technology (ICT) support for the authority's schools added to its responsibilities.

In the period, our operations have continued to win various accolades in the crucial area of employee development. According to NASSCOM's ranking of IT-BPO employers in India, Serco Global Services is now the largest pure-play BPO business. Awards in 2012 include recognition within 'Asia's Best Employer Brand Awards' and 'India's Best Companies to Work For', the latter being for 'Best Company in Career Growth'.

Global Services – growth opportunities

Over the last 18 months, Serco has added significant capability in the fast growing, higher margin BPO market, broadening Serco's customer and geographic reach. This has added scale and depth to provide our customers with a range of end-to-end business services as they seek to reduce costs and improve efficiencies by transforming their operations.

We are addressing a large number of private sector market opportunities. The significant pipeline of prospects continues to be spread across our four broad groups of vertical markets: Banking, Financial Services & Insurance; Travel, Hospitality & Transportation; Retail, Healthcare, Utilities, & Manufacturing; Telecom, Technology, Online Services & Media.

Serco's approach is increasingly recognised for leadership in transforming a customer's operations as opposed to simple 'lift and shift' solutions. Serco's bids benefit from our substantial scale and the ability to provide a blend of on-shore, near-shore and off-shore service provision. Two significant early milestones – Shop Direct and AEGON – are private sector contact centre operations that provide excellent short-term growth as these become operational, but more importantly strong referenceability for similar work in the future.

From July 2012 Serco has begun operating a new ten-year contract for Shop Direct Group, the UK's leading online and home shopping retailer, valued in total at approximately £430m. Serco has taken over responsibility for providing, and enhancing the efficiency of, customer contact services across Shop Direct's brands. The partnership will work together to significantly enhance service levels and efficiency through investment in the latest technology, such as web chat and mobile digital services, which are designed to integrate seamlessly online and mobile into customer contact management. Our solution combines capabilities from the Intelenet and The Listening Company acquisitions as well as the additional scale advantage from Serco's other BPO operations.

AEGON, the leading life and pensions company, recently entered exclusive talks with Serco and in the coming months we expect to begin operating a ten-year contract with a total estimated value of approximately £150m. Serco will deliver a wide range of customer contact and support services for AEGON's UK-based protection business, including managing all aspects of the customer journey from initial underwriting through to claims management, and will cover policy servicing and claims for some small 'closed book' policies. This contract marks an important entry into the life and pensions segment of the financial services market.

Other recent awards that support future growth and reflect the breadth of operations include those for esure insurance services, easyJet airline and travel, British Gas household utilities and a major European media company. Our strength in transformation, multi-channel customer contact and our geographic reach for supporting operations has been key to these wins.

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. Significant revenue synergies have already been achieved where the Group's combined capabilities and holistic offering is able to transform public services, and we expect more to continue to emerge in the future.

In the UK, there are tenders expected for the Home Office in areas such as visa services and policing support. The Global Services division will provide significant input to the bidding process for operations such as 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. For the Ministry of Justice, Global Services is providing support to the UK & Europe division for court fines and compliance and enforcement, electronic monitoring and prison management. The future development of the Ministry of Defence's Defence Infrastructure Organisation (DIO) opportunity, similar in nature to the Defence Business Services (DBS) contract already led by the UK & Europe division, would also see Global Services support.

The ASP contract is expected to be a key enabler to growing Serco's combination of health support services and BPO operations. We are already seeing growth in areas such procurement services, and expect the framework agreement to support significant further growth. Other opportunities in providing business services to NHS organisations are also being pursued.

We have recently signed a new contract to provide multi-channel contact centre services to the Department of Health to cover a range of public health programmes. The contract commences in October 2012 and has a total value of approximately £15m over three years. Other central government shared service centre opportunities are expected to be developed. For example, the DWP is assessing the case for a shared services centre to process claims and payments. There is also the potential to expand the scope of support for existing customers such as Job Centre Plus. Other areas of significant interest include the processing of rural payments on behalf of Defra and emerging BPO opportunities for transport departments.

Our work with local authorities to transform their services continues to show a strong 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 at Hertfordshire, Glasgow and Peterborough have all demonstrated the potential for expansion, and the addition of the Thurrock and Westminster contracts previously operated by Vertex adds to our ability to increase the scope of services. The Westminster contract has recently been extended with an option through to 2014. Serco is looking to develop numerous other prospects over the next 18 months. Latest research by YouGov supports the view that local authorities are looking to outsource more, with this increasingly needing to focus on transformational change.

Finance Review

Overview

For the first half of 2012 reported Group revenues were £2,342m, representing total growth of 4.3%. Growth at constant currency was 4.2%. Organic revenues, excluding acquisition and currency effects, declined by 2.1%. Adjusted operating profit before reorganisation costs grew by 4.3%.

During the first half, as anticipated, we incurred £15.7m for implementation costs of organisational changes. Furthermore, we disposed of our Technical Services business and the majority of our operations in Germany; these disposals yielded a net £31.0m exceptional gain before tax. Hence, whilst Adjusted profit before tax declined by 17.4%, profit before tax grew 7.8%.

Group free cash flow was £0.9m; as anticipated, this is significantly lower than 2011 principally due to timing differences on receiving customer payments, together with absorption of working capital by the higher volume of contract start ups in our growing BPO segment. As previously communicated, we expect cash generation will be weighted to the second half of 2012.

1. Income statement

Serco's income statement for the half year is summarised in Figure 1 below. This includes the results of joint ventures which are proportionately consolidated.

Figure 1: Income statement

Six months ended 30 June	**2012 Before exceptional item £m**	**2012 Exceptional item £m**	**2012 Total £m**	2011 **£m**	
Revenue	**2,341.7**	**-**	**2,341.7**	2,245.8	4.3%
Gross profit	**346.4**	**-**	**346.4**	333.0	4.0%
Administrative expenses before reorganisation costs	**(206.8)**	**-**	**(206.8)**	(199.2)	
Adjusted operating profit before reorganisation costs	**139.6**	**-**	**139.6**	133.8	4.3%
Reorganisation costs	**(15.7)**	**-**	**(15.7)**	-	
Adjusted operating profit	**123.9**	**-**	**123.9**	133.8	(7.4%)
Investment revenue and finance costs	**(21.8)**	**-**	**(21.8)**	(10.2)	
Adjusted profit before tax*	**102.1**	**-**	**102.1**	123.6	(17.4%)
Net profit on disposal of subsidiaries and operations	**-**	**31.0**	**31.0**	-	
Amortisation of acquired intangibles	**(11.5)**	**-**	**(11.5)**	(8.4)	
Acquisition-related costs	**(1.1)**	**-**	**(1.1)**	(3.4)	
Profit before tax	**89.5**	**31.0**	**120.5**	111.8	7.8%
Tax	**(22.8)**	**-**	**(22.8)**	(29.6)	
Profit for the period	**66.7**	**31.0**	**97.7**	82.2	18.9%
Effective tax rate	**25.5%**	**-**	**18.9%**	26.5%	
Adjusted operating margin before reorganisation costs	**6.0%**		**6.0%**	6.0%	
Adjusted earnings per share	**15.52p**		**15.52p**	18.74p	(17.2%)
Adjusted earnings per share before reorganisation costs	**17.94p**		**17.94p**	18.74p	(4.3%)
Earnings per share	**13.55p**	**6.30p**	**19.85p**	16.74p	18.6%
Dividend per share			**2.65p**	2.50p	6.0%

* Adjusted profit before tax and reorganisation costs is £117.8m (2011: £123.6m)

1.1 Revenue

Revenue grew by 4.3% to £2,341.7m (4.2% excluding currency effects). Organic revenue, which excludes currency effects and acquisitions, declined by 2.1%. Drivers of the revenue performance are discussed in the divisional operating reviews. Revenue, excluding income from disposed operations, increased by 4.8%.

1.2 Adjusted operating profit

Adjusted operating profit decreased by 7.4% to £123.9m representing an Adjusted operating profit margin of 5.3%. £15.7m of reorganisation costs were incurred during the period which are described in more detail in section 1.5 below. Adjusted operating profit before reorganisation costs increased by 4.3% representing an Adjusted operating profit before reorganisation costs margin of 6.0% which is consistent with the comparative period. Drivers of the margin performance are discussed in the divisional operating reviews.

1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £21.8m (2011: £10.2m), an increase of £11.6m. The principal reason for this increase has been the Group's higher level of debt since 30 June 2011 following the acquisition of Intelenet on 7 July 2011.

1.4 Profit before tax and Adjusted profit before tax

Profit before tax increased by 7.8% to £120.5m. Adjusted profit before tax was £102.1m, a decrease of 17.4%.

1.5 Reorganisation costs

As described in the Annual report and accounts for the year ended 31 December 2011, from April 2012 we have implemented organisational changes to reflect developments in market needs, how we target future growth and the way Serco delivers services for customers. In completing this programme we have incurred £15.7m of costs, principally relating to redundancies. The impact of reorganisation costs on reportable segmental Adjusted operating profit is shown in Figure 2 below.

Figure 2: Reportable segments Adjusted operating profit

Six months ended 30 June 2012	**UK & Europe £m**	**Americas £m**	**AMEAA £m**	**Global Services £m**	**Total £m**
Segment Adjusted operating profit before reorganisation costs	**86.3**	**29.6**	**26.7**	**18.1**	**160.7**
Reorganisation costs	**(7.4)**	**-**	**-**	**(3.7)**	**(11.1)**
Segment Adjusted operating profit	**78.9**	**29.6**	**26.7**	**14.4**	**149.6**
Corporate expenses before reorganisation costs					**(21.1)**
Corporate reorganisation costs					**(4.6)**
Adjusted operating profit					**123.9**

Six months ended 30 June 2011	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Total £m
Segment Adjusted operating profit	80.8	37.0	27.9	10.8	156.5
Corporate expenses					(22.7)
Adjusted operating profit					133.8

1.6 Exceptional item

The £31.0m exceptional item represents net profit on disposals of subsidiaries and operations which arises from transactions during the period that are described in more detail in section 5 below.

1.7 Acquisition-related costs

These represent incremental costs principally arising from the acquisition of Vertex Public Services Limited during the period.

1.8 Tax

The tax charge of £22.8m (2011: £29.6m) represents an effective tax rate of 18.9%. This rate is lower than the comparative period primarily due to the profit on disposal of subsidiaries not being subject to tax. Excluding the tax effect on adjusted items, the Adjusted effective tax rate was 25.0% (2011: 25.6%).

1.9 Earnings per share (EPS)

EPS grew by 18.6% to 19.85p. Adjusted EPS reduced by 17.2% to 15.52p. Adjusted EPS before reorganisation costs decreased by 4.3% to 17.94p. EPS, Adjusted EPS and Adjusted EPS before reorganisation costs are calculated on a weighted average share base of 492.1m during the period (2011: 490.3m).

2. Dividend

Serco's policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has proposed an interim dividend of 2.65p per share, representing an increase on the 2011 interim dividend of 6.0%. The interim dividend will be paid on 19 October 2012 to shareholders on the register as at 7 September 2012.

3. Cash flow

The Group generated a free cash inflow of £0.9m (2011: £51.8m), the reduction arising principally as a result of an increase in working capital and the impact of the reorganisation costs**.**

Figure 3 analyses the cash flow. As in previous periods, we have designed the analysis to show the underlying cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the condensed consolidated cash flow on page 41, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 3 reconciles the movement in Group cash to the consolidated cash flow.

Figure 3: Cash flow

Six months ended 30 June	**2012 £m**	2011 £m
Adjusted operating profit excluding joint ventures and reorganisation costs	**102.4**	97.0
Reorganisation costs	**(15.7)**	-
Adjusted operating profit excluding joint ventures	**86.7**	97.0
Non cash items	**25.4**	31.3
Adjusted EBITDA excluding joint ventures	**112.1**	128.3
Working capital movement	**(74.5)**	(36.3)
Operating cash flow excluding joint ventures	**37.6**	92.0
Interest	**(25.5)**	(12.9)
Tax	**(15.5)**	(14.9)
Net expenditure on tangible and intangible assets	**(27.1)**	(40.6)
Dividends from joint ventures	**31.4**	28.2
Group free cash flow	**0.9**	51.8
Acquisition of subsidiaries	**(67.5)**	(23.9)
Disposal of subsidiaries and operations	**132.8**	-
Acquisition-related costs	**(1.3)**	(2.1)
Purchase of own shares and issue proceeds of share capital	**4.7**	(22.6)
Financing	**(72.0)**	72.6
Special pension contribution	**-**	(40.0)
Dividends paid	**(28.9)**	(25.2)
Group net (decrease)/ increase in cash and cash equivalents	**(31.3)**	10.6
Adjustment to include joint venture cash impacts	**(2.4)**	15.2
Net (decrease)/ increase in cash and cash equivalents before exchange loss	**(33.7)**	25.8
Exchange loss	**(2.3)**	(0.1)
Net (decrease)/ increase in cash and cash equivalents	**(36.0)**	25.7

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 Operating cash flow excluding joint ventures

Operating cash flow excluding joint ventures of £37.6m (2011: £92.0m) reflects a conversion of Adjusted EBITDA into cash of 33.5% (2011: 71.7%).

3.2 Working capital movement

The increase in the working capital movement compared to 2011 includes an impact of approximately £30m reflecting the timing of a small number of customer payments including those from Australia's Department of Immigration and Citizenship (DIAC), as well as the timing of transition and mobilisation stages on new contract awards. There is also an approximate £10m effect from the typically higher level of working capital investment required for BPO-related contracts.

3.3 Interest

Net interest paid increased by £12.6m to £25.5m, principally due to the Group's higher level of debt following the acquisition of Intelenet in July 2011.

3.4 Tax

Tax paid increased to £15.5m (2011: £14.9m) and 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.

3.5 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets was £27.1m (2011: £40.6m). This represents 1.4% of Group revenue excluding joint ventures (2011: 2.3%). An increased level of expenditure is anticipated in the second half of the year.

3.6 Dividends from joint ventures

Dividends received from joint ventures totalled £31.4m (2011: £28.2m), reflecting a higher than normal conversion rate of joint ventures' profit after tax into dividends of 103% (2011: 93%).

3.7 Purchase of own shares and issue proceeds of share capital

This represents a £4.7m cash inflow relating to proceeds from the issue of share capital and exercise of share options. The comparative balance includes an outflow of £24.0m relating to the purchase of own shares for the Employee Share Ownership Trust.

3.8 Financing

The movement in financing is primarily due to repayments of loans and finance leases.

4. Acquisitions

On 13 April 2012, Serco entered into an agreement to acquire the trade and assets of Anglia Support Partnership (ASP). ASP provides support services to the Cambridge and Peterborough NHS Foundation Trust, together with a further five partnering NHS organisations. The initial cash consideration in respect of the business combination was £5.2m.

On 1 June 2012, Serco acquired 100% of the issued share capital of Priority Properties North West Limited (PPNW). PPNW is a property management company specialising in the provision of short and long term housing. The initial cash consideration in respect of the acquisition was £0.9m.

On 11 June 2012, Serco acquired 100% of the issued share capital of Vertex Public Services Limited (Vertex), a provider of high quality business process outsourcing services to UK local and central government. The initial cash cost of the acquisition was £55.5m, which is subject to a working capital repayment of £1.2m.

A deferred cash payment of £6.6m has also been made in relation to the prior year acquisition of The Listening Company Limited.

£1.1m of acquisition-related costs incurred on the above acquisitions have been expensed to the income statement. The cash flow impact of these costs included in the cash flow statement was £1.3m which includes £0.2m of acquisition-related costs from prior period acquisitions.

5. Disposals

On 29 June 2012, the Group disposed of its Technical Services business which provides consulting and project solutions primarily to the UK civil and nuclear defence markets for a consideration of £139.5m, £2.5m of which is deferred. Net assets disposed amounted to £73.8m, giving a gain of £58.4m, after accounting for disposal costs of £7.3m.

On 29 June 2012, the Group disposed of its interest in Serco GmbH. The fair value of consideration receivable is £nil. The business provides support services for the German air defence radar systems, engineering and administrative support services for the defence sector as well as training services, facilities management, field installation and maintenance services, and IT consulting and related services. Net assets disposed amounted to £21.8m, giving a loss of £27.4m, after accounting for disposal costs of £5.6m.

6. Net debt

Figure 4: Net debt

At	**30 June 2012 £m**	31 December 2011 £m
Group - cash and cash equivalents	**161.1**	194.6
Group - loans	**(777.0)**	(819.4)
Group - obligations under finance leases	**(57.3)**	(45.0)
Group recourse net debt	**(673.2)**	(669.8)
Joint venture - cash and cash equivalents	**57.7**	60.2
Joint venture - loans	**(5.9)**	(7.9)
Joint venture - obligations under finance leases	**(0.6)**	(0.9)
Total recourse net debt	**(622.0)**	(618.4)
Group non recourse debt	**(19.7)**	(15.5)
Total net debt	**(641.7)**	(633.9)

6.1 Group recourse net debt

Group recourse net debt increased marginally by £3.4m to £673.2m. Sources of funding are described in section 8 below.

Cash and cash equivalents includes encumbered cash of £10.4m (31 December 2011: £5.5m). This is cash relating to customer advance payments.

6.2 Group non recourse debt

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

Group non recourse debt increased by £4.2m to £19.7m. The increase is mainly due to £8.3m of additional asset financing of the National Physical Laboratory contract, net of payments made in line with the debt repayment schedule on our Driver Examination Services contract in Canada.

7. Pensions

The Group is a sponsor of a number of defined benefit schemes and defined contribution schemes. At 30 June 2012, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £24.5m (31 December 2011: net asset of £16.8m), on a pension scheme asset base of £1.9bn.

Figure 5: Defined benefit pension schemes

At	**30 June 2012 £m**	31 December 2011 £m
Group schemes – non contract specific	**51.8**	58.8
Contract specific schemes:		
– reimbursable	**(159.6)**	(188.7)
– not certain to be reimbursable	**(22.3)**	(26.5)
Net retirement benefit liabilities	**(130.1)**	(156.4)
Intangible assets arising from rights to operate franchises and contracts	**5.4**	6.3
Reimbursable rights debtor	**159.6**	188.7
Deferred tax liabilities	**(10.4)**	(21.8)
Net balance sheet asset	**24.5**	16.8

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

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

Reimbursable – schemes where we have a right of full cost reimbursement and therefore include both the pension scheme deficit and offsetting reimbursable rights debtor in the balance sheet; and

Not certain to be reimbursable – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the period to the SOCI, recognise a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortise the intangible asset to the income statement over the contract or franchise life.

Serco has limited commercial risk in relation to the contract specific schemes, due 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. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2012, SPLAS had a surplus of £71.0m (31 December 2011: surplus of £122.3m). This is calculated under IAS 19 using market-derived rates at 30 June 2012. It therefore reflects the effect of the market conditions on investment returns in the period.

The increase of £52m in the IFRIC14 adjustment was principally a result of the disposal of the Technical Services business which decreased the active membership of SPLAS and therefore reduced the opportunity for the Group to recover pension surpluses through lower contributions.

The estimated actuarial valuation of SPLAS as at 30 June 2012 was a surplus of approximately £12m. The value calculated in the latest triennial review was a deficit of £141m at 6 April 2009. 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.

Retirement benefit obligations reduced by £50.5m as a result of the disposal of Serco GmbH. The acquisition of Vertex Public Services Limited included the acquisition of £8.4m of net retirement benefit obligations as at 11 June 2012.

Figure 6 shows the sensitivity of the liabilities of our pension schemes to changes in discount rates and to adjustments in the actuarial assumptions for the rate of inflation, members' salary increases and life expectancies.

Figure 6: Pension assumption sensitivities

	Assumption	Change in assumption	Change in present value of scheme liabilities
Discount rate	4.70%	+0.5% (0.5%)	(9%) +10%
Price inflation	2.90% (RPI) and 2.10% (CPI)	+0.5% (0.5%)	+9% (8%)
Salary	3.30%	+0.5% (0.5%)	+2% (2%)
Longevity	21.0 – 24.6*	Increase by one year	+3%

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

8. Treasury

The Group has committed bank credit of £730.0m (31 December 2011: £726.7m). This five-year multi-currency revolving credit facility, which was signed on 28 March 2012, matures in March 2017. This facility replaced all previous syndicated and bilateral bank credit facilities held by the Group. As at 30 June 2012, £196.4m had been drawn down (31 December 2011: £241.3m).

In addition to the bank facility, Serco has US private placements totalling £499.0m which will be repaid between 2012 and 2023. All of the Group's credit facilities detailed above are unsecured.

9. Going concern

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 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 £19.4bn and high visibility of future revenue streams (98% in 2012; 83% in 2013 and 71% in 2014), the Group is well placed to manage its business risks despite the current uncertain economic climate.

The Group's principal financing is through the revolving credit facility and US private placements. As at 30 June 2012, the Group had £1,229.0m of committed credit facilities and headroom of £533.6m. 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 over 90% of our customers being government bodies and 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.

10. Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 75 to 81 of the 2011 Annual report and accounts and the key headline risks for the remainder of 2012 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 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, expenditure levels and budgetary constraints
Failure to win a strategic or significant bid or rebid

(ii) Operational risks
Any 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 IT failure or prolonged loss of critical IT systems

(iii) Governance risks

Significant incident of bribery or corrupt practice

Major accident or incident

Failure to comply with complex laws and regulations

(iv) People risks

Failure to attract and retain senior management and other key employees

Failure to manage union/industrial relations

(v) Finance risks

The impairment of goodwill could adversely impact reported results

Additional funding requirements for pension schemes

Fluctuations in foreign currency exchange rates that are not effectively hedged

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 2012

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 2012 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 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 '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 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 2012 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 2012

Condensed consolidated income statement

For the six months ended 30 June 2012

		Six months ended 30 June 2012 (unaudited)				
		Before exceptional item	Exceptional item	**Total**	Six months ended 30 June 2011 (unaudited)	Year ended 31 December 2011 (audited)
	Note	£m	£m	**£m**	£m	£m
Continuing operations						
Revenue	2	2,341.7	-	**2,341.7**	2,245.8	4,646.4
Cost of sales		(1,995.3)	-	**(1,995.3)**	(1,912.8)	(3,946.0)
Gross profit		346.4	-	**346.4**	333.0	700.4
Administrative expenses		(222.5)	-	**(222.5)**	(199.2)	(410.3)
Adjusted operating profit		123.9	-	**123.9**	133.8	290.1
Other expenses – amortisation of intangibles arising on acquisition		(11.5)	-	**(11.5)**	(8.4)	(20.0)
Other expenses – acquisition-related costs	6	(1.1)	-	**(1.1)**	(3.4)	(3.9)
Net profit on disposal of subsidiaries and operations	7	-	31.0	**31.0**	-	-
Operating profit		111.3	31.0	**142.3**	122.0	266.2
Investment revenue	3	5.7	-	**5.7**	5.3	12.2
Finance costs	3	(27.5)	-	**(27.5)**	(15.5)	(40.1)
Profit before tax		89.5	31.0	**120.5**	111.8	238.3
Tax		(22.8)	-	**(22.8)**	(29.6)	(63.1)
Profit for the period		66.7	31.0	**97.7**	82.2	175.2
Attributable to:						
Equity holders of the parent		66.7	31.0	**97.7**	82.1	175.1
Non-controlling interest		-	-	**-**	0.1	0.1
Earnings per share (EPS)						
Basic EPS	5	13.55p	6.30p	**19.85p**	16.74p	35.70p
Diluted EPS	5	13.25p	6.16p	**19.41p**	16.35p	35.08p

The exceptional item represents net profit on disposal of subsidiaries and operations as described in note 7.

Adjusted operating profit is stated before net profit on disposals of subsidiaries and operations, the amortisation of intangibles arising on acquisitions and acquisition-related costs.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2012

	Note	**Six months ended 30 June 2012 (unaudited) £m**	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Profit for the period		**97.7**	82.2	175.2
Other comprehensive income for the period:				
Net actuarial gain/(loss) on defined benefit pension schemes[1]	14	**11.9**	(79.6)	(51.0)
Actuarial (loss)/gain on reimbursable rights[1]	14	**(76.3)**	61.1	116.5
Net exchange (loss)/gain on translation of foreign operations[2]		**(5.1)**	3.9	(2.2)
Fair value (loss)/gain on cash flow hedges during the period[2]		**(10.6)**	10.4	(35.7)
Tax relating to components of other comprehensive income[3]		**23.7**	2.7	(5.9)
Recycling of cumulative net hedging reserve[2]		**(0.6)**	0.1	0.3
Total comprehensive income for the period		**40.7**	80.8	197.2
Attributable to:				
Equity holders of the parent		**40.7**	80.7	197.1
Non-controlling interest		**-**	0.1	0.1

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

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

3 Of the tax credit, £17.3m (30 June 2011: £5.4m, 31 December 2011: debit of £14.7m) was taken to the Retirement benefit obligations reserve; and £6.4m (30 June 2011: debit of £2.7m, 31 December 2011: £8.8m) was taken to the Hedging and translation reserve.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2012

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total equity £m	Non-controlling interest £m
At 1 January 2011	9.9	306.7	0.1	568.5	(142.8)	58.7	(27.5)	67.7	841.3	-
Total comprehensive income for the period	-	-	-	82.1	(13.1)	-	-	11.7	80.7	0.1
Shares transferred to option holders on exercise of share options	-	0.6	-	-	-	(1.8)	2.6	-	1.4	-
Dividends paid	-	-	-	(25.2)	-	-	-	-	(25.2)	(0.1)
Expense in relation to share-based payment	-	-	-	-	-	5.9	-	-	5.9	-
Tax credit in relation to share-based payment	-	-	-	-	-	0.8	-	-	0.8	-
Purchase of own shares for Employee Share Ownership Trust (ESOT)	-	-	-	-	-	-	(24.0)	-	(24.0)	-
At 30 June 2011 (unaudited)	9.9	307.3	0.1	625.4	(155.9)	63.6	(48.9)	79.4	880.9	-
Total comprehensive income for the period	-	-	-	93.0	63.9	-	-	(40.5)	116.4	-
Shares transferred to option holders on exercise of share options	-	15.4	-	-	-	(0.2)	0.7	-	15.9	-
Dividends paid	-	-	-	(12.1)	-	-	-	-	(12.1)	-
Expense in relation to share-based payment	-	-	-	-	-	5.3	-	-	5.3	-
Tax credit in relation to share-based payment	-	-	-	-	-	(2.6)	-	-	(2.6)	-
At 31 December 2011 (audited)	**9.9**	**322.7**	**0.1**	**706.3**	**(92.0)**	**66.1**	**(48.2)**	**38.9**	**1,003.8**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**97.7**	**(47.1)**	**-**	**-**	**(9.9)**	**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 credit in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**3.7**	**-**	**-**	**3.7**	**-**
At 30 June 2012 (unaudited)	**10.0**	**326.2**	**0.1**	**775.1**	**(139.1)**	**70.5**	**(44.1)**	**29.0**	**1,027.7**	**-**

Condensed consolidated balance sheet

At 30 June 2012

	Note	At 30 June 2012 (unaudited) £m	At 30 June 2011 (unaudited) £m	At 31 December 2011 (audited) £m
Non-current assets				
Goodwill		**1,226.8**	932.7	1,259.0
Other intangible assets		**193.5**	146.9	184.9
Property, plant and equipment		**194.7**	146.9	194.8
Trade and other receivables		**233.9**	201.9	261.9
Retirement benefit assets	14	**71.0**	14.9	122.3
Deferred tax assets		**50.6**	27.7	28.2
Derivative financial instruments		**0.5**	2.2	2.0
		1,971.0	1,473.2	2,053.1
Current assets				
Inventories		**62.7**	70.5	58.8
Trade and other receivables		**863.3**	815.6	798.6
Current tax assets		**13.2**	3.9	9.2
Cash and cash equivalents		**218.8**	305.0	254.8
Derivative financial instruments		**1.7**	15.2	7.6
		1,159.7	1,210.2	1,129.0
Total assets		**3,130.7**	2,683.4	3,182.1
Current liabilities				
Trade and other payables		**(839.2)**	(836.1)	(804.2)
Current tax liabilities		**(13.2)**	(9.9)	(17.8)
Obligations under finance leases		**(10.0)**	(9.0)	(10.3)
Provisions	10	**(9.0)**	-	(10.4)
Loans		**(87.4)**	(147.0)	(206.6)
Derivative financial instruments		**(14.0)**	(4.8)	(12.3)
		(972.8)	(1,006.8)	(1,061.6)
Non-current liabilities				
Trade and other payables		**(58.0)**	(28.6)	(61.4)
Obligations under finance leases		**(47.9)**	(17.1)	(35.6)
Loans		**(715.2)**	(457.1)	(636.2)
Derivative financial instruments		**(28.4)**	(0.9)	(26.3)
Retirement benefit obligations	14	**(201.1)**	(240.2)	(278.7)
Provisions	10	**(57.6)**	(37.2)	(56.2)
Deferred tax liabilities		**(22.0)**	(14.6)	(22.3)
		(1,130.2)	(795.7)	(1,116.7)
Total liabilities		**(2,103.0)**	(1,802.5)	(2,178.3)
Net assets		**1,027.7**	880.9	1,003.8
Equity				
Share capital		**10.0**	9.9	9.9
Share premium account		**326.2**	307.3	322.7
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**775.1**	625.4	706.3
Retirement benefit obligations reserve		**(139.1)**	(155.9)	(92.0)
Share-based payment reserve		**70.5**	63.6	66.1
Own shares reserve		**(44.1)**	(48.9)	(48.2)
Hedging and translation reserve		**29.0**	79.4	38.9
Equity attributable to equity holders of the parent		**1,027.7**	880.9	1,003.8
Non-controlling interest		**-**	-	-
Total equity		**1,027.7**	880.9	1,003.8

Condensed consolidated cash flow statement

For the six months ended 30 June 2012

	Note	**Six months ended 30 June 2012 (unaudited) £m**	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Net cash inflow from operating activities	8	**51.3**	78.9	217.0
Investing activities				
Interest received		**1.3**	1.3	3.4
Increase in security deposits		**(1.8)**	-	(8.2)
Proceeds from disposal of property, plant and equipment and intangible assets		**1.9**	1.0	9.2
Proceeds on disposal of investments		**-**	0.5	-
Proceeds on disposal of subsidiaries and operations	7	**132.8**	-	-
Acquisition of subsidiaries, net of cash acquired (excluding acquisition-related costs)	6	**(67.5)**	(23.9)	(325.3)
Purchase of other intangible assets		**(18.8)**	(22.1)	(35.2)
Purchase of property, plant and equipment		**(22.9)**	(21.3)	(49.7)
Net cash inflow/(outflow) from investing activities		**25.0**	(64.5)	(405.8)
Financing activities				
Interest paid		**(26.8)**	(14.0)	(35.8)
Dividends paid	4	**(28.9)**	(25.2)	(37.3)
Non-controlling interest dividends paid		**-**	(0.1)	(0.1)
Cash (outflow)/inflow from matured derivative financial instruments		**(1.4)**	0.2	4.9
Repayment of loans		**(421.0)**	(99.3)	(559.8)
Repayment of non recourse loans		**(4.0)**	(3.6)	(7.9)
New loan advances		**362.6**	180.5	818.4
Capital element of finance lease advances/(repayments)		**4.8**	(4.5)	(10.7)
Purchase of own shares for Employee Share Ownership Trust (ESOT)		**-**	(24.0)	(24.0)
Proceeds from issue of share capital and exercise of share options		**4.7**	1.4	17.3
Net cash (outflow)/inflow from financing activities		**(110.0)**	11.4	165.0
Net (decrease)/increase in cash and cash equivalents		**(33.7)**	25.8	(23.8)
Cash and cash equivalents at beginning of period		**254.8**	279.3	279.3
Net exchange loss		**(2.3)**	(0.1)	(0.7)
Cash and cash equivalents at end of period		**218.8**	305.0	254.8

Notes to the condensed set of financial statements

For the six months ended 30 June 2012

1. General information, going concern and accounting policies

The information for the year ended 31 December 2011 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006.

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 £19.4bn 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 2011: £726.7m). As at 30 June 2012, £196.4m had been drawn down on this bank facility. The headroom on the facility was £533.6m. In addition to the bank credit facility, Serco has private placements totalling £499.0m which will be repaid between 2012 and 2023.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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 re-presentation noted below. The condensed set of financial statements includes the results of subsidiaries and joint ventures. Joint ventures have been proportionally consolidated.

Exceptional item

During the period the Group disposed of subsidiaries and operations which generated a net profit of £31.0m. The two disposal transactions are described in note 7. As this net profit is specific to these disposals and is exceptional to the Group's operating profit it has been presented separately on the face of the condensed consolidated income statement.

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

Changes in segmental information

As described in the Annual report and accounts for the year ended 31 December 2011, from April 2012 the Group has implemented organisational changes to reflect developments in market needs, how future growth is targeted and the way Serco delivers services for customers. As a result, the Group has created a Global Services segment bringing together all Serco's middle and back office skills and capabilities. The Group has consolidated its frontline Civil Government; Defence, Science & Nuclear; and Local Government & Commercial businesses, where operations are based in UK & Europe, into a single segment. Non-BPO operations in AMEAA and the business in America continue to be reported as separate segments. Some corporate expenses have been moved to the reportable segments.

As a consequence of these changes, previously published financial information has been restated.

2. Segmental information

Information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets. Details of the different products and services provided to each operating segment are included in the Operating Review section of this report. From 1 April 2012, the Group has reapportioned its business into four segments. 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 defense 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 2012. 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.

Reportable segments

Six months ended 30 June 2012 (unaudited)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Total £m
Revenue					
External sales	**1,266.3**	**380.9**	**400.1**	**294.4**	**2,341.7**
Result					
Segment Adjusted operating profit	**78.9**	**29.6**	**26.7**	**14.4**	**149.6**
Net profit on disposal of subsidiaries and operations	**31.0**	**-**	**-**	**-**	**31.0**
Amortisation of intangibles arising on acquisition	**(0.2)**	**(6.9)**	**(0.1)**	**(4.3)**	**(11.5)**
Acquisition-related costs	**-**	**-**	**-**	**(1.1)**	**(1.1)**
Segment result	**109.7**	**22.7**	**26.6**	**9.0**	**168.0**
Corporate expenses					**(25.7)**
Operating profit					**142.3**
Investment revenue					**5.7**
Finance costs					**(27.5)**
Profit before tax					**120.5**
Tax					**(22.8)**
Profit after tax					**97.7**

Group Adjusted operating profit is £123.9m and comprises segment Adjusted operating profit of £149.6m less Corporate expenses of £25.7m.

2. Segmental information (continued)

Restated Six months ended 30 June 2011 (unaudited)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Total £m
Revenue					
External sales	1,284.3	445.6	302.2	213.7	2,245.8
Result					
Segment Adjusted operating profit	80.8	37.0	27.9	10.8	156.5
Amortisation of intangibles arising on acquisition	(0.1)	(6.8)	-	(1.5)	(8.4)
Acquisition-related costs	(0.1)	-	-	(3.3)	(3.4)
Segment result	80.6	30.2	27.9	6.0	144.7
Corporate expenses					(22.7)
Operating profit					122.0
Investment revenue					5.3
Finance costs					(15.5)
Profit before tax					111.8
Tax					(29.6)
Profit after tax					82.2

Group Adjusted operating profit is £133.8m and comprises segment Adjusted operating profit of £156.5m less Corporate expenses of £22.7m.

Restated Year ended 31 December 2011 (audited)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Total £m
Revenue					
External sales	2,595.2	868.2	672.1	510.9	4,646.4
Result					
Segment Adjusted operating profit	177.6	73.0	51.4	34.0	336.0
Amortisation of intangibles arising on acquisition	(0.2)	(13.6)	-	(6.2)	(20.0)
Acquisition-related costs	(0.2)	-	-	(3.7)	(3.9)
Segment result	177.2	59.4	51.4	24.1	312.1
Corporate expenses					(45.9)
Operating profit					266.2
Investment revenue					12.2
Finance costs					(40.1)
Profit before tax					238.3
Tax					(63.1)
Profit after tax					175.2

Group Adjusted operating profit is £290.1m and comprises segment Adjusted operating profit of £336.0m less Corporate expenses of £45.9m.

Segment assets	**Six months ended 30 June 2012 (unaudited) £m**	Restated Six months ended 30 June 2011 (unaudited) £m	Restated Year ended 31 December 2011 (audited) £m
UK & Europe	**1,064.1**	1,111.2	1,126.6
Americas	**648.4**	664.8	660.7
AMEAA	**346.9**	292.5	298.0
Global Services	**718.5**	216.8	652.5
Corporate assets	**68.0**	44.1	142.5
Total segment assets	**2,845.9**	2,329.4	2,880.3
Unallocated assets	**284.8**	354.0	301.8
Consolidated total assets	**3,130.7**	2,683.4	3,182.1

Segment assets exclude all derivative financial instruments, current and deferred taxation assets and cash.

2. Segmental information (continued)

Segment liabilities	**Six months ended 30 June 2012 (unaudited) £m**	Restated Six months ended 30 June 2011 (unaudited) £m	Restated Year ended 31 December 2011 (audited) £m
UK & Europe	**(528.4)**	(655.5)	(658.8)
Americas	**(109.1)**	(122.9)	(103.9)
AMEAA	**(144.8)**	(107.3)	(128.1)
Global Services	**(253.6)**	(142.6)	(199.5)
Corporate liabilities	**(62.4)**	(76.6)	(54.0)
Total segment liabilities	**(1,098.3)**	(1,104.9)	(1,144.3)
Unallocated liabilities	**(1,004.7)**	(697.6)	(1,034.0)
Consolidated total liabilities	**(2,103.0)**	(1,802.5)	(2,178.3)

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

Geographic analysis

	Six months ended 30 June 2012		Six months ended 30 June 2011		Year ended 31 December 2011	
	Revenue (unaudited) £m	**Non-current assets (unaudited) £m**	Revenue (unaudited) £m	Non-current assets (unaudited) £m	Revenue (audited) £m	Non-current assets (audited) £m
United Kingdom	**1,274.4**	**953.3**	1,290.6	815.9	2,587.3	1,008.8
United States	**351.5**	**455.3**	409.5	449.4	802.1	460.8
Other countries	**715.8**	**511.3**	545.7	178.0	1,257.0	553.3
Total	2,341.7	1,919.9	2,245.8	1,443.3	4,646.4	2,022.9

Non-current assets exclude derivative financial instruments and deferred tax assets.

3. Investment revenue and finance costs

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Interest receivable on other loans and deposits	**1.5**	1.6	4.0
Net interest receivable on retirement benefit obligations	**4.2**	3.7	8.2
Investment revenue	**5.7**	5.3	12.2
Interest payable on non recourse loans	**(0.4)**	(0.6)	(1.0)
Interest payable and amortisation of capitalised financing transaction costs on other loans	**(24.8)**	(13.7)	(35.6)
Interest payable on obligations under finance leases	**(1.3)**	(0.9)	(2.1)
Movement in discount on provisions and deferred consideration	**(1.0)**	(0.3)	(1.4)
Finance costs	**(27.5)**	(15.5)	(40.1)

4. Dividends

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2011 of 5.90p per share on 489.1 million ordinary shares	**28.9**	-	-
Final dividend for the year ended 31 December 2010 of 5.15 per share on 488.5 million ordinary shares	**-**	25.2	25.2
Interim dividend for the year ended 31 December 2011 of 2.50p per share on 486.6 million ordinary shares	**-**	-	12.1
	28.9	25.2	37.3

The proposed interim dividend for the year ending 31 December 2012 is 2.65p per ordinary share on 488.1 million shares, representing a payment of £12.9m (30 June 2011: 2.50p per ordinary share on 486.6 million shares, representing a payment of £12.1m).

The proposed interim dividend was approved by the Board on 28 August 2012 and has not been included as a liability as at 30 June 2012.

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 acquisition-related costs.

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

Number of shares	**Six months ended 30 June 2012 (unaudited) Millions**	Six months ended 30 June 2011 (unaudited) Millions	Year ended 31 December 2011 (audited) Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**492.1**	490.3	490.5
Effect of dilutive potential ordinary shares: share options	**11.2**	11.7	8.6
Weighted average number of ordinary shares for the purpose of diluted EPS	**503.3**	502.0	499.1

Earnings per share	**Six months ended 30 June 2012**		Six months ended 30 June 2011		Year ended 31 December 2011	
	Earnings (unaudited) £m	**Per share amount (unaudited) Pence**	Earnings (unaudited) £m	Per share amount (unaudited) Pence	Earnings (audited) £m	Per share amount (audited) Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**97.7**	**19.85**	82.1	16.74	175.1	35.70
Add back:						
Profit on disposal of subsidiaries, net of tax of £nil (30 June 2011: £nil, 31 December 2011; £nil)	**(31.0)**	**(6.30)**	-	-	-	-
Amortisation of intangible assets arising on acquisition, net of tax of £2.7m (30 June 2011: £1.7m, 31 December 2011: £4.3m)	**8.8**	**1.79**	6.7	1.37	15.7	3.20
Acquisition-related costs, net of tax of £0.2m (30 June 2011: £0.3m, 31 December 2011: £0.5m`)	**0.9**	**0.18**	3.1	0.63	3.4	0.69
Adjusted earnings	**76.4**	**15.52**	91.9	18.74	194.2	39.59
Earnings for the purpose of basic EPS	**97.7**	**19.85**	82.1	16.74	175.1	35.70
Effect of dilutive potential ordinary shares	**-**	**(0.44)**	-	(0.39)	-	(0.62)
Diluted EPS	**97.7**	**19.41**	82.1	16.35	175.1	35.08

6. Acquisitions

During the period, the Group completed the following acquisitions which have been accounted for in accordance with IFRS 3 Business Combinations (2008).

6 (a) Vertex Public Services Limited

On 11 June 2012, Serco acquired 100% of the issued share capital of Vertex Public Services Limited (Vertex), a provider of high quality business process outsourcing services to UK local and central government. The initial cash cost of the acquisition was £55.5m, which is subject to a working capital repayment of £1.2m. Due to the proximity of the acquisition to the reporting date the fair values presented are provisional.

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Intangible assets	0.2	10.4	10.6
Property, plant and equipment	4.7	(4.1)	0.6
Deferred tax asset	-	2.1	2.1
Trade and other receivables	28.5	(0.7)	27.8
Trade and other payables	(23.8)	-	(23.8)
Retirement benefit obligations	(8.4)	-	(8.4)
Provisions	-	(5.9)	(5.9)
Net assets acquired	1.2	1.8	3.0
Goodwill			51.3
Total consideration			54.3

Satisfied by:	
Cash	55.5
Working capital adjustment	(1.2)
Total consideration	54.3

Net cash outflow arising on acquisition:	
Purchase consideration	55.5

The provisional fair value of the financial assets acquired includes trade receivables with a fair value of £24.3m and a gross contractual value of £24.4m.

The goodwill of £51.3m arising from the acquisition represents future opportunities in the UK outsourced contact centre services industry. None of the goodwill is expected to be deductible for corporate income tax purposes.

£0.9m of acquisition-related costs incurred on the Vertex acquisition have been expensed to the income statement.

6. Acquisitions (continued)

6 (b) Other acquisitions

Anglia Support Partnership
On 13 April 2012, Serco entered into an agreement to acquire the trade and assets of Anglia Support Partnership (ASP). ASP provides support services to the Cambridge and Peterborough NHS Foundation Trust, together with a further five partnering NHS organisations. The initial cash cost of the business combination was £5.2m. In addition, £3.5m of deferred consideration is payable on 30 September 2012 plus up to a further £7.2m of deferred consideration payable from 2012 to 2020, contingent on the financial performance of the acquired business. The fair value of this deferred contingent consideration is £6.8m. The provisional fair value of net assets acquired totalled £4.0m. Due to the proximity of the acquisition to the reporting date the fair values presented are provisional.

£0.2m of acquisition-related costs incurred on this acquisition have been expensed to the income statement.

Priority Properties North West Limited
On 1 June 2012, Serco acquired 100% of the issued share capital of Priority Properties North West Limited (PPNW). PPNW is a property management company specialising in the provision of short and long term housing. The initial cash cost of the acquisition was £0.9m in cash. In addition, deferred consideration of up to £2.2m is payable, £0.2m of which is contingent on finalisation of specific administrative matters, £0.9m of which is deferred pending finalisation of working capital and £1.1m of which is contingent on financial performance in the period to 31 January 2013. The fair value of this deferred, contingent consideration is £2.2m. The provisional fair value of net assets acquired totalled £1.8m. Due to the proximity of the acquisition to the reporting date the fair values presented are provisional.

Other acquisitions (in aggregate):

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Intangible assets	**4.2**	**-**	**4.2**
Property, plant and equipment	**1.2**	**(0.6)**	**0.6**
Trade and other receivables	**2.2**	**-**	**2.2**
Cash and cash equivalents	**0.7**	**-**	**0.7**
Trade and other payables	**(1.2)**	**-**	**(1.2)**
Provisions	**-**	**(0.7)**	**(0.7)**
Net assets acquired	**7.1**	**(1.3)**	**5.8**
Goodwill			**9.3**
Total consideration			**15.1**

Satisfied by:	
Cash	**6.1**
Contingent consideration arrangement	**9.0**
Total consideration	**15.1**

Net cash outflow arising on acquisitions:	
Purchase consideration	**6.1**
Cash and cash equivalents acquired	**(0.7)**
Net cash outflow arising on acquisitions	**5.4**

The Listening Company Limited
During the period, a cash payment of £6.6m was made in respect of deferred contingent consideration payable following the acquisition of The Listening Company Limited in 2011.

7. Disposals

During the period, the Group generated the following net profit on disposal of subsidiaries and operations:

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Gain on disposal of Serco Technical Services (note 7(a))	**58.4**	-	-
Loss on disposal of Serco GmbH (note 7(b))	**(27.4)**	-	-
Net profit on disposal of subsidiaries and operations	**31.0**	-	-

7 (a) Serco Technical Services

On 29 June 2012, the Group disposed of its Technical Services business which provides consulting and project solutions primarily to the UK civil and nuclear defence markets for a consideration of £139.5m, £2.5m of which is deferred.

The net assets at the date of disposal were:	**£m**
Goodwill	**64.4**
Intangible assets	**0.8**
Property, plant and equipment	**1.6**
Trade and other receivables	**17.2**
Cash and cash equivalents	**0.6**
Trade and other payables	**(5.6)**
Deferred tax liabilities	**(5.2)**
Net assets disposed	**73.8**

The profit on disposal is calculated as follows:	**£m**
Cash consideration	**139.5**
Less:	
Net assets disposed	**(73.8)**
Disposal-related costs	**(7.3)**
Profit on disposal	**58.4**

The net cash inflow arising on disposal is as follows:	**£m**
Consideration received	**139.5**
Less:	
Deferred consideration	**(2.5)**
Cash and cash equivalents disposed	**(0.6)**
Disposal-related costs paid during the period	**(2.3)**
Net cash inflow on disposal	**134.1**

7 Disposals (continued)

7 (b) Serco GmbH

On 29 June 2012, the Group disposed of its interest in Serco GmbH. The fair value of consideration receivable is £nil. The business provides support services for the German air defence radar systems, engineering and administrative support services for the defence sector as well as training services, facilities management, field installation and maintenance services, and IT consulting and related services.

The net assets at the date of disposal were:	£m
Goodwill	**22.0**
Intangible assets	**1.2**
Property, plant and equipment	**6.0**
Deferred tax asset	**5.2**
Trade and other receivables	**22.1**
Loans receivable	**25.9**
Cash and cash equivalents	**0.6**
Trade and other payables	**(9.3)**
Bank overdrafts	**(1.3)**
Retirement benefit obligations	**(50.5)**
Provisions	**(0.1)**
Net assets disposed	**21.8**

The loss on disposal is calculated as follows:

	£m
Net assets disposed	**(21.8)**
Disposal-related costs	**(5.6)**
Loss on disposal	**(27.4)**

The net cash outflow arising on disposal is as follows:

	£m
Cash and cash equivalents disposed	**(0.6)**
Disposal-related costs paid during the period	**(0.7)**
Net cash outflow on disposal	**(1.3)**

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

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Operating profit for the period	**142.3**	122.0	266.2
Adjustments for:			
Share-based payment expense	**3.7**	5.9	11.2
Depreciation and impairment of property, plant and equipment	**26.9**	20.4	46.0
Amortisation and impairment of intangible assets	**20.5**	19.4	39.5
Profit on disposal of subsidiaries and operations	**(31.0)**	-	-
Loss/(profit) on disposal of property, plant and equipment	**0.9**	(0.4)	0.5
Movement in provisions	**(11.7)**	(2.0)	(9.8)
Other non cash movements	**-**	-	3.4
Operating cash inflow before movements in working capital	**151.6**	165.3	357.0
(Increase)/decrease in inventories	**(4.7)**	(4.8)	9.2
(Increase)/decrease in receivables	**(81.1)**	(25.6)	26.8
Increase/(decrease) in payables	**11.6**	8.6	(84.5)
Special contribution to defined benefit pension scheme	**-**	(40.0)	(40.0)
Cash generated by operations	**77.4**	103.5	268.5
Tax paid	**(26.1)**	(24.6)	(51.5)
Net cash inflow from operating activities	**51.3**	78.9	217.0

9. 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 2011	279.3	(23.7)	(490.4)	(26.4)	(261.2)
Cash flow	23.4	3.6	(81.2)	4.5	(49.7)
Acquisitions	2.4	-	(15.9)	(0.8)	(14.3)
Exchange differences	(0.1)	-	3.5	-	3.4
Non cash movements	-	-	-	(3.4)	(3.4)
At 30 June 2011 (unaudited)	305.0	(20.1)	(584.0)	(26.1)	(325.2)
Cash flow	(55.6)	4.3	(177.4)	6.2	(222.5)
Acquisitions	6.0	-	(57.4)	-	(51.4)
Exchange differences	(0.6)	0.3	(8.5)	0.2	(8.6)
Non cash movements	-	-	-	(26.2)	(26.2)
At 31 December 2011 (audited)	254.8	(15.5)	(827.3)	(45.9)	(633.9)
Cash flow	**(33.2)**	**(4.3)**	**58.4**	**(4.8)**	**16.1**
Disposals of subsidiaries	**(1.2)**	**-**	**(24.6)**	**-**	**(25.8)**
Acquisitions	**0.7**	**-**	**-**	**-**	**0.7**
Exchange differences	**(2.3)**	**0.1**	**10.1**	**0.1**	**8.0**
Non cash movements	**-**	**-**	**0.5**	**(7.3)**	**(6.8)**
At 30 June 2012 (unaudited)	**218.8**	**(19.7)**	**(782.9)**	**(57.9)**	**(641.7)**

10. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2011	11.0	6.6	8.0	14.0	39.6
Charged to income statement	2.4	-	-	-	2.4
Released to income statement	-	(0.2)	(0.4)	(2.0)	(2.6)
Utilised during the period	(0.1)	(0.5)	(1.1)	(0.1)	(1.8)
Unwinding of discount	-	0.1	0.1	-	0.2
Exchange differences	-	(0.2)	(0.1)	(0.3)	(0.6)
At 30 June 2011 (unaudited)	13.3	5.8	6.5	11.6	37.2
Arising on acquisitions	0.4	3.6	29.2	6.9	40.1
Charged to income statement	2.1	0.4	-	-	2.5
Released to income statement	-	-	(0.8)	(1.2)	(2.0)
Utilised during the period	(0.9)	(1.0)	(6.4)	-	(8.3)
Unwinding of discount	-	0.2	0.1	-	0.3
Exchange differences	0.1	(0.1)	(2.5)	(0.7)	(3.2)
At 31 December 2011 (audited)	15.0	8.9	26.1	16.6	66.6
Arising on acquisitions	**-**	**1.0**	**1.1**	**4.5**	**6.6**
Charged to income statement*	**1.6**	**0.1**	**0.2**	**7.0**	**8.9**
Released to income statement	**(0.4)**	**(0.1)**	**(2.1)**	**(1.1)**	**(3.7)**
Utilised during the period	**(0.3)**	**(0.6)**	**(7.9)**	**(1.5)**	**(10.3)**
Derecognised on disposals	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Unwinding of discount	**-**	**0.1**	**0.2**	**-**	**0.3**
Exchange differences	**(0.2)**	**(0.2)**	**(0.9)**	**(0.4)**	**(1.7)**
At 30 June 2012 (unaudited)	**15.6**	**9.2**	**16.7**	**25.1**	**66.6**
Analysed as:					
Current					**9.0**
Non-current					**57.6**
					66.6

*The Other category includes £6.6m of provisions in relation to disposal costs on the two disposals during the period described in note 7.

11. Joint ventures

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

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Revenue	**436.2**	408.4	819.3
Operating profit*	**38.1**	36.8	81.6
Profit before tax	**39.2**	37.6	83.6
Tax	**(8.6)**	(8.3)	(20.0)
Share of post-tax results of joint ventures	**30.6**	29.3	63.6

*Operating profit is after allocating £nil of costs incurred by Group (30 June 2011: £1.0m, 31 December 2011: £1.0m).

12. Related party transactions

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

	Six months ended 30 June 2012 (unaudited) £m	Six months ended 30 June 2011 (unaudited) £m	Year ended 31 December 2011 (audited) £m
Royalties and management fees receivable	**1.1**	1.2	1.5
Dividends receivable	**31.4**	28.2	64.3
	32.5	29.4	65.8

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

	At 30 June 2012 (unaudited) £m	At 30 June 2011 (unaudited) £m	At 31 December 2011 (audited) £m
Current:			
Loans	**1.3**	0.3	0.5
Non-current:			
Loans	**2.5**	3.5	3.2

13. Share-based payments

In accordance with IFRS 2, a charge of £3.7m (30 June 2011: £5.9m, 31 December 2011: £11.2m) relating to the fair value of share schemes granted since 7 November 2002, has been charged to the condensed consolidated income statement.

14. Defined benefit schemes

At 30 June 2012 (unaudited)	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Fair value of scheme assets	**265.1**	**454.6**	**1,136.5**	**1,856.2**
Present value of scheme liabilities	**(424.7)**	**(624.2)**	**(1,027.7)**	**(2,076.6)**
Net amount recognised	**(159.6)**	**(169.6)**	**108.8**	**(220.4)**
Members' share of deficit	**-**	**45.6**	**2.0**	**47.6**
Franchise adjustment	**-**	**101.7**	**-**	**101.7**
Effect of IFRIC 14	**-**	**-**	**(59.0)**	**(59.0)**
Net pension (liability)/asset	**(159.6)**	**(22.3)**	**51.8**	**(130.1)**
Analysed as:				
Retirement benefit obligations	**(159.6)**	**(22.3)**	**(19.2)**	**(201.1)**
Retirement benefit assets	**-**	**-**	**71.0**	**71.0**
Related assets				
Intangible assets	**-**	**5.4**	**-**	**5.4**
Trade and other receivables	**159.6**	**-**	**-**	**159.6**
	159.6	**5.4**	**-**	**165.0**

At 30 June 2011 (unaudited)	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Fair value of scheme assets	265.4	424.7	929.1	1,619.2
Present value of scheme liabilities	(417.8)	(561.4)	(978.4)	(1,957.6)
Net amount recognised	(152.4)	(136.7)	(49.3)	(338.4)
Members' share of deficit	-	35.9	2.3	38.2
Franchise adjustment	-	74.7	-	74.7
Effect of IFRIC 14	-	-	0.2	0.2
Net pension liability	(152.4)	(26.1)	(46.8)	(225.3)
Analysed as:				
Retirement benefit obligations	(152.4)	(26.1)	(61.7)	(240.2)
Retirement benefit assets	-	-	14.9	14.9
Related assets				
Intangible assets	-	7.9	-	7.9
Trade and other receivables	152.4	-	-	152.4
	152.4	7.9	-	160.3

14. Defined benefit pension schemes (continued)

At 31 December 2011 (audited)	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Fair value of scheme assets	252.6	429.3	1,065.3	1,747.2
Present value of scheme liabilities	(441.3)	(594.9)	(1,001.3)	(2,037.5)
Net amount recognised	(188.7)	(165.6)	64.0	(290.3)
Members' share of deficit	-	43.7	2.2	45.9
Franchise adjustment	-	95.4	-	95.4
Effect of IFRIC 14	-	-	(7.4)	(7.4)
Net pension (liability)/asset	(188.7)	(26.5)	58.8	(156.4)
Analysed as:				
Retirement benefit obligations	(188.7)	(26.5)	(63.5)	(278.7)
Retirement benefit assets	-	-	122.3	122.3
Related assets				
Intangible assets	-	6.3	-	6.3
Trade and other receivables	188.7	-	-	188.7
	188.7	6.3	-	195.0

	At 30 June 2012 (unaudited) %	At 30 June 2011 (unaudited) %	At 31 December 2011 (audited) %
Main assumptions:			
Rate of salary increases	**3.30**	3.90	3.30
Rate of increase in pensions in payment (CPI)	**2.10**	3.00	2.10
Rate of increase in pensions in payment (RPI)	**2.90**	3.50	2.90
Rate of increase in deferred pensions (CPI)	**2.10**	3.00	2.10
Rate of increase in deferred pensions (RPI)	**2.90**	3.50	2.90
Inflation assumption (CPI)	**2.10**	3.00	2.10
Inflation assumption (RPI)	**2.90**	3.50	2.90
Discount rate	**4.70**	5.50	4.70
Expected rates of return on scheme assets:			
Equities	**7.70**	8.40	7.70
Bonds except LDI	**4.70**	5.50	4.70
LDI	**3.90**	5.00	3.90
Gilts	**3.10**	4.30	3.10
Property	**4.35**	5.55	4.35
Cash and other	**0.50**	0.50	0.50
Annuity policies	**4.70**	5.50	4.70

	At 30 June 2012 (unaudited) Years	At 30 June 2011 (unaudited) Years	At 31 December 2011 (audited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	21.0	20.9	20.9
Current pensioners at 65 – female	23.5	23.4	23.4
Future pensioners at 65 – male	22.5	22.5	22.5
Future pensioners at 65 – female	24.6	24.6	24.6