serco

Stock Exchange Announcement

2019 half year results

31 July 2019
Serco Group plc
LEI: 549300PT2CIHYN5GWJ21

Six months ended 30 June	2019	2018	Change at reported currency	Change at constant currency
Revenue[(1)]	£1,475.5m	£1,366.2m	+8%	+6%
Underlying Trading Profit (UTP)[(2)]	£50.6m	£37.6m	+35%	+29%
Reported Operating Profit (ie after exceptional items)[(2)]	£17.2m	£31.9m	(46%)	(52%)
Underlying Earnings Per Share (EPS), diluted[(3)]	2.62p	1.84p	+42%	+35%
Reported EPS (ie after exceptional items), diluted	(0.15p)	1.30p		
Free Cash Flow[(4)]	£0.4m	(£31.6m)		
Adjusted Net Debt, pro forma[(5)]	£200.6m	£204.8m		
Reported Net Debt[(6)]	£206.7m	£220.1m		

Rupert Soames, Serco Group Chief Executive, said: "Following a strong 2018, which marked an inflection point for Serco after several years of decline, we are reporting another good performance in the first half of 2019 with Underlying Trading Profit and margin well up on the first half of last year. Order intake so far this year has been very strong at over £3bn, already exceeding our revenue forecast for the whole of 2019. The strategic advantage of having a strong international footprint shows clearly in these results, with strong revenue growth in North America and AsPac; I am also delighted to see the UK & Europe division reaping the benefit of the Carillion health facilities management acquisition completed in 2018.

"The acquisition of the Naval Systems Business Unit of Alion for $225m, announced in May, will add materially to the scale and capability of our US defence business; having now received all necessary regulatory approvals, we look forward to completing the transaction imminently and to seeing the earnings accretion it will deliver. We continue to expect our organic growth to accelerate from this year's 4% to around 5% in 2020, as a number of large new contracts become fully operational. As we noted at the beginning of the year, absent unforeseen headwinds or major rebid losses, our recent strong order intake gives us confidence that we will grow faster than our market for at least the next two years."

Highlights

- Revenue[(1)] increased by 8.0%; excluding the £20m favourable impact of currency, the growth at constant currency was 6.5%; excluding the 2.3% net contribution from acquisitions, organic growth was 4.2%, driven by strong performances in the Americas and AsPac divisions. This is the first time Serco has reported organic growth since 2013.
- Underlying Trading Profit[(2)] increased by 35%; excluding the £2.1m favourable impact of currency, the growth at constant currency was 29%; if the £1.6m increase from the adoption of IFRS16 were also excluded, growth would have been 25%. Growth was particularly strong in the Americas division. The Group margin increased by 60 basis points to 3.4%.
- Despite a £13.0m increase in UTP, Reported Operating Profit reduced by £14.7m as a result of a £19.5m increase in the charge for exceptional items which included £22.9m related to the conclusion of the SFO investigation, as well as a net £nil movement in Contract & Balance Sheet Review items which in 2018 benefited from a £7.8m net credit. Onerous Contract Provisions (OCPs) are running off as we expected and the residual liability now stands at £27m, which compares to £447m as at December 2014; the residual cash liability is likely to be £50-£55m.
- Underlying EPS increased by 42%, reflecting the growth in Underlying Trading Profit, together with the benefit of the tax rate reducing from 34% to 24%. Reported EPS was a loss as a result of the exceptional items.
- Free Cash Flow[(4)] improved to a modest inflow, which includes the effect of the increase in underlying profitability, a significantly smaller working capital outflow and lower cash outflows on the residual OCP portfolio.
- Adjusted Net Debt[(5)] excludes £145m of lease liabilities now accounted for in accordance with IFRS16; it is also shown on a pro forma basis to exclude the £139m net proceeds of the Equity Placing completed in May that will be used to fund the NSBU acquisition. Reported Net Debt on a statutory basis includes both these items. Underlying pro forma leverage stands at 1.37x EBITDA.
- Acquisitions: the NSBU acquisition, announced in May 2019, will add materially to the scale and capability of our US defence business, and to the Group's earnings from 2020. This follows the two much smaller acquisitions completed in 2018 of BTP Systems (deepening our satellite and radar capabilities) and of six Carillion health facilities management contracts (adding significant scale to our UK health business).
- Order intake was very strong at £3.3bn; the two largest awards were for asylum accommodation and support services in the UK valued at £1.9bn, and for defence healthcare provision in Australia valued at £0.6bn;

approximately 60% of the order intake comprised new business, and 40% was existing work being rebid or extended. 2019 will be the third year in a row in which order intake exceeds revenues.

- Order book increased by £2.0bn to £14.0bn reflecting the strong order intake.
- The Pipeline of larger new bid opportunities reduced to £3.2bn at 30 June 2019, reflecting in large part the very strong result of contract awards in the period; we expect the Pipeline to increase in the second half.
- As stated in our Closed Period trading update issued on 27 June, we expect 2019 full year revenue of around £3.0bn and Underlying Trading Profit of approximately £105m; this excludes any potential part-year financial contribution from the acquisition of NSBU. Assuming completion of the acquisition, Adjusted Net Debt at the end of 2019 is expected to be around £250m, with leverage for covenant purposes on an underlying pro-forma basis of approximately 1.5x, comfortably around the mid-point of our normal target range of 1-2x.

For further information please contact Serco:
Stuart Ford, Head of Investor Relations T +44 (0) 7738 894 788
Marcus De Ville, Head of Media Relations T +44 (0) 7738 898 550

Presentation:
A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting at 10.45am. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility is also available on +44 (0) 207 192 8000 (USA: +1 631 510 7495) with participant pin code 5181036.

Notes to summary table of financial results:

(1) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Organic revenue growth is the change at constant currency after adjusting to exclude the impact of relevant acquisitions or disposals. Change at constant currency is calculated by translating non-Sterling values for the six months ended 30 June 2019 into Sterling at the average exchange rates for the six months ended 30 June 2018.

(2) Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges) and other material one-time items. A reconciliation of Underlying Trading Profit to Trading Profit and Reported Operating Profit is as follows:

Six months ended 30 June £m	**2019**	**2018**
Underlying Trading Profit	**50.6**	**37.6**
Include: non-underlying items		
Contract & Balance Sheet Review adjustments	-	7.8
Trading Profit	**50.6**	**45.4**
Amortisation of intangibles arising on acquisition	(2.3)	(1.9)
Operating Profit Before Exceptional Items	48.3	43.5
Operating Exceptional Items	(31.1)	(11.6)
Reported Operating Profit (after exceptional items)	**17.2**	**31.9**

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

(4) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Condensed Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest and net capital expenditure on tangible and intangible asset purchases. The results for the six months ended 30 June 2018 have been restated to include within Free Cash Flow the capital repayment of finance lease liabilities of £5.0m (2019 includes an equivalent £3.2m accounted for in accordance with IFRS16) and purchase of own shares net of share option proceeds which was an outflow of £0.6m (2019 includes an equivalent inflow of £0.1m); as these two areas of restatement were previously included beneath Free Cash Flow, there is no impact on net cash flow.

(5) Adjusted Net Debt has been introduced by Serco as an additional non-IFRS Alternative Performance Measure (APM) used by the Group. This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities including those newly recognised under IFRS16. The results for the six months ended 30 June 2018 have been restated to exclude from Adjusted Net Debt £15.3m of obligations under finance leases accounted for in accordance with the previous standard for leases, IAS17 (2019 excludes an equivalent £11.7m accounted for in accordance with IFRS16). A pro forma measure of Adjusted Net Debt is also presented for 30 June 2019; this removes the £138.7m of net proceeds of

the Equity Placing that were received in May, as these will be used to fund the NSBU acquisition that is expected to close imminently.

(6) Reported Net Debt includes all lease liabilities including those newly recognised under IFRS16. In accordance with the Group adopting the modified retrospective transition approach for IFRS16, comparative information such as net debt and other financial performance measures are not restated for the effect of this new accounting standard; instead, the cumulative effect of initially applying IFRS16 is reflected as an adjustment to opening equity at the date of initial application, which for Serco is 1 January 2019. Reported Net Debt also includes the £138.7m of net proceeds of the Equity Placing that were received in May, which will be used to fund the NSBU acquisition that is expected to complete in the near future. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:

As at £m	**30 June 2019**	**30 June 2018**	**31 Dec 2018**
Adjusted Net Debt, pro forma	**200.6**	**204.8**	**173.2**
Include: net proceeds from Equity Placing received in May 2019	(138.7)	n/a	n/a
Adjusted Net Debt	**61.9**	**204.8**	**173.2**
Include: all lease liabilities accounted for in accordance with IFRS16	144.8	n/a	n/a
Include: lease liabilities accounted for in accordance with IAS17	n/a	15.3	14.8
Reported Net Debt	**206.7**	**220.1**	**188.0**

Reconciliations and further detail of financial performance are included in the Finance Review on pages 16-35. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The condensed consolidated financial statements and accompanying notes are on pages 37-68. Further details regarding the impact of the adoption of IFRS16 are included in note 3 to the condensed consolidated financial statements on pages 45-46.

Forward looking statements:

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

Chief Executive's Review

Summary of financial performance

Revenue and Trading Profit

Reported Revenue increased 8.0% to £1,476m (2018: £1,366m); in accordance with IFRS this measure excludes Serco's share of revenue from joint ventures and associates of £193m (2018: £192m). Net currency movements increased revenue by £20m or 1.5%, whilst the net revenue contribution from acquisitions added £33m or 2.3% driven by the Carillion health facilities management contracts that transferred to Serco between June and August last year. At constant currency, the organic revenue growth was therefore £56m or 4.2%; this increase was mainly due to strong performances in the Americas division (predominantly in our defence business) and Asia Pacific (largely from growth in Citizen Services operations). This is the first time that Serco has reported organic growth since 2013.

Underlying Trading Profit (UTP) increased by £13.0m or 35% to £50.6m (2018: £37.6m); excluding the £2.1m favourable impact of currency and the £1.6m increase from the adoption of IFRS16, the increase in UTP was £9.3m or 25%. This growth was led by the Americas division and in particular by the CMS contract (re-awarded to Serco in June 2018), which now has a different contract structure, phasing of profitability across the year and experienced an unusually high volume of fixed-price variable work in the first half of 2019. Profitability in the UK benefitted from the Carillion health facilities management acquisition and other improvements, with some partial offset to this from the mobilisation and transition costs that were expensed as they were incurred on the Asylum Accommodation and Support Services Contracts (AASC). The Group's Underlying Trading Profit margin was 3.4%, an increase of 60 basis points (or 50 basis points, excluding the effect of IFRS16). As referred to in our guidance section further below, UTP growth in the second half will be more muted, in part because of the CMS contract phasing, and in part due to the non-recurring trading items such as end-of-contract settlements that benefited 2018.

Trading Profit was the same as Underlying Trading Profit, as there was a net £nil movement in Contract & Balance Sheet Review items (2018: net credit of £7.8m). As with prior periods, both Trading Profit and Underlying Trading Profit benefited from losses on previously-identified onerous contracts being neutralised by the utilisation of Onerous Contract Provisions (OCPs); the £29.5m utilised on losses in the period (excluding IFRS16-related accelerated utilisation) was in line with expectations and lower than the £33.7m utilised in the comparable period. The closing balance of OCPs now stands at £27m, compared to £82m at the start of the year and the initial charge of £447m taken at the end of 2014. The OCP closing balance of £27m would have been some £26m higher were it not for adjustments and impairments to reflect IFRS16; therefore the remaining future cash outflow is unchanged at around £50-55m, of which £15-20m will outflow in the second half of 2019 and the balance in subsequent years.

Reported Operating Profit and Exceptional Costs

Reported Operating Profit of £17.2m (2018: £31.9m) was £33.4m lower than Trading Profit as a result of, first, £2.3m (2018: £1.9m) of amortisation of intangibles arising on acquisition, and second, operating exceptional costs of £31.1m (2018: £11.6m). The latter comprised mainly the £22.9m for the fine and costs regarding the conclusion of the SFO investigation, and restructuring programme costs of £5.4m (2018: £11.3m) related to the implementation of the Transformation stage of our strategy. After an exceptional tax credit of £0.4m (2018: £0.2m), total net exceptional costs were £30.7m (2018: £11.4m).

Financing and pensions

Pre-exceptional net finance costs were £10.5m (2018: £6.3m), with the increase including £2.4m (2018: £0.2m) interest payable on leases (with this element of increase thereby broadly netting out the increase in UTP from IFRS16), and £1.9m of non-cash credits no longer earned following the repayment of the Intelenet loan note in October 2018. On a daily average basis, Adjusted Net Debt, excluding the inflow from the Placing, was £219m, £26m higher than the comparable period and in line with the £27m increase in Adjusted Net Debt between the start and the end of the period. Cash net interest paid was £10.5m (2018: £8.0m).

Serco's pension schemes are in a strong funding position, resulting in a balance sheet accounting surplus, before tax, of £76m (31 December 2018: £71m) on scheme gross assets and gross liabilities each of approximately £1.4bn. The opening net asset position led to a net credit within net finance costs of £1.1m (2018: £0.4m). For the Group's main scheme, the Serco Pension and Life Assurance Scheme (SPLAS), the purchase of a bulk annuity from an insurer, which covers around half of all scheme members, has the effect of fully removing longevity, investment and accounting risks; the gross liability remains recognised on our balance sheet, but there is an equal and opposite insurance asset reflecting the perfect hedge established by the annuity.

Tax

The underlying effective tax cost was £9.8m (2018: £10.6m), representing an underlying effective rate of 24% (2018: 34%) based upon £40.1m (2018: £31.3m) of Underlying Trading Profit less net finance costs. The rate is higher than the UK statutory rate of corporation tax as there was no deferred tax credit taken against UK losses incurred in the period, and because it reflects the tax charges at locally prevailing rates in the international divisions which tend to be higher than the UK's rate; these two factors are partially offset by the proportion of Serco's profit before tax generated by consolidating our share of joint venture and associate earnings which have already been taxed. The rate is lower than the comparable period reflecting the improvement in, and changing mix of, the Group's profitability; we expect the rate to continue to reduce over the longer term particularly as a result of further improvements in the profitability of the UK business. The tax on non-underlying items was a net credit of £1.3m (2018: charge of £0.6m); total pre-exceptional tax costs were therefore £8.5m (2018: £11.2m). Cash net tax paid was £17.2m (2018: £4.8m), which includes the effect of tax paid in the latest period on non-underlying items that were credits in the prior year. Our reported effective tax rates are likely to be volatile until we are able to show sufficient profitability in our UK business to be able to recognise on our balance sheet all of the UK tax asset arising from losses in 2014 and 2015 principally as a result of the Contract & Balance Sheet Review.

Reported result for the period

The reported result for the period, as presented at the bottom of the Group's Condensed Consolidated Income Statement on page 37, was a loss of £1.4m (2018: profit of £14.6m). This reflects: Trading Profit of £50.6m (2018: £45.4m); amortisation of intangibles arising on acquisition of £2.3m (2018: £1.9m); pre-exceptional net finance costs of £10.5m (2018: £6.3m); pre-exceptional tax costs of £8.5m (2018: £11.2m); and total net exceptional costs of £30.7m (2018: £11.4m).

Earnings Per Share (EPS)

Underlying EPS, which reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects, increased by 42% to 2.62p (2018: 1.84p). The improvement reflects the 35% increase in Underlying Trading Profit at reported currency, and the increase in net finance costs which was more than offset by the lower tax rate; the weighted average number of shares in issue, after the dilutive effect of share options, increased to 1,146.3m (2018: 1,117.9m) largely as a result of the approximate one-month effect of the additional Placing shares from 28 May 2019. Reported EPS, which includes the impact of the other non-underlying items and exceptional costs, was a loss per share of 0.15p (2018: profit per share of 1.30p).

Cash Flow and Net Debt

Free Cash Flow was positive £0.4m (2018: negative £31.6m), the first time that it has been positive in the first half of a year since 2014. Cash generated from Underlying Trading Profit was partially offset by the outflows related to loss-making contracts subject to OCPs, principally the Caledonian Sleeper, COMPASS and PECS contracts. These cash outflows were lower than the prior year comparable period, as reflected in the lower rate of OCP utilisation (excluding IFRS16-related accelerated utilisation) for in-period losses of £29.5m (2018: £33.7m). There was a more modest working capital outflow of £7.5m (2018: £27.3m); the company has not utilised any working capital financing facilities in this latest or the comparable period. Average working capital days in the period were broadly unchanged; 87% of UK supplier invoices were paid in under 30 days, up from 85% in 2018, and 96% were paid in under 60 days. Of other movements within Free Cash Flow to note, cash tax paid was higher but capital expenditure was lower, both of which include some timing effects.

Pro forma Adjusted Net Debt at 30 June 2019 increased to £200.6m (31 December 2018: £173.2m); our key measure of Adjusted Net Debt excludes all lease liabilities, which now total £145m including those newly recognised under IFRS16, and this measure more closely aligns with that for covenant purposes of our financing facilities; the figure of £200.6m is also on a pro forma basis that removes the £138.7m of net proceeds of the Equity Placing that were received in May, as these will be used to fund the NSBU acquisition that is expected to close imminently. The increase of £27.4m includes the Free Cash inflow of £0.4m, offset principally by three sources of outflow: a £12m (2018: £24m) cash outflow related to exceptional items, principally restructuring costs (this outflow does not reflect the SFO costs recognised in the first half which will be paid in the second half); £9m net outflow for acquisitions, principally the equity investment required for Clarence (formerly Grafton) Correctional Centre (2018: £15m, principally BTP Systems); and a net adverse currency translation effect of £7m, predominantly reflecting the Group's US$ Private Placement debt. The closing pro forma Adjusted Net Debt of £200.6m compares to a daily average of £219m (2018: £193m) and a peak net debt of £277m (2018: £261m).

At the closing balance sheet date, our leverage for debt covenant purposes was 0.43x EBITDA (2018: 1.75x), though on an underlying pro forma basis, which excludes the proceeds of the Equity Placing, it was 1.37x. This compares with the covenant requirement to be less than 3.5x and our normal target range of 1-2x.

Dividends

The Board has not declared an interim dividend for 2019. As stated in our 2018 Annual Report, the Board's appraisal of the appropriateness of dividend payments takes into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it judges it prudent to do so, in assessing the timing of precisely when to do so we are mindful of the fact that 2019 is the last year of significant outflows of cash related to OCPs and operating exceptional costs. The Board will continue to keep the dividend policy under careful and regular consideration as we progress with completing the transformation stage and driving forward with the growth stage of our strategy.

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

Contract awards, order book, rebids and Pipeline

Contract awards

At £3.3bn, the Group's order intake has been very strong in the first half of 2019. As this already exceeds our revenue forecast for the year as a whole, 2019 will be the third year in succession that the book-to-bill ratio is positive. There were over 20 contract awards worth more than £10m each, but two particularly large new wins dominated the intake: in Australia, we won a AU$1.01bn (around £560m) sub-contract over an initial six-year term to provide health services personnel to the Australian Defence Force; whilst in the UK, we won our largest ever contract, being £1.9bn over 10 years for AASC (providing asylum accommodation and support services). As previously set out, the AASC contracts are particularly significant. AASC supersedes the current COMPASS contracts which have been incurring losses (offset in the P&L by the utilisation of the OCP) of around £15-20m per year for the last five years. Under the new AASC contracts, we did not retain the Scotland & Northern Ireland region, but gained the much larger Midlands & East of England region, whilst retaining our "home" region of the North West; as a consequence, we will now be the largest provider of asylum seeker accommodation in the UK. Given our past experience, we also bid the regions at prices which we believe should allow us to make a fair return.

Of the total order intake, approximately 60% comprised new business, with the balancing 40% represented by the value of rebids and extensions of existing work. Reflecting the scale of the AASC award, around 60% of order intake came from the UK, with the remaining 40% from customers of our Americas, AsPac, Middle East and continental European operations.

Other notable contract awards included, in the UK & Europe division: rebid and expansion of our work on the Skills Support for the Workforce Programme; a new environmental services contract with the Royal Borough of Windsor and Maidenhead, together with five other contract extensions for similar services; extending defence support contracts for the UK MOD and the US Air Forces in Europe; and securing our contact centre operations for Companies House and our support services to the European Organisation for Nuclear Research (CERN). Americas had another strong period of intake, including: a new win for field office services to the US Pension Benefit Guaranty Corporation worth up to $200m; an $82m award for NexGen IT solutions US Air Force Civil Engineering; engineering sustainment support valued at $52m; and increased task orders on ship modernisation frameworks as well as a number for our support services to the Federal Emergency Management Agency (FEMA). In AsPac, a new AU$115m contract to operate the Adelaide Remand Centre on behalf of the South Australia Department for Correctional Services was won. While in the Middle East, we signed the contract to continue operating the Dubai Metro, as well as an extension for air traffic control services in Iraq and a new contract for public infrastructure advisory services in Saudi Arabia.

Bids for new work that were unsuccessful in the period included the defence deployable health opportunity in Australia, the Eastern Harbour Crossing and the Tsing Ma Control Area transport operations in Hong Kong, and some new environmental services and health facilities management tenders in the UK. Of existing work, the largest loss was for the Scotland & Northern Ireland region of the current COMPASS contract, however this was more than offset by winning a new region of Midlands & East of England in addition to securing the North West of England region. The only other rebid loss of note was that for transport management of the Tsing Sha Control Area in Hong Kong which has current annual revenue equivalent to around 0.7% of the Group overall; as this was an onerous contract it does not impact UTP.

The win rate by value for new work, which has been 20-25% for the last four years, increased to close to 50% as a result of the value of the new AASC Midlands & East of England region and the new Australia defence health contract. The win rate by value for securing existing work was similar, which is considerably lower than the 75-90% trend in recent years, but which is reflective of losing the existing Scotland COMPASS region; if the Scotland COMPASS

region were excluded, the win rate by value for existing work would have been over 90%. Win rates by volume were over 50% for new bids and over 90% for rebids and extensions.

Order book

Reflecting the very strong order intake, the Group's order book is now an estimated £14.0bn, up by £2.0bn versus £12.0bn at the start of the year. Our order book definition is aligned with the IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. It is worth noting that this excludes unsigned extension periods; the £14.0bn would be £15.0bn if option periods in our US business were included; as option periods have always tended to be exercised in our US business, we do include these in our assessment of order intake, as noted in the above section on contract awards, but in accordance with IFRS15 do not include them in the order book until they are exercised. Furthermore, the order book definition excludes our share of expected revenue from contractual arrangements of our joint ventures and associates which would add a further £1.6bn if included within our order book, driven by the current pricing period of the AWE operations and the Merseyrail franchise.

There is now £2.9bn of revenue already delivered or secured in the order book for 2019, equivalent to over 90% visibility of our £3.0bn revenue guidance.

Rebids

As we look ahead through to the end of 2021, across the Group there are around 60 contracts in our order book with annual revenue of over £5m where an extension or rebid will be required, representing current annual revenue of over £1.2bn in aggregate or around 40% of the Group's 2019 revenue guidance. This proportion of revenue that requires securing at some point over the next two-and-a-half years is not unusual given our average contract length of around seven years (or approximately ten years on average on a revenue-weighted basis, as larger contracts typically have longer terms); at the start of 2018 the three-year forward rebid value was £1.4bn. Contracts that could potentially end at some point before the conclusion of 2019 have aggregate annual revenue of around £300m, the largest of which are the Australian immigration services and NorthLink Ferries operations. In 2020, the annual value of contracts due for extension or re-compete is currently around £400m, with the Prisoner Escorting Services (PECS) in the UK being the largest contract anticipated to become due in that year. 2021 is currently expected to be a bigger year with around £500m becoming due that year, the largest being our operations for the Dubai Metro and Fiona Stanley Hospital in Australia.

Pipeline

Our measure of Pipeline is probably more narrowly defined than is common in our industry; it was originally designed as an indicator of future growth and focuses on bids for new business only. As a consequence, on average over the last five years, less than half of our achieved order intake has come from the Pipeline. It measures only opportunities for new business that have an estimated Annual Contract Value (ACV) of at least £10m, and which we expect to bid and to be awarded within a rolling 24-month timeframe; we cap the Total Contract Value (TCV) of individual opportunities at £1bn, to attenuate the impact of single large opportunities; the definition does not include rebids and extension opportunities; and in the case of framework, or call-off, contracts such as 'ID/IQ' (Indefinite Delivery / Indefinite Quantity contracts which are common in the US) we only take the individual task orders into account. It is thus a relatively small proportion of the total universe of opportunities, many of which either have annual revenues less than £10m, or are likely to be decided beyond the next 24 months, or are rebids and extensions.

On this definition our Pipeline stood at £5.3bn at the beginning of 2019, however, as we noted at the time of reporting the results for the 2018 financial year back in February, we had already won the two largest opportunities in this Pipeline which reduced it by £1.7bn to around £3.6bn. Other wins, losses and a small number of removals due to opportunities no longer meeting our definition reduced the Pipeline further, though this was broadly offset by a number of new opportunities maturing to the stage where they meet our Pipeline definition. The Pipeline therefore stood at £3.2bn at 30 June 2019, which consists of around 20 bids that have an ACV averaging approximately £30m and a contract length averaging around six years.

As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and when they come in and out of the Pipeline they can have a material effect on reported values. As we look ahead to the second half of the year, there is a smaller value of opportunities due for decision and therefore dropping out of the Pipeline, and there should be a larger value of opportunities maturing to the stage for inclusion in our definition, therefore the Pipeline should increase in the second half.

Acquisition of NSBU

On 23 May 2019, Serco announced that it had entered into a definitive Asset Purchase Agreement to acquire for $225m the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation. NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. In the 12 months to September 2018 NSBU had revenues of $336m, which compares with Serco's North American Defence revenues in 2018 of $453m; NSBU has an order book of around $600m and a new business pipeline of over $2bn.

The acquisition is an important step for Serco, materially adding to the scale and capability of our US defence business, and in particular to the maritime support segment. Serco employs some 6,000 people in North America, of whom 2,300 work in defence, and has been providing services to the US Navy for nearly 30 years. NSBU, which employs around 1,000 people, brings world-class ship and submarine design, systems, and engineering services, production support and in-service sustainment capabilities, which are highly complementary to Serco's existing skills in ship modernisation, hardware integration and naval logistics.

As well as broadening capabilities, the acquisition increases significantly the scale of our international Defence businesses. Serco Group's revenue mix from Defence will increase from 30% to around 35%, which is equivalent to approximately $1.6bn (£1.2bn) on a pro forma basis for 2018, while the Americas division as a proportion of the Group will increase from 20% to around 26%, equivalent to approximately $1.2bn (£0.9bn).

The combined business will be a top tier supplier of services to the US Navy, and increases our exposure to US Navy fleet expansion, which is one of the fastest-growing areas of public procurement. The US Navy has recently announced plans to increase the fleet from 280 to 355 ships by 2034, and we see a long-term and growing demand for the capabilities that the combination of Serco and NSBU will be able to provide.

The acquisition is being financed through a combination of a new committed debt facility of up to £75m, together with an Equity Placing for cash of 10% of existing share capital that raised gross proceeds of around £140m on the day that the transaction was announced. In 2020, NSBU is expected to contribute revenue of approximately $370m (£285m), EBITDA of $28m (£21m) and Underlying Trading Profit of $27m (£20m), resulting in transaction multiples of 0.6x, 8.1x and 8.3x, respectively. This includes the benefit of sharing Serco's fixed overheads across a wider revenue base in North America, which we expect to be worth $3-4m of UTP in the first year. Taking the financing and earnings expectations into account, the acquisition is expected to be accretive to the analyst pre-transaction consensus Underlying EPS by 7-9% in 2020, which will be the first full year of ownership.

Serco has now received all necessary regulatory approvals, including customary Hart-Scott-Rodino ('HSR') and Committee on Foreign Investments into the United States ('CFIUS'), and we look forward to completing the transaction imminently.

Market outlook

In our 2018 Annual Report, we set out in considerable detail our views on our markets. Barely six months on, it will come as little surprise that not much has changed, albeit we could all have hoped to have had greater clarity on Brexit by now.

In summary, our views were then, and still are:

- We believe that the Four Forces (relentlessly increasing demand for public services; expectations of higher service quality; structural fiscal deficits; electoral resistance to tax increases) will continue to encourage governments to seek innovative ways to deliver more services, of higher quality, and at lower cost (what we call 'More and Better for Less').
- The weighted average rate of growth across all our geographies and sectors is currently running at 2-3%, which is lower than the 5%+ seen several years ago and which we think the market could revert to in the longer term; the reduction is in large part because of the difficult conditions in the UK, which represents some 40% of our revenues.
- Whilst the UK Government's appetite for new projects has been reduced, frontline services of the type we provide tend to be non-discretionary and critical in nature, and provide more stability as well as the potential for attractive long-term growth.
- Whilst individual departments, and even governments, may increase or decrease spending quite rapidly in response to changing political priorities, Serco's portfolio of sectors and countries gives us significant protection against the vagaries of single markets. At a time of reductions in UK Government spending on Justice, for instance, US Navy budgets are increasing.

- It is not possible to forecast with any certainty how demand in the UK market will evolve during and after Brexit; the possible outcomes range from a rapid increase in demand, through to a gradual decline, and where they will actually fall is unknowable, but we are inclined to believe that the risk to our business in the long term is weighted slightly to the upside. On direct exposure to Brexit, we neither export nor import to any significant degree; our business in continental Europe is conducted through long-established local subsidiaries, and we employ relatively few continental European citizens in the UK.
- As well as the immense complexity and distraction of Brexit, the UK Government has also been wrestling with a distressed supply chain, seen publicly in the insolvency of Carillion and the administration of Interserve. Serco has been deeply engaged with a joint Government / Industry group to improve the working of the public services market, and we are encouraged by the Cabinet Office's publication earlier this year of the 'Outsourcing Playbook' which reflects many of the ideas Serco has been arguing for and it also reiterates the value that Government sees in having private companies and third sector organisations being able to provide services.

Conclusion of Electronic Monitoring investigations

On 3 July 2019, Serco announced that one of its UK subsidiaries, Serco Geografix Ltd (SGL), had reached an agreement to a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO); the agreement received final judicial approval the following day. The DPA related to three offences of fraud and two of false accounting committed between 2010 and 2013 associated with the reporting to the UK Ministry of Justice (MoJ) of the levels of profitability of Serco's Electronic Monitoring (EM) contract. Investigations into allegations of wrongful billing which were the subject – understandably – of significant public and Parliamentary concern in 2013 were concluded without any criminal charges against Serco. An investigation by the Financial Reporting Council into misconduct by the Group's auditors at the time concluded with sanctions imposed against Deloitte and its audit engagement partner. Nothing in these matters impacts the previously reported statutory accounts of Serco Group.

This therefore concludes the SFO's investigation into Serco companies announced in November 2013. As noted in the summary of financial performance above, and in note 20 to the financial statements on page 68 regarding post balance sheet events, a £22.9m exceptional charge has been taken in first half of 2019 to reflect the fine of £19.2m together with £3.7m related to the SFO's investigation costs; payment of these will occur in the second half of the financial year. The fine reflected a discount of 50% as a result of Serco's self-reporting, as well as its significant and substantial cooperation with the investigation. No further damages or disgorgement of profit is payable to the MoJ because the SFO has agreed that Serco had already fully compensated the Department in respect of the offences as part of a £70m settlement paid by Serco to the MoJ in December 2013.

As noted in the announcements made in early July, the SFO has recognised the significant steps Serco has taken to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government. This programme included over 80 actions and initiatives, and included rewriting our system of management control, as well as strengthening our bidding, contract management, internal audit and management assurance processes. Nobody who sat on the Board of Serco Group, or who was part of the Executive Management Team at the time these offences were committed, works for Serco today.

Guidance for 2019

At our Closed Period trading update on 27 June 2019, we reviewed guidance for the 2019 financial year. No element of guidance has changed since that date, and it is repeated for convenience below. Except where stated, and consistent with the trading update, the guidance excludes any potential contribution from the acquisition of NSBU. As we have now received all necessary regulatory approvals for the acquisition, we look forward to completing the transaction imminently, which would lead to up to five months of financial contribution of NSBU being consolidated within Serco's financial year ending 31 December 2019.

Our guidance for 2019 revenues is around £3.0bn (full year 2018: £2,837m). This would be a result around the top of the £2.9-3.0bn range originally provided in February, partly reflecting a small favourable currency movement based on recent rates.

We continue to expect UTP in 2019 of approximately £105m (full year 2018: £93.1m), which includes an estimated £5m increase from IFRS16 (largely offset by an increase in Net Finance Costs); aside from a small currency movement, our expectations are unchanged from those set out in February. 2018 benefited from non-recurring trading items such as end-of-contract settlements, and against this comparator UTP growth in the second half of 2019 will be muted. The strong performance of the first half of 2019 was also driven by the CMS contract which was re-awarded to Serco in June 2018, and now has a different contract structure and phasing of profitability across the year and experienced an unusually high volume of fixed-price variable work in the first half of 2019; much of the

increase in profitability is expected to reverse in the second half of 2019, and we do not expect margins to recur at these levels in the future.

As we have previously observed, our profits can be affected by even small percentage changes in revenues and costs, as well as currency rates. Trading in the second half will also be particularly sensitive to continued successful progress in mobilising and transitioning large new contracts, of which there are several in train, including asylum accommodation and support services in the UK, and in Australia the defence garrison health services, Clarence Correctional Centre (formerly known as Grafton) and the Antarctic Supply Research Vessel contracts.

We continue to expect Net Finance Costs to be around £20m (full year 2018: £13.9m), which includes the estimated £5m increase from IFRS16 which broadly nets out the increase in UTP, and a Group underlying effective tax rate reducing to below 25% (full year 2018: 26%). Guidance for exceptional restructuring costs is approximately £15m as we implement the final steps of the Group's transformation stage of our strategic plan implementation. We expect 2019 Free Cash Flow (FCF) to be approximately £30-40m (full year 2018: £16.3m).

In February we guided to Adjusted Net Debt for the end of 2019 of approximately £200m; this measure excludes all lease liabilities including those newly recognised under IFRS16 and therefore closely aligns with the covenant measure for the Group's financing facilities. As stated in the announcement regarding the NSBU acquisition, this Adjusted Net Debt guidance was increased to around £250m, with leverage for covenant purpose on an underlying pro-forma basis expected to increase by around 0.2x to approximately 1.5x following completion of the acquisition.

The weighted average number of shares for diluted EPS purposes was previously expected to be approximately 1,145m. As a result of the Equity Placing related to the NSBU acquisition, an additional 111m shares were admitted to trading on the London Stock Exchange on 28 May 2019. As indicated in the acquisition announcement, this increases the weighted average number of shares for diluted EPS purposes to approximately 1,200m for 2019, fully annualising to approximately 1,260m for 2020.

Summary and concluding thoughts

We have delivered another good performance in the first half of 2019, which follows a strong 2018 that marked an inflection point for Serco after several years of decline. Whilst challenges remain in parts of our market, particularly in the UK, we are confident of our ability to outperform market growth rates at least in the near term following the strength of recent order intake, the acquisition of NSBU and our actions to transform Serco. We also believe we have a business that is now well placed for the longer term given our deep capability and experience in many areas of public service delivery; a strong financial position; a track record of dealing fairly with suppliers, employees and customers; a strong public service ethos and commitment to social value; and a reputation for standing by our contractual commitments, but being resolute in not accepting risk that cannot either be mitigated or managed.

As we said in our 2018 Annual Report, a number of factors favour Serco and give us confidence that for at least the next two years, and absent unforeseen headwinds or losses on major rebids, we should be able to grow our revenues faster than the underlying market; we think that 2019 will see organic revenue growth of around 4%, accelerating to around 5% in 2020 as contracts such as AASC in the UK, and in Australia the defence garrison healthcare, Clarence Correctional Centre (formerly known as Grafton) and icebreaker vessel contracts all become fully operational. We believe that our ambition of achieving margins of at least 5% over the longer term is still achievable by a combination of contract and overhead cost efficiency, running off OCP contracts and the conversion of some of them into profitable contracts (of which AASC is a good example), and revenue growth.

Our strategy – first described to investors in March 2015 – remains on track to deliver on our objectives of producing growth at margins that achieve attractive returns on capital and represent an acceptable balance of risk and reward, and doing so through our core competence in providing vital, frontline, people-enabled services of high quality and good value to governments.

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

Divisional Reviews

Serco's operations are reported as four regional divisions: UK & Europe (UK&E); the Americas; the Asia Pacific region (AsPac); and the Middle East. Reflecting statutory reporting requirements, Serco's share of revenue from its joint ventures and associates is not included in revenue, while Serco's share of joint ventures and associates' profit after interest and tax is included in Underlying Trading Profit (UTP). As previously disclosed and for consistency with guidance, Serco's Underlying Trading Profit measure excludes Contract & Balance Sheet Review adjustments (principally OCP releases or charges).

Six months ended 30 June 2019 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**657.9**	**372.3**	**279.7**	**165.6**	**-**	**1,475.5**
Change	*+4%*	*+22%*	*+6%*	*+2%*		*+8%*
Change at constant currency	*+4%*	*+15%*	*+9%*	*(3%)*		*+6%*
Organic change at constant currency	*(1%)*	*+15%*	*+9%*	*(3%)*		*+4%*
UTP excluding the effect of IFRS16 adoption	**14.6**	**36.9**	**11.7**	**7.3**	**(21.5)**	**49.0**
Change	*+3%*	*+93%*	*(11%)*	*(26%)*	*+15%*	*+30%*
Change at constant currency	*+3%*	*+81%*	*(7%)*	*(28%)*	*+15%*	*+25%*
Margin excluding the effect of IFRS16	***2.2%***	***9.9%***	***4.2%***	***4.4%***	***n/a***	***3.3%***
Change	*0bps*	*+360bps*	*(80bps)*	*(170bps)*		*+50bps*
Effect of IFRS16 adoption on UTP	0.6	0.8	0.1	0.1	-	1.6
UTP	**15.2**	**37.7**	**11.8**	**7.4**	**(21.5)**	**50.6**
Margin	***2.3%***	***10.1%***	***4.2%***	***4.5%***	***n/a***	***3.4%***
Contract & Balance Sheet Review adjustments	(2.7)	2.7	-	-	-	-
Trading Profit/(Loss)	**12.5**	**40.4**	**11.8**	**7.4**	**(21.5)**	**50.6**
Amortisation of intangibles arising on acquisition	(0.6)	(1.6)	(0.1)	-	-	(2.3)
Operating profit/(loss) before exceptionals	**11.9**	**38.8**	**11.7**	**7.4**	**(21.5)**	**48.3**

Six months ended 30 June 2018 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**635.0**	**305.3**	**263.4**	**162.5**	**-**	**1,366.2**
UTP	**14.2**	**19.1**	**13.1**	**9.9**	**(18.7)**	**37.6**
Margin	***2.2%***	***6.3%***	***5.0%***	***6.1%***	***n/a***	***2.8%***
Contract & Balance Sheet Review adjustments	7.4	-	0.4	-	-	7.8
Trading Profit/(Loss)	**21.6**	**19.1**	**13.5**	**9.9**	**(18.7)**	**45.4**
Amortisation of intangibles arising on acquisition	-	(1.6)	(0.3)	-	-	(1.9)
Operating profit/(loss) before exceptionals	**21.6**	**17.5**	**13.2**	**9.9**	**(18.7)**	**43.5**

Year ended 31 December 2018 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**1,300.7**	**645.6**	**548.2**	**342.3**	**-**	**2,836.8**
UTP	**39.2**	**45.7**	**26.8**	**21.5**	**(40.1)**	**93.1**
Margin	***3.0%***	***7.1%***	***4.9%***	***6.3%***	***n/a***	***3.3%***
Contract & Balance Sheet Review adjustments	12.4	(2.5)	13.7	-	-	23.6
Trading Profit/(Loss)	**51.6**	**43.2**	**40.5**	**21.5**	**(40.1)**	**116.7**
Amortisation of intangibles arising on acquisition	(0.5)	(3.2)	(0.6)	-	-	(4.3)
Operating profit/(loss) before exceptionals	**51.1**	**40.0**	**39.9**	**21.5**	**(40.1)**	**112.4**

The trading performance and outlook for each division are described on the following pages. Reconciliations and further detail of financial performance are included in the Finance Review on pages 16-35. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The condensed consolidated financial statements and accompanying notes are on pages 45-46.

UK & Europe

Serco's UK & Europe division supports public service delivery across all five of the Group's chosen sectors: our Justice & Immigration business provides a wide range of services to support the safeguarding of society, the reduction of reoffending, and the effective management of the UK's immigration system, and includes prison management as well as the provision of housing and welfare services for asylum seekers; in Defence, we are trusted to deliver critical support services and operate highly sensitive facilities of national strategic importance; we operate complex public Transport systems and services; our Health business provides primarily non-clinical support services to hospitals; and our Citizen Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to support public sector customers in the UK and European institutions, including the European Commission and European Space Agency. On a Reported Revenue basis, Serco's operations in the UK represent approximately 41% of the Group's reported revenue, and those across the rest of Europe approximately 4%.

Revenue for the first half of 2019 was £657.9m (2018: £635.0m), an increase of 4%. Reported Revenue excludes that from our joint venture and associate holdings which largely comprise the operations of AWE, Merseyrail and Viapath. At constant currency, the growth in Revenue was also 4%, or £23m. The net contribution from acquisitions, driven by the transfer of the Carillion health facilities management contracts, was £31m or 5%, therefore the organic decline was £7m or 1%. Within the organic change, examples of contracts with growth included those for services to Barts Health NHS Trust and to the DWP, and the start of our new contract for environmental services for Hart District Council and Basingstoke & Deane Borough Council; these were offset in particular by the early exit of the previously onerous contract for East Kent Hospitals University NHS Foundation Trust, and lower revenue in our European operations.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £14.6m (2018: £14.2m), representing an implied margin of 2.2% (2018: 2.2%) and growth of 3% at constant currency. Trading Profit includes the profit contribution (from which interest and tax have already been deducted) of joint ventures and associates; if the £193m (2018: £191m) proportional share of revenue from joint ventures and associates was also included and if the £3.0m (2018: £3.3m) share of interest and tax cost was excluded, the overall divisional margin would have been 2.1% (2018: 2.1%). The joint venture and associate profit contribution was lower at £13.5m (2018: £14.9m), largely as a result of the start of a new three-year pricing period at AWE. Also as expected were the mobilisation and transition costs that were expensed as they were incurred on the Asylum Accommodation and Support Services Contracts (AASC) contracts. Broadly offsetting these were the positive profit contribution from the acquired Carillion contracts as well as other improvements, savings and efficiencies.

Within Underlying Trading Profit there was a reduced rate of OCP utilisation (excluding IFRS16-related accelerated utilisation) of £23m (2018: £30m), which served to offset the Division's loss-making operations, principally the Caledonian Sleeper, COMPASS asylum seeker support services and Prisoner Escort & Custody Services (PECS) contracts. Contract & Balance Sheet Review and other one-time items resulted in a £2.7m net charge (2018: £7.4m net credit) to Trading Profit which, together with the effect of IFRS16 implementation of £0.6m (2018: n/a), resulted in Trading Profit of £12.5m (2018: £21.6m).

The UK & Europe division represented around £2.1bn or over 60% of the Group's order intake. By far the largest element of this was approximately £1.9bn for the AASC contracts. As previously set out, these are very significant for the division, and indeed for the Group. AASC supersedes the current COMPASS contracts which have been incurring losses (offset in the P&L by the utilisation of the OCP) of around £15-20m per year for the last five years. Under the new AASC contracts, we did not retain the Scotland & Northern Ireland region, but gained the much larger Midlands & East of England region, whilst retaining our "home" region of the North West; as a consequence, we will now be the largest provider of asylum seeker accommodation in the UK. Given our past experience, we also bid the regions at prices which we believe should allow us to make a fair return.

Other contract awards included: significantly expanding on rebid our operations for the Skills Support for the Workforce (SSW) programme which provides training and related employment services to Local Enterprise Partnership areas; a new environmental services contract with the Royal Borough of Windsor and Maidenhead, together with extensions for our services to five other similar services; we have also extended during the period contracts for defence support services to the UK MOD and the US Air Forces in Europe (USAFE), contact centre operations for Companies House and our operations at the European Organisation for Nuclear Research (CERN).

Of existing work where an extension or rebid will be required at some point before the end of 2021, there are around 20 contracts with annual revenue of over £5m within the UK & Europe division; in aggregate, these represent approximately 20% of the current level of annual revenue for the division. The one of note where we await an outcome in the current year is the NorthLink Ferries contract that was extended to 31 October 2019 and is now being competed for the next six-year term. In August 2020, the current PECS contract ends assuming a final extension

year option is not exercised by the customer, and in 2021, the largest to further secure is our strategic partnership contract supporting Hertfordshire County Council.

The rebid profile and the new bid Pipeline have both reduced with the successful outcome of our bidding for AASC. Other opportunities in the new bid Pipeline include several defence support opportunities, together with other tenders for environmental services, health facilities management and Justice & Immigration operations. Having recently secured a position on the UK prison operator services framework, we expect to add to our Pipeline opportunities to manage and operate new build prisons, as well as replenish it further with opportunities from our other sectors.

Americas

Our Americas division accounts for 25% of Serco's reported revenue, and provides professional, technology and management services focused on Defence, Transport, and Citizen Services. The US Federal Government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to some US state and municipal governments.

Revenue for the first half of 2019 was £372.3m (2018: £305.3m), an increase of 22% in reported currency. In US dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately US$484m (2018: US$421m). The strengthening of local currency against Sterling increased revenue by £20m or 7%; as the BTP acquisition completed in early 2018 the acquisition contribution to revenue growth was less than 1%; the organic change at constant currency was therefore growth of 15%, or £45m. The driver of this was a significant increase in task order volumes of our Ship & Shore modernisation work for the US Navy, albeit this was against a relatively weak comparative of the first half of 2018; there was particularly strong demand and new task order wins under the Consolidated Afloat Networks Enterprise Services (CANES) indefinite delivery, indefinite quantity (IDIQ) multiple-award contract for CVN, DDG, LHD ship classes and submarines.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £36.9m (2018: £19.1m), representing a margin of 9.9% (2018: 6.3%) and growth of 93%; excluding the favourable currency movement of £2.4m, growth at constant currency was 81%. Whilst revenue was broadly flat on our health insurance eligibility support contract for the US Department of Health and Human Services, Center for Medicare & Medicaid Services (CMS), there was a significant increase in profitability. The CMS contract was re-awarded to Serco in June 2018, and now has a different contract structure and phasing of profitability across the year, and experienced an unusually high volume of fixed-price variable work in the first half of 2019; much of the increase in profitability is expected to reverse in the second half of 2019, and we do not expect margins to recur at these levels in the future.

Within Underlying Trading Profit there was £4m of OCP utilisation required to offset the loss-making Ontario Driver Examination Services (DES) contract (2018: £1m). Contract & Balance Sheet Review adjustments resulted in a £2.7m net credit (2018: £nil) to Trading Profit which, together with the effect of IFRS16 implementation of £0.8m (2018: n/a), increased to £40.4m (2018: £19.1m).

Americas represented around £0.5bn ($0.7bn) or 15% of the Group's order intake. The largest award was the new contract for field office services to the US Pension Benefit Guaranty Corporation (PBGC) with a first task order valued at $112m over five years and a total potential value of $200m. A new five-and-a-half year task order valued at $82m was awarded by the US Air Force to enhance NexGen IT solutions for US Air Force Civil Engineering, which includes deploying TRIRIGA, an integrated workplace management system owned by IBM. Adding to our shore modernisation services for the US Navy, a new IT and engineering sustainment support task order valued at $53m was awarded to Serco. Other task orders have included those for ship modernisation work such as those under the Global Installation Contract (GIC), CANES and Naval Electronic Surveillance Systems (NESS) IDIQ frameworks, and a number for our Public Assistance Technical Assistance Contract for the Federal Emergency Management Agency (FEMA). Within awards that were rebid or extended were those for motorist assistance patrol operations in Louisiana and for our support to the Federal Retirement Thrift Investment Board (FRTIB).

Of existing work where an extension or rebid will be required at some point before the end of 2021, there are around 20 contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent around 35% of the current level of annual revenue for the division. There are few material contracts with potential end dates in 2019. Those coming up for rebid or extension in 2020 include the Federal Aviation Administration's (FAA) Contract Tower (FCT) Program; in 2021 they include part of the Global Installation Contract covering areas of naval onshore modernisation work, the Anti-Terrorism/Force Protection (ATFP) framework contract for the US Naval Facilities Command and our support to support services at the 5 Wing Canadian Forces Base in Goose Bay.

Our Pipeline of major new bid opportunities due for decision within the next 24 months includes a broad spread of defence support functions, as well as others such as air traffic control support within our Transport business. Our Citizen Services business unit has also had a number of wins, and building the Pipeline in this area remains a target.

AsPac

Serco operates in Australia, New Zealand and Hong Kong in the Asia Pacific region, providing services in each of the Justice, Immigration, Defence, Health, Transport and Citizen Services sectors. The AsPac division accounts for 19% of the reported revenue for the Group.

Revenue for the first half of 2019 was £279.7m (2018: £263.4m), an increase of 6% in reported currency. In Australian dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately A$512m (2018: A$469m). The weakening of local currency against Sterling reduced revenue by £7m or 3%; the organic change at constant currency was therefore growth of 9%, or £24m. This growth was largely driven by our Citizen Services operations, including further expanding operations supporting the Department of Human Services, together with new contracts for call centre services for Australia's National Disability Insurance Agency and for Victoria Police Assistance Line contact centre services for non-emergency incidents. There was also an increase in workload in Immigration Services.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £11.7m (2018: £13.1m), representing a margin of 4.2% (2018: 5.0%) and a decline of 11%; excluding the adverse currency movement of £0.5m, the decline at constant currency was 7%. The decline was largely the result of some non-recurring commercial settlement benefits in the comparable period, and there were also mobilisation and transition costs expensed in relation to new operations such as the defence healthcare provision contract in Australia and the Adelaide Remand Centre.

Within Underlying Trading Profit there was £2m of OCP utilisation required to offset the loss-making operations in Hong Kong (2018: £2m). Contract & Balance Sheet Review adjustments were £nil (2018: £nil), therefore Trading Profit, taking into account the effect of IFRS16 implementation of £0.1m (2018: n/a), was £11.8m (2018: £13.5m).

AsPac represented around 20% of the Group's order intake, which was driven by two contract awards. The first is for the provision of defence health services personnel at defence garrisons across Australia, which is valued at AU$1.01bn (around £560m) over the initial six-year term; having formally started on 1 July 2019, this contract will be the second largest contract for the AsPac division. Working as a sub-contractor to BUPA, Serco will source and manage more than 1,200 professional healthcare staff to support the delivery of on-base integrated health care to over 80,000 Australian Defence Force members and reservists across Australia. The second was a new AU$115m contract to operate Adelaide Remand Centre on behalf of the South Australia Department for Correctional Services.

Of existing work where an extension or rebid will be required at some point before the end of 2021, there are 11 contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent well over half of the current level of annual revenue for the division; this high proportion reflects that the Australia onshore immigration services contract requires rebid or extension at the end of 2019, with this accounting for around 30% of current divisional revenue. The one rebid of note that was lost in 2019 is that for transport management of the Tsing Sha Control Area in Hong Kong which had annual revenue of around £20m but was an onerous contract and therefore does not impact UTP. Others that will require extending or rebidding in 2020 are the Australian Tax Office framework contract, while Fiona Stanley Hospital, Acacia Prison, South Queensland Correctional Centre and a Fleet Marine Services contract all become potentially due in 2021.

As set out above, the largest opportunity in our Pipeline of major new bid opportunities at the start of the new year has already been won – defence health support in Australia. A number of other opportunities were either lost or removed from the Pipeline during the first half of 2019. Significant rebuild of the Pipeline is anticipated in the second half of the year, with a relatively broad spread across our Justice & Immigration, Defence, Citizen Services, Transport and Health sectors.

Middle East

Operations in the Middle East division include Transport, Defence, Health and Citizen Services, with the region accounting for approximately 11% of the Group's reported revenue.

Revenue for the first half of 2019 was £165.6m (2018: £162.5m), an increase of 2% in reported currency. The strengthening of local currency against Sterling increased revenue by £8.5m or 5%; the organic change at constant currency was therefore a decline of 3%. There was growth in revenue from the new contract for fire and rescue services at King Fahd International Airport (KFIA) in Saudi Arabia, as well as from expanded services at the Dubai Metro. These were offset by reduced revenue on the rebid of the MELABS contract providing defence base logistics and support services, the loss of the Bahrain air navigation services contract and a reduction in our Saudi rail operations.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £7.3m (2018: £9.9m), representing a margin of 4.4% (2018: 6.1%) and a decline of 26%; excluding the favourable currency movement of £0.2m, the decline at constant currency was 28%. As expected, this decline was driven by the significant reduction in margins on the MELABS contract, following the successful rebid which has extended the life of the contract for a further five years including option periods. There are no OCP contracts in the division and therefore no OCP utilisation within Underlying Trading Profit. There were no Contract & Balance Sheet Review adjustments in the latest or comparable period. Trading Profit, after the effect of IFRS16 implementation of £0.1m (2018: n/a), was therefore £7.4m (2018: £9.9m).

The Middle East represented less than £0.1bn of the Group's order intake. Signed in the period, but included in the 2018 order intake following receipt of a letter of intent, was the two-year extension to continue operating and maintaining the Dubai Metro until September 2021. Intake in the latest period included a new contract for advisory services to Mashroat (Saudi Arabia's National Program to Support the Management of Projects in Public Entities), facilities management and patient-facing services to Dr Soliman Fakeeh Hospital (DSFH) in Jeddah, and a further extension of Air Traffic Control, Aeronautical Information Services and training support to the Iraqi Civil Aviation Authority.

Of existing work where an extension or rebid will be required at some point before the end of 2021, there are 11 contracts with annual revenue of over £5m within the Middle East division; in aggregate, these represent well over half of the current level of annual revenue for the division. There remain a number of smaller integrated facilities management contracts due for rebid or extension during the balance of 2019. From early 2020, our contracts for air navigation services in both Dubai and Iraq become due again, together with the Saudi rail and a number of other operations. The relatively high proportion of current annual revenue on a cumulative two-and-a-half-year basis reflects that the Dubai Metro contract becomes due again in September 2021.

Our Pipeline of major new bid opportunities in the Middle East includes a small number in the Transport and Health sectors. Overall, it remains significantly lower than in prior years, and effort is ongoing to rebuild a stronger Pipeline across all Serco's sectors of operation in the region.

Corporate costs

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

While there are ongoing actions to deliver savings and improve efficiencies of our central functions, in this particular period there were some areas of cost investment, increase and phasing which resulted in overall corporate costs increasing by £2.8m to £21.5m (2018: £18.7m).

serco

Finance Review

For the six months ended 30 June 2019	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre-exceptional £m	Exceptional items £m	Statutory £m
Revenue	1,475.5	-	1,475.5	-	1,475.5	-	1,475.5
Cost of sales	(1,336.9)	-	(1,336.9)	-	(1,336.9)	-	(1,336.9)
Gross profit	138.6	-	138.6	-	138.6	-	138.6
Administrative expenses	(101.5)	-	(101.5)	(2.3)	(103.8)	(31.1)	(134.9)
Share of profits in joint ventures and associates, net of interest and tax	13.5	-	13.5	-	13.5		13.5
Profit before interest and tax	50.6	-	50.6	(2.3)	48.3	(31.1)	17.2
Margin	*3.4%*		*3.4%*		*3.3%*		*1.2%*
Net finance costs	(10.5)	-	(10.5)	-	(10.5)	-	(10.5)
Profit before tax	40.1	-	40.1	(2.3)	37.8	(31.1)	6.7
Tax charge	(9.8)	0.9	(8.9)	0.4	(8.5)	0.4	(8.1)
Effective tax rate	*(24.4%)*		*(22.2%)*		*(22.5%)*		*(120.9)%*
Profit / (loss) for the period	30.3	0.9	31.2	(1.9)	29.3	(30.7)	(1.4)
Minority interest	0.3		0.3		0.3		0.3
Earnings/(loss) per share – basic (pence)	*2.67*		*2.75*		*2.58*		*(0.15)*
Earnings/(loss) per share – diluted (pence)	*2.62*		*2.70*		*2.53*		*(0.15)*

For the six months ended 30 June 2018	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre-exceptional £m	Exceptional items £m	Statutory £m
Revenue	1,366.2	-	1,366.2	-	1,366.2	-	1,366.2
Cost of sales	(1,247.2)	7.8	(1,239.4)	-	(1,239.4)	-	(1,239.4)
Gross profit	119.0	7.8	126.8	-	126.8	-	126.8
Administrative expenses	(96.4)	-	(96.4)	(1.9)	(98.3)	(11.6)	(109.9)
Share of profits in joint ventures and associates, net of interest and tax	15.0	-	15.0	-	15.0	-	15.0
Profit before interest and tax	37.6	7.8	45.4	(1.9)	43.5	(11.6)	31.9
Margin	*2.8%*		*3.3%*		*3.2%*		*2.3%*
Net finance costs	(6.3)	-	(6.3)	-	(6.3)	-	(6.3)
Profit before tax	31.3	7.8	39.1	(1.9)	37.2	(11.6)	25.6
Tax charge	(10.6)	(1.0)	(11.6)	0.4	(11.2)	0.2	(11.0)
Effective tax rate	*(33.9%)*		*(29.7%)*		*(30.1%)*		*(43.0%)*
Profit / (loss) for the period	20.7	6.8	27.5	(1.5)	26.0	(11.4)	14.6
Minority interest	0.1		0.1		0.1		0.1
Earnings/(loss) per share – basic (pence)	*1.88*		*2.50*		*2.36*		*1.32*
Earnings/(loss) per share – diluted (pence) (restated)*	*1.84*		*2.45*		*2.32*		*1.30*

* The number of dilutive ordinary shares has been restated to ensure that the calculation is consistent with the method used for the current financial period and the prior full year.

For the year ended 31 December 2018	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre-exceptional £m	Exceptional items £m	Statutory £m
Revenue	2,836.8	-	2,836.8	-	2,836.8	-	2,836.8
Cost of sales	(2,570.2)	23.6	(2,546.6)	-	(2,546.6)	-	(2,546.6)
Gross profit	266.6	23.6	290.2	-	290.2	-	290.2
Administrative expenses	(202.3)	-	(202.3)	(4.3)	(206.6)	(31.9)	(238.5)
Share of profits in joint ventures and associates, net of interest and tax	28.8	-	28.8	-	28.8	-	28.8
Profit before interest and tax	93.1	23.6	116.7	(4.3)	112.4	(31.9)	80.5
Margin	*3.3%*		*4.1%*		*4.0%*		*2.8%*
Net finance costs	(13.9)	-	(13.9)	-	(13.9)	7.5	(6.4)
Profit before tax	79.2	23.6	102.8	(4.3)	98.5	(24.4)	74.1
Tax charge	(20.6)	8.7	(11.9)	3.1	(8.8)	2.1	(6.7)
Effective tax rate	*(26.0%)*		*(11.6%)*		*(8.9%)*		*(9.0%)*
Profit / (loss) for the period	58.6	32.3	90.9	(1.2)	89.7	(22.3)	67.4
Minority interest	0.0	-	0.0	-	0.0	-	0.0
Earnings/(loss) per share – basic (pence)	*5.36*		*8.31*		*8.20*		*6.16*
Earnings/(loss) per share – diluted (pence)	*5.21*		*8.08*		*7.97*		*5.99*

Alternative Performance Measures (APMs) and other related definitions

Overview

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

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

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

With effect from 1 January 2019, the Group has applied IFRS16 *Leases* in the preparation of its financial results. The prior period financial information has not been restated under IFRS16 in accordance with the modified retrospective transition approach taken by the Group. The following APMs have been re-defined to take into consideration the impact of IFRS16 and to ensure they continue to be useful measures for investors and readers of the accounts, and the impact of the definition change has been illustrated within the Finance Review: Free Cash Flow; Trading Cash Flow and Invested Capital. A new APM has been introduced which has been termed Adjusted Net Debt, the definition of which is provided below.

Certain APMs for the current period have been provided on a basis consistent with the accounting standards applied for the prior period to illustrate the impact of IFRS16 and to assist with comparability. This information has been provided at the end of this Finance Review.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 37, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous period's results, reported revenue is recalculated by translating non-Sterling values for the six months ended 30 June 2019 into Sterling at the average exchange rate for the six months ended 30 June 2018.
All revenue in 2019 and 2018 arose from continuing activities.

For the six months ended 30 June	2019 £m
Reported revenue at constant currency	1,455.1
Foreign exchange differences	20.4
Reported revenue at reported currency	1,475.5

Organic Revenue at constant currency

Reported revenue may include revenue generated by businesses acquired during a particular period from the date of acquisition and/or generated by businesses sold during a particular period up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals, Organic Revenue at constant currency is recalculated by excluding the impact of any relevant acquisitions or disposals.
The following acquisitions are excluded for the calculation of Organic Revenue in the period to 30 June 2019:

- The acquisition of 100% of the issued share capital of BTP Systems, LLC (BTP) on 26 January 2018; and
- The acquisition of six UK health facilities management contracts which were transferred from Carillion plc between June 2018 and August 2018.

An adjustment is required for the following disposal:

- The disposal of contracts within the Anglia Support Partnership on 31 October 2018.

No adjustment is required in respect of the acquisition of the Naval Systems Business Unit from Alion Science & Technology Corporation as control has not been obtained and therefore no revenue has been recorded in the results to 30 June 2019.

Organic Revenue growth is calculated by comparing the current year Organic Revenue at constant currency exchange rates with the prior period Organic Revenue at reported currency exchange rates.

For the six months ended 30 June	2019 £m
Organic Revenue at constant currency	1,411.2
Foreign exchange difference on organic revenue	19.9
Organic Revenue at reported currency	1,431.1
Impact of any relevant acquisitions or disposals	44.4
Reported revenue at reported currency	1,475.5

For the six months ended 30 June	2018 £m
Organic Revenue at reported currency	1,354.9
Impact of any relevant acquisitions or disposals	11.3
Reported revenue at reported currency	1,366.2

Revenue

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 37, reflects only that from continuing operations. In prior reporting periods an alternative measure to include discontinued operations has been used for the benefit of consistency with previously reported results and to reflect the overall change in scale of the Group's operations. The alternative measure allows the performance of the discontinued operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post-tax result. No operations were classified as discontinued in 2019 or 2018.

Revenue plus share of joint ventures and associates

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

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Revenue plus share of joint ventures and associates	1,668.4	1,558.5	3,211.9
Exclude share of revenue from joint ventures and associates	(192.9)	(192.3)	(375.1)
Reported revenue	1,475.5	1,366.2	2,836.8

Alternative profit measures

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Underlying Trading Profit	50.6	37.6	93.1
Non-underlying items:			
Include OCP charges and releases	-	0.4	12.8
Include other Contract & Balance Sheet Review adjustments and one-time items	-	7.4	10.8
Total Non-underlying items	-	7.8	23.6
Trading Profit	50.6	45.4	116.7
Include operating exceptional items	(31.1)	(11.6)	(31.9)
Include amortisation and impairment of intangibles arising on acquisition	(2.3)	(1.9)	(4.3)
Operating profit	17.2	31.9	80.5

Underlying Trading Profit (UTP)

The Group uses an alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur and to remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current year.

Charges and releases on all Onerous Contract Provisions (OCPs) are excluded in the current and prior periods. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual period. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £42.1m in 2019 (2018: £33.7m). The utilisation, which neutralises the in-period losses on previously identified onerous contracts, consists of £12.6m accelerated utilisation associated with the impairment of Right of Use assets on onerous contracts created during the period, and £29.5m against trading losses, therefore it is only charges or releases of OCPs that are adjusted for.

Revisions to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review are separately reported where the impact of an individual item is material. The £7.4m recognised in 2018 consists of the release of a provision made during the 2014 Contract & Balance Sheet Review following a change in the Group's obligations and a settlement received. No items related to the 2014 Contract & Balance Sheet Review have occurred in the six months to 30 June 2019.

Both OCP adjustments and other Contract & Balance Sheet Review and one-time items are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items.

Underlying trading margin is calculated as UTP divided by revenue.

The non-underlying column in the summary income statement on page 16 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Trading Profit

The Group uses Trading Profit as an alternative measure to operating profit, as shown on the Group's Condensed Consolidated Income Statement on page 37, by making two adjustments.

First, Trading Profit excludes exceptional items, being those considered material and outside of the normal operating practice of the Group to be suitable of separate presentation and detailed explanation.

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

UTP at constant currency

UTP disclosed above has been translated at the average foreign exchange rates for the period. In order to provide a comparable movement on the previous period's results, UTP is recalculated by translating non-Sterling values for the six months to 30 June 2019 into Sterling at the average exchange rate for the six months ended 20 June 2018.

For the six months ended 30 June	**2019 £m**
Underlying Trading Profit at constant currency	48.5
Foreign exchange differences	2.1
Underlying Trading Profit at reported currency	50.6

Alternative Earnings or Loss Per Share (EPS) measures

	Six months ended 30 June 2019 pence	Six months ended 30 June 2018 pence	Year ended 31 December 2018 pence
Underlying EPS, basic	2.67	1.88	5.36
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	(0.09)	0.48	2.84
EPS before exceptional items, basic	2.58	2.36	8.20
Impact of exceptional items	(2.73)	(1.04)	(2.04)
Reported EPS, basic	(0.15)	1.32	6.16

	Six months ended 30 June 2019 pence	Six months ended 30 June 2018 (restated*) pence	Year 31 December 2018 pence
Underlying EPS, diluted	2.62	1.84	5.21
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	(0.09)	0.48	2.76
EPS before exceptional items, diluted	2.53	2.32	7.97
Impact of exceptional items	(2.68)	(1.02)	(1.98)
Reported EPS, diluted	(0.15)	1.30	5.99

* The number of dilutive ordinary shares has been restated to ensure that the calculation is consistent with the method used for the current financial period and the prior full year.

EPS before exceptional items

EPS, as shown on the Group's Condensed Consolidated Income Statement on page 37, includes exceptional items charged or credited to the income statement. EPS before exceptional items aids consistency with historical results.

Underlying EPS

Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on page 16.

Alternative cash flow and Net Debt measures

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect net cash inflow from operating activities before exceptional items, which is the measure shown on the Condensed Consolidated Cash Flow Statement on page 41. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates and deducting net interest paid, the capital element of lease payments and net capital expenditure on tangible and intangible asset purchases. This is a change to the definition applied in the prior period, where the capital element of finance leases was excluded from FCF. The adjustment has been made following the implementation of IFRS16 *Leases*, where all leases, excluding short term and low value leases, are accounted for as lease liabilities under the new standard and cash payments associated with the lease liabilities include a capital and interest component. The previous definition of FCF would result in the capital component of leases being excluded from FCF which is not considered to be reflective of the operating cash flow of the Group.

FCF is considered relevant to reflect the cash performance of business operations after meeting usual obligations of financing and tax. It is therefore a measure that is before all other remaining cash flows, being those related to exceptional items, acquisitions and disposals, other equity-related and debt-related funding movements, and foreign exchange impacts on financing and investing activities. FCF is therefore a measure to assess the cash flow generated by the business and aids consistency for comparison to historical results.

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 (restated*) £m	Year ended 31 December 2018 (restated*) £m
Free Cash Flow	0.4	(31.6)	16.3
Exclude dividends from joint ventures and associates	(13.4)	(16.1)	(29.7)
Exclude net interest paid	9.6	8.0	16.1
Exclude capitalised finance costs paid	0.9	-	2.0
Exclude capital element of lease repayments	22.3	5.0	8.7
Exclude purchase of own shares net of share option proceeds**	(0.1)	0.6	-
Exclude purchase of intangible and tangible assets net of proceeds from disposal	11.7	17.5	29.5
Cash flow from operating activities before	31.4	(16.6)	42.9
Exceptional operating cash flows	(12.1)	(24.1)	(40.2)
Cash flow from operating activities	19.3	(40.7)	2.7

* Following the implementation of IFRS16 *Leases*, the definition of Free Cash Flow has been amended to include the capital element of lease payments.

** During the second half of the year ended 31 December 2018, the amount of £0.6m related to the purchase of own shares net of share option proceeds was reclassified from financing activities to operating activities.

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 (restated*) £m	Year ended 31 December 2018 £m
Free Cash Flow under previous definition	22.7	(26.6)	25.0
Include capital element of lease payments	(22.3)	(5.0)	(8.7)
Free Cash Flow	0.4	(31.6)	16.3

* During the second half of the year ended 31 December 2018, the amount of £0.6m related to the purchase of own shares net of share option proceeds was reclassified from financing activities to operating activities, therefore Free Cash Flow as at 30 June 2018 under the previous definition has been restated.

The high Free Cash Flow in 2019 under the previous definition excludes the cash payments associated with operating leases which are cash outflows associated with a combination of capital and interest payments under IFRS16 *Leases*. This supports the change in definition for Free Cash Flow adopted in 2019.

UTP cash conversion

FCF as defined above, includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UTP, Trading Cash Flow is derived from FCF by excluding tax and interest items. UTP cash conversion therefore provides a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items. The definition of Trading Cash Flow has been impacted by the change in the definition of Free Cash Flow which is the starting point for the calculation - no other changes have been made to the definition. As Trading cashflow was an outflow in the six months ended 30 June 2018, a conversion percentage of UTP is not presented.

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 (restated*) £m	Year ended 31 December 2018 (restated*) £m
Free Cash Flow	0.4	(31.6)	16.3
Add back:			
Tax paid	17.2	4.8	10.6
Non-cash R&D expenditure	-	-	0.1
Net interest paid	9.6	8.0	16.1
Capitalised finance costs paid	0.9	-	2.0
Trading Cash Flow	28.1	(18.8)	45.1
Underlying Trading Profit	50.6	37.6	93.1
Underlying Trading Profit cash conversion	56%	N/A	48%

* Following the implementation of IFRS16 *Leases*, Free Cash Flow has been amended to include the capital element of lease payments.

Net Debt and Adjusted Net Debt

We present an alternative measure to bring together the various funding sources that are included on the Group's Condensed Consolidated Balance Sheet on page 40 and the accompanying notes. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net Debt includes all lease liabilities recognised under IFRS16 and therefore the Group has introduced the alternative measure of Adjusted Net Debt which excludes all lease liabilities recognised under IFRS16 for the six months to 30 June 2019. For the six months ended 30 June 2018 and the year ended 31 December 2018, liabilities for leases previously categorised as finance leases are excluded in arriving at Adjusted Net Debt.

The Adjusted Net Debt measure has been introduced because it more closely aligns to the Consolidated Total Net Borrowings measure used for the Group's debt covenants, which is prepared under accounting standards applicable prior to the adoption of IFRS16. Principally as a result of the Asylum Accommodation and Support Services Contract (AASC), the Group has entered into a significant number of leases which contain a termination option. The use of Adjusted Net Debt removes the volatility that would result from estimations of lease periods and the recognition of liabilities associated with such leases where the Group has the right to cancel the lease and hence the corresponding obligation. Though the intention is not to exercise the options to cancel the leases, it is available unlike other debt obligations.

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Cash and cash equivalents	173.4	50.3	62.5
Loans receivable	-	26.5	-
Loans payable	(240.6)	(284.7)	(239.5)
Lease obligations	(144.8)	(15.3)	(14.8)
Derivatives relating to Net Debt	5.3	3.1	3.8
Net Debt	(206.7)	(220.1)	(188.0)
Add back: Lease liabilities	144.8	15.3	14.8
Adjusted Net Debt	(61.9)	(204.8)	(173.2)

Adjusted Net Debt excluding the proceeds from the share issue in May 2019 of £138.7m is £200.6m; this is referred to elsewhere in this document as pro-forma Adjusted Net Debt.

Pre-tax Return on Invested Capital (ROIC)

ROIC is a measure to assess the efficiency of the resources used by the Group. ROIC is calculated based on UTP and Trading Profit using the Income Statement for the period and a two-point average of the opening and closing balance sheets. The composition of Invested Capital and calculation of ROIC are summarised in the table below.

The definition of Invested Capital has been adjusted to exclude Right of Use assets recognised under IFRS16 *Leases.* This is because the Invested Capital of the company are those items within which resources are, or have been, committed, which is not the case for many operating leases within the Group where termination options exist and commitments for expenditure are in future years. The impact of the change in the alternative performance measure has been set out below. In prior periods only finance lease assets have been removed as no Right of Use assets existed for operating leases prior to the adoption of IFRS16.

ROIC excluding Right of Use assets	**30 June 2019 £m**	**30 June 2018 (restated*) £m**	**31 December 2018 (restated*) £m**
Non-current assets			
Goodwill	581.4	567.0	579.6
Other intangible assets	58.5	64.3	67.3
Property, plant and equipment	40.4	42.9	44.3
Interest in joint ventures and associates	21.4	19.9	20.6
Trade and other receivables	30.9	59.7	30.3
Current assets			
Inventory	18.9	20.8	22.9
Contract assets, trade and other receivables	592.4	575.8	543.8
Total invested capital assets	1,343.9	1,350.4	1,308.8
Current liabilities			
Contract liabilities, trade and other payables	(522.4)	(517.5)	(494.0)
Non-current liabilities			
Contract liabilities, trade and other payables	(95.7)	(93.6)	(109.9)
Total invested capital liabilities	(618.1)	(611.1)	(603.9)
Invested Capital	725.8	739.3	704.9
Two-point average of opening and closing Invested Capital	732.6	765.0	734.2
Trading Profit, 12 months ended *	121.9	56.5	116.7
ROIC%	16.6%	7.4%	15.9%
Underlying Trading Profit, 12 months ended *	106.1	72.9	93.1
Underlying ROIC%	14.5%	9.5%	12.7%

* Trading Profit and Underlying Trading Profit are both measured here on a rolling twelve-month basis. For the twelve months to 30 June 2019, the first six months are in accordance with IAS17 *Leases,* whilst the remaining six months are in accordance with its successor IFRS16 *Leases.*

ROIC including lease assets	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Invested Capital including lease assets	846.8	759.9	725.4
Impact of including lease assets	(120.9)	(20.6)	(20.5)
Invested Capital	725.9	739.3	704.9
ROIC% including lease assets	15.2%	7.6%	16.4%
Impact of including lease assets	1.4%	0.2%	0.2%
ROIC%	16.6%	7.8%	16.6%
Underlying ROIC% including lease assets	13.2%	9.8%	13.1%
Impact of including lease assets	1.3%	0.3%	0.1%
Underlying ROIC%	14.5%	10.1%	13.2%

* Trading Profit and Underlying Trading Profit are both measured here on a rolling twelve-month basis. For the twelve months to 30 June 2019, the first six months are in accordance with IAS17 *Leases,* whilst the remaining six months are in accordance with its successor IFRS16 *Leases.*

Overview of financial performance

Revenue

Reported Revenue increased by 8.0% to £1,475.5m when compared with the same six-month period in the prior year (2018: £1,366.2m), a 6.5% increase in constant currency.

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

Trading Profit

Trading Profit in the six months was £50.6m (2018: £45.4m).

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

Underlying Trading Profit

UTP was £50.6m (2018: £37.6m), up 34.6%. At constant currency, UTP was £48.5m, up 29.0%.

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

In the six months to 30 June 2019 there were no net releases or charges from OCPs or provisions created as a result of the 2014 Contract & Balance Sheet Review excluded from UTP (2018: £0.4m) following the detailed reassessment undertaken during the period. Also excluded from UTP were net releases and additional profits of £nil (2018: £7.4m) relating to other provisions and accruals for items identified during the 2014 Contract & Balance Sheet Review and other one-time items.

Since 2014, the cumulative improvement to Trading Profit as a result of OCP charges and releases and adjustments to items identified during the 2014 Contract & Balance Sheet Review is £44.5m (2018: £27.1m). This represents 6% of the 2014 total charge to Trading Profit arising from the Contract & Balance Sheet Review.
The tax impact of items in UTP and other non-underlying tax items is discussed in the tax section of this Finance Review.

Discontinued operations

There were no operations classified as discontinued in 2019 or 2018.

Joint ventures and associates – share of results

In 2019, the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited and Merseyrail Services Holding Company Limited, with dividends received of £10.0m (2018: £11.8m) and £3.4m (2018: £4.3m) respectively. Total revenues generated by these businesses were £524.7m (2018: £533.2m) and £84.2m (2018: £80.2m) respectively.

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

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Revenue	192.9	192.3	375.1
Operating profit	16.5	18.3	34.6
Net investment finance costs	0.1	(0.1)	0.3
Income tax expense	(3.1)	(3.2)	(6.1)
Profit after tax before exceptional charge	**13.5**	**15.0**	**28.8**
Exceptional pension charge	-	-	(0.3)
Profit after tax	13.5	15.0	28.5
Dividends received from joint ventures and	13.4	16.1	29.7

The changes in revenue and profits on the prior year is due to changes in the underlying operating performance of the Group's material joint ventures.

Exceptional items

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

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Exceptional items arising			
Exceptional loss on disposal of subsidiaries and operations	-	-	(0.5)
Other exceptional operating items			
Restructuring costs	(5.4)	(11.3)	(32.3)
Increase in onerous lease provision	-	-	(1.8)
Costs associated with UK Government review	(24.0)	(0.3)	0.4
Reversal of impairment of interest in joint venture and related loan balances	-	-	0.8
Reversal of impairment on loan balances	-	-	13.9
Cost of Guaranteed Minimum Pension equalisation	-	-	(9.6)
Increase in other provisions	-	-	(2.8)
Acquisition costs related to Alion Science and Technology's Naval Systems Business Unit	(1.7)	-	-
Other exceptional operating items	(31.1)	(11.6)	(31.4)
Exceptional operating items	(31.1)	(11.6)	(31.9)
Exceptional finance income	-	-	7.5
Exceptional tax	0.4	0.2	2.1
Total operating and financing exceptional items net of tax	(30.7)	(11.4)	(22.3)

Exceptional profit on disposals

There were no material disposals of continuing operations in 2019 (2018: none).

Other exceptional operating items

The Group is incurring costs in relation to restructuring programmes resulting from the Strategy Review. These costs include redundancy payments, provisions (including onerous leases), external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation phase of the Strategy Review, the incremental costs associated with this programme are considered to be exceptional. Costs associated with the restructuring programme resulting from the Strategy Review must meet the following criteria: that they are directly linked to the implementation of the Strategy Review; they are incremental costs as a result of the activity; and they are non business as usual costs. In 2019, a charge of £5.4m (2018: £11.3m) arose in relation to the restructuring programme resulting from the Strategy Review. Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the six months to 30 June 2019 totalled £2.2m (2018: £4.1m) and were included within operating profit before exceptional items. We expect total exceptional restructuring costs of approximately £15.0m will be incurred in 2019, which we expect to be the final year for restructuring exceptionals.

There was an exceptional cost totalling £24.0m (2018: charge of £0.3m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2019. Additional information regarding the £22.9m for the fine and costs of the SFO's investigation into Serco companies is provided below on page 35.

On 23 May 2019 the Group announced that it had entered into a definitive Asset Purchase Agreement to acquire for $225m the Naval Systems Business Unit and a small number of related contracting entities, from Alion Science & Technology Corporation. Exceptional costs totalling £1.7m (2018: £nil) were incurred in relation to the acquisition during the six months ended 30 June 2019.

Exceptional finance costs

No exceptional finance costs were incurred in the six months to 30 June 2019 (2018: £nil).

Part of the consideration for the sale of the Group's private sector BPO business in 2015 was a loan note with a face value of £30m accruing compound interest of 7%. The receivable associated with this loan note was recorded at a fair value of £19.5m. The discount on the loan was unwound through the Group's net finance cost on an annual basis. During October 2018, the Intelenet business was sold and therefore repayment of the loan note was triggered resulting in a gain of £7.5m. As this gain was outside the normal financing arrangements of the Group and significant in size it was recorded as exceptional investment income in the financial statements for the year ended 31 December 2018.

Pre-exceptional finance costs and investment revenue

Investment revenue of £1.5m (2018: £2.7m) includes interest accruing on net retirement benefit assets of £1.1m (2018: £0.4m), interest earned on deposits and other receivables of £0.1m (2018: £1.4m), interest arising on customer contracts £0.2m (2018: £0.2m) and the movement in discounting of other receivables of £0.1m (2018: £0.7m).

Finance costs of £12.0m (2018: £9.0m) includes interest incurred on the USPP loans and the Revolving Credit Facility of £6.7m (2018: £6.5m), facility fees and other charges of £0.9m (2018: £1.8m), interest payable on leases of £2.4m (2018: £0.2m), the movement in discount on provisions of £1.1m (2018: £0.3m) and a charge for foreign exchange on financing activities of £0.9m (2018: £0.2m). The increase in interest payable on leases follows the adoption of IFRS16 *Leases* with effect from 1 January 2019.

Tax

Tax charge

Underlying Tax

An underlying tax charge of £9.8m is recognised on Underlying Trading Profit after pre-exceptional net finance costs. The effective tax rate (24.4%) is lower than in 2018 (33.9%). This is primarily due to a change in the mix of where profits and losses have been made, together with the impact of prior year credits and movements in provisions as part of our regular reassessment of tax exposures across the Group.

Pre-exceptional tax

We recognised a tax charge of £8.5m (2018: £11.2m) on pre-exceptional profits which includes underlying tax of £9.8m, tax credit of amortisation of intangibles arising on acquisition of £0.4m and £0.9m credit on non-underlying items. The £0.9m credit relates to the pension scheme. Movements in the valuation of the Group's defined benefit pension schemes and the associated deferred tax impact are reported in the Statement of Comprehensive Income (SOCI) and do not flow through the income statement, therefore do not impact profit before tax or the tax charge. However, the net amount of deferred tax recognised in the balance sheet relates to both the pension accounting and other timing differences, such as recoverable losses. As the net deferred tax balance sheet position is at the maximum level supported by future profit forecasts, the increase in the deferred tax liability associated with the pension scheme (with the benefit reported in the SOCI) leads to a corresponding increase in the deferred tax asset to match the future profit forecasts. Such an increase in the deferred tax asset therefore leads to a credit to tax in the income statement. Where deferred tax charges or releases are the result of movements in the pension scheme valuations rather than trading activity, these are excluded from the calculation of tax on underlying profit and the underlying effective tax rate.

The tax rate on profits before exceptional items on continuing operations, at 22.5%, is higher than the UK standard corporation tax rate of 19%. This is due to the impact of higher rates of tax on profits arising on our international operations, together with the absence of any deferred tax credit for current year losses incurred in the UK (which includes the result of UK divisions and the majority of corporate costs) which is only partially offset by credits in relation to the impact of our joint ventures whose post-tax results are included in our pre-tax profit. Our tax charge in future years will continue to be materially impacted by our accounting for UK deferred taxes. To the extent that future UK tax losses are incurred and are not recognised, our effective tax rate will continue to be higher than the prevailing standard corporation tax rates. When our UK business returns to sustainable profitability our existing UK tax losses will be recognised or utilised, and the effective rate will be reduced.

Exceptional Tax

Exceptional tax for the period was a tax credit of £0.4m (2018: £0.2m credit) which arises on exceptional items within operating profit.

The exceptional costs only gave rise to a credit of £0.4m, as the majority of these costs were either not allowable for tax purposes or were incurred in the UK where they only impact our unrecognised deferred tax in relation to losses.

Deferred tax assets

At June 2019 there is a deferred tax asset of £44.9m (December 2018: £39.5m). This consists of a deferred tax asset of £69.9m (December 2018: £60.9m) and a deferred tax liability of £25.0m (December 2018: £21.4m).
A £20.3m UK tax asset has been recognised at 30 June 2019 (December 2018: £20.3m) on the basis of forecast utilisation against future taxable profits.

At June 2019, the group has an estimated unrecognised deferred tax asset in relation to UK losses of £131m which are contingent on the future improvement in the UK profit forecast.

Taxes paid

Net corporate income tax of £17.2m was paid during the period, relating primarily to our operations in AsPac (£12.2m), North America (£3.6m), Europe (£1.1m) and Middle East (£0.5m). The Group's UK operations have transferred tax losses to its profitable joint ventures and associates giving a cash tax inflow in the UK of £0.2m.

The amount of tax paid (£17.2m) differs from the tax charge in the period (£8.1m) mainly due to the effect of future expected cash tax outflows for which a charge has been taken in the current period. In addition, taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit and also there is a time lag on receipts of cash from joint ventures and associates for losses transferred to them.

Dividends

The Board has not declared an interim dividend for 2019. As stated in our 2018 Annual Report, the Board’s appraisal of the appropriateness of dividend payments takes into account the Group’s underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it judges it prudent to do so, in assessing the timing of precisely when to do so we are mindful of the fact that 2019 is the last year of significant outflows of cash related to OCPs and operating exceptional costs. The Board will continue to keep the dividend policy under careful and regular consideration as we progress with completing the transformation stage and driving forward with the growth stage of our strategy.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,122.0m for the six months ended 30 June 2019 (2018: 1,096.6m) and diluted weighted average number of shares was 1,146.3m (2018 restated: 1,117.9m).

Basic EPS before exceptional items was 2.58p per share (2018: 2.36p); including the impact of exceptional items, Basic EPS was a loss of 0.15p (2018: earnings of 1.32p). Basic Underlying EPS was 2.67p (2018: 1.88p).

Diluted EPS before exceptional items was 2.53p (2018 restated: 2.32p); including the impact of exceptional items, Diluted EPS was a loss of 0.15p (2018 restated: earnings of 1.30p). Diluted Underlying EPS was 2.62p (2018 restated: 1.84p).

The number of dilutive shares has been restated to align the calculation with the method used for the current financial period and the prior full year.

Cash flows

The UTP of £50.6m (2018: £37.6m) converts into a trading cash inflow of £28.1m (2018 restated: outflow of £18.8m). The improvement in 2019 cash conversion includes the increase in profitability from revenue growth and cost efficiencies. In 2019, the working capital outflow was £7.5m (2018 restated: £27.3m) and the OCP utilisation was £42.1m (2018: £33.7m) although in 2019, £12.6m of the utilisation was not related to a cash cost but rather was related to the impairment of Right of Use assets created on adoption of IFRS16 within onerous contracts.

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the period was an inflow of £0.4m compared to an outflow of £31.6m in 2018. The improvement in FCF is largely as a result of improved trading cash inflows as discussed above. Offsetting the improvement in trading cash inflows is an increase in tax outflows of £12.4m.

The movement in Adjusted Net Debt is a decrease of £111.3m in 2019, a reconciliation of which is provided at the bottom of the following table. The movement includes a net inflow of £138.7m from the placement of 111.2m new shares in May 2019, as well as both cash and non-cash exceptional items of £12.1m (2018: £24.1m).

The net cash outflow on acquisition and disposal of subsidiaries includes £8.0m of deferred consideration related to the Group’s acquisition of Clarence Correctional Facility. The remainder of the balance relates to costs associated with the expected acquisition of NSBU.

Within Net Debt there has been an increase in lease liabilities of £130.0m during the period, largely as a result of the adoption of IFRS16 *Leases*, and the resulting recognition of liabilities for leases previously classified as operating leases. Within the indirect cash flow, the depreciation, amortisation and impairment balance of £51.1m excluded as a non-cash item has increased significantly from 30 June 2018 due to the adoption of IFRS16 *Leases*. Offsetting this increase is a higher cash cost associated with the capital element of leases of £22.3m included within the reconciliation to Free Cash Flow.

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 (restated*) £m	Year ended 31 December 2018 (restated*) £m
Operating profit	17.2	31.9	80.5
Remove exceptional items	31.1	11.6	31.9
Operating profit before exceptional items	48.3	43.5	112.4
Less: profit from joint ventures and associates	(13.5)	(15.0)	(28.8)
Movement in provisions **	(35.4)	(42.7)	(68.1)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	51.1	22.2	43.2
Other non-cash movements	5.6	7.5	16.5
Operating cash inflow before movements in working capital, exceptional items and tax	56.1	15.5	75.2
Working capital movements **	(7.5)	(27.3)	(21.6)
Tax paid	(17.2)	(4.8)	(10.6)
Non-cash R&D expenditure	-	-	(0.1)
Cash flow from operating activities before exceptional	31.4	(16.6)	42.9
Dividends from joint ventures and associates	13.4	16.1	29.7
Interest received	0.1	0.2	0.6
Interest paid	(9.7)	(8.2)	(16.7)
Capital element of lease repayments	(22.3)	(5.0)	(8.7)
Capitalised finance costs paid	(0.9)	-	(2.0)
Purchase of intangible and tangible assets net of proceeds from disposals	(11.7)	(17.5)	(29.5)
Purchase of own shares net of share option proceeds***	0.1	(0.6)	-
Free Cash Flow	0.4	(31.6)	16.3
Net cash outflow on acquisition and disposal of subsidiaries	(9.3)	(14.9)	(31.3)
Issue of share capital	138.7	-	-
Other movements on investment balances	(0.1)	(0.3)	(0.3)
Capitalisation and amortisation of loan costs	0.4	(0.5)	1.3
Unwind of discounting and capitalisation of interest on loans receivable	-	0.8	3.0
Exceptional items	(12.1)	(24.1)	(19.2)
Cash movements on hedging instruments	(7.0)	3.3	0.2
Foreign exchange gain/(loss) on Net Debt	0.3	(16.6)	(22.3)
Movement in Adjusted Net Debt	111.3	(83.9)	(52.3)
Opening Adjusted Net Debt	(173.2)	(120.9)	(120.9)
Closing Adjusted Net Debt	(61.9)	(204.8)	(173.2)
Lease Liabilities	(144.8)	(15.3)	(14.8)
Closing Net Debt	(206.7)	(220.1)	(188.0)

* Following the implementation of IFRS16 Leases, the definition of Free Cash Flow has been amended to exclude the capital element of lease payments and purchase of own shares

** During the year ended 31 December 2018 a balance sheet reclassification was made in the results for the year ended 31 December 2017 which was not identified as part of the transition to IFRS15 *Revenue from contracts with customers*. The impact on the six months to 30 June 2018 was to reduce provisions by £0.2m and increase current deferred income by a similar amount.

*** During the second half of the year ended 31 December 2018, the amount of £0.6m related to the purchase of own shares net of share option proceeds was reclassified from financing activities to operating activities.

Net Debt

	As at 30 June 2019 £m	As at 30 June 2018 £m	As at 31 December 2018 £m
Cash and cash equivalents	173.4	50.3	62.5
Loans receivable	-	26.5	-
Loans payable	(240.6)	(284.7)	(239.5)
Lease liabilities	(144.8)	(15.3)	(14.8)
Derivatives relating to Net Debt	5.3	3.1	3.8
Net Debt	(206.7)	(220.1)	(188.0)
Exclude Lease liabilities	144.8	15.3	14.8
Adjusted Net Debt	(61.9)	(204.8)	(173.2)

Average Adjusted Net Debt as calculated on a daily basis for the six months ended 30 June 2019, excluding the £138.7m net inflow from the placement of shares in May 2019 was £219m (2018 restated: £193m). Peak Net Debt was £279m (2018 restated: £267m).

Treasury operations and risk management

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

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

Liquidity and funding

As at 30 June 2019, the Group had committed funding of £494m (at 31 December 2018: £492m), comprising £244m of private placement notes and a £250m revolving credit facility (RCF), which was undrawn. In addition, the Group has signed an acquisition related facility of up to £75m to finance the acquisition of NSBU.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our Treasury Policy requires us to maintain a minimum proportion of fixed rate debt as a proportion of overall Adjusted Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 30 June 2019, more than 100% of the Group's Adjusted Net Debt was at fixed rates. Interest on the revolving credit facility is at floating rate, however it was undrawn.

Foreign exchange risk

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

Credit risk

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

Debt covenants

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

Following the refinancing in December 2018, the debt covenants have been amended to include the impact of IFRS15. The covenants continue to exclude the impact of IFRS16 on the Group's results.

	12 months ended 30 June 2019 £m	**12 months ended 30 June 2018 £m**	**Year ended 31 December 2018 £m**
Operating profit before exceptional items	117.2	52.4	112.4
Remove: Amortisation and impairment of intangibles arising on acquisition	4.7	4.1	4.3
Other covenant adjustments to Trading Profit	(1.6)	-	-
Trading Profit	120.3	56.5	116.7
Exclude: Share of joint venture post-tax profits	(27.3)	(27.4)	(28.8)
Include: Dividends from joint ventures	27.0	30.5	29.7
Add back: Net non-exceptional charges to OCPs	-	27.0	-
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non acquisition intangible assets	38.0	40.0	38.9
Add back: Foreign exchange credit on investing and financing arrangements	(0.9)	0.3	(0.2)
Add back: Share based payment expense	13.4	11.4	14.7
Other covenant adjustments to EBITDA	-	0.2	-
Covenant EBITDA	170.5	138.5	171.0
Net finance costs	18.1	10.1	13.9
Exclude: Net interest receivable on retirement benefit obligations	1.5	2.6	0.8
Exclude: Movement in discount on other debtors	0.6	1.3	1.2
Exclude: Foreign exchange on investing and financing arrangements	(0.9)	0.3	(0.2)
Add back: Movement in discount on provisions	(1.3)	0.1	(0.5)
Other covenant adjustments to net finance costs	(2.2)	0.4	-
Covenant net finance costs	15.8	14.8	15.2
Recourse Net Debt	73.6	220.1	188.0
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	4.2	26.5	2.3
Covenant adjustment for average FX rates	(4.4)	(4.4)	(8.8)
CTNB	73.4	242.2	181.5
CTNB / covenant EBITDA (not to exceed 3.5x)	0.43x	1.75x	1.06x
Covenant EBITDA / covenant net finance costs (at least 3.0x)	10.8x	9.4x	11.2x

Net assets summary

	As at 30 June 2019 £m	As at 30 June 2018 (restated*) £m	As at 31 December 2018 £m
Non-current assets			
Goodwill	581.4	567.0	579.6
Other intangible assets	58.5	64.3	67.3
Property, plant and equipment	161.3	63.3	64.8
Other non-current assets	52.4	83.8	51.0
Deferred tax assets	69.9	60.1	60.9
Retirement benefit assets	95.2	31.8	85.8
Total non-current assets	1,018.7	870.3	909.4
Current assets			
Inventories	18.9	20.8	22.9
Contract assets, trade receivables and other current	600.1	578.7	551.5
Current tax assets	7.0	6.1	7.3
Cash and cash equivalents	173.4	50.3	62.5
Total current assets	799.4	655.9	644.2
Total assets	1,818.1	1,526.2	1,553.6
Current liabilities			
Contract liabilities, trade payables and other current liabilities	(524.5)	(521.1)	(497.7)
Current tax liabilities	(20.9)	(24.2)	(29.2)
Provisions	(123.5)	(122.4)	(120.1)
Lease obligations	(52.0)	(6.6)	(5.7)
Loans	(28.4)	(38.0)	(21.9)
Total current liabilities	(749.3)	(712.3)	(674.6)
Non-current liabilities			
Contract liabilities, trade payables and other non-current liabilities	(95.7)	(93.8)	(109.9)
Deferred tax liabilities	(25.0)	(21.5)	(21.4)
Provisions	(91.2)	(153.8)	(119.3)
Lease obligations	(92.8)	(8.7)	(9.1)
Loans	(212.2)	(246.7)	(217.6)
Retirement benefit obligations	(19.7)	(11.5)	(14.9)
Total non-current liabilities	(536.6)	(536.0)	(492.2)
Total liabilities	(1,285.9)	(1,248.3)	(1,166.8)
Net assets	532.2	277.9	386.8

* Balances as at 30 June 2018 have been restated to include the impact of the additional balance sheet classification relating to the adoption of IFRS15 disclosed at 31 December 2018.

At 30 June 2019 the balance sheet had net assets of £532.2m, a movement of £145.4m from the closing net asset position of £386.8m as at 31 December 2018. Commentary in respect of the increase in net assets and other significant movements in the balance sheet since 31 December 2018 is provided below:

- An increase in cash and cash equivalents of £110.9m, which includes the net proceeds of £138.7m from the placement of new shares in May 2019, which will in turn be used as partial settlement of the acquisition of NSBU.
- A decrease in provisions of £24.7m. Further details on provision movements is provided below.
- Adjusted Net Debt increased by £18.7m. Further details of these movements are provided in the cash flow and Net Debt sections above.
- An increase in property, plant and equipment of £96.5m, which includes right of use assets with a net book value of £97.6m at 30 June 2019 following the adoption of IFRS16 *Leases*, although this is offset by a combined increase in lease liabilities of £130.0m.
- The net retirement benefit asset has increased by £4.6m as a result of the return on scheme assets across all group pension schemes exceeding the increases in scheme liabilities. In addition, the growth in the net asset position has meant an increase in both the franchise adjustment and members' share of deficit on the relevant schemes.

Provisions

The total of current and non-current provisions has decreased by £24.7m since 31 December 2018. The movement is predominantly due to:

- A decrease in Onerous Contract Provisions (OCPs) of £55.4m which includes the impact of IFRS16 *Leases* of £13.3m on the opening position and impairments related to newly created Right of Use assets during the year totalling £12.6m; and
- The creation of a provision of £22.9m in relation to the investigation by the SFO discussed in more detail below.

Movements in OCPs since the 31 December 2018 balance sheet date are as follows:

	Onerous Contract Provisions £m
At 31 December 2018	82.1
Opening adjustment – IFRS16	(13.3)
Charged to the income statement during the year – trading	3.9
Released to the income statement – trading	(3.9)
Utilisation against the impairment of newly created right of use assets	(12.6)
Utilisation against in-period losses	(29.5)
At 30 June 2019	26.7

The balance of OCPs at 30 June 2019 was £26.7m (2018: £123.2m). OCP balances are subject to ongoing review and a full bottom-up assessment of the forecasts that form the basis of the OCPs is conducted as part of the annual budgeting process. The net non-exceptional release to OCPs was £nil in 2019 (2018: £0.4m) and utilisation was £42.1m (2018: £33.7m).

In 2019, the release from OCPs is reflective of the Group's ability to forecast the final years of contracts which are nearing completion. Additional charges of £3.9m (2018: £nil) have been made in respect of future losses on existing onerous contract provisions to reflect the updated forecasts as settlements are agreed and contracts near completion. The additional charges represent certain operational issues and the associated risks which are resulting in charges to existing onerous contract provisions.

Acquisitions

On 23 May 2019, the Group announced that it had entered into a definitive Asset Purchase Agreement to acquire for $225m the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation. NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. In the 12 months to September 2018, NSBU had revenues of $336m, which compares with Serco's North American Defence revenues in 2018 of $453m; NSBU has an order book of around $600m and a new business pipeline of over $2bn.

After the balance sheet date the Group received all necessary regulatory approvals for the acquisition, including the customary Hart-Scott-Rodino ('HSR') and Committee on Foreign Investments into the United States ('CFIUS') approvals. As a result of this completion of the transaction is expected imminently.

At 30 June 2019 the acquisition had not completed and as a result there are no balances or transactions associated with NSBU included in the Group's results for the six months ended 30 June 2019. Costs incurred to date by the Group in connection with the acquisition have been included in exceptional items during the period.

IFRS16

A new leasing standard, IFRS16 *Leases* was adopted by the Group with effect from 1 January 2019. IFRS16 requires the recognition of a lease liability and corresponding Right of Use asset for any lease not covered by a low value or short-term exemption.

The following table illustrates the impact which IFRS16 has had on the results to 30 June 2019 for key Alternative Performance Measures. This has been provided to assist the reader in understanding the business performance outside of changes to accounting standards.

	As reported 30 June 2019	Impact of IFRS16 30 June 2019	APM pre-IFRS16 30 June 2019	30 June 2018	31 December 2018
Underlying Trading Profit	50.6	1.6	49.0	37.6	93.1
Trading Profit (£m)	50.6	1.6	49.0	45.4	116.7
Net Debt (£m)	206.7	133.1	73.6	220.1	188.0
Underlying Diluted EPS (p)	2.62	(0.09)	2.71	1.84	5.21
Net Finance Costs (£)	10.5	2.4	8.1	6.3	6.4
Profit Before Tax (PBT	6.7	(0.7)	7.4	25.6	74.1
Operating Profit (£m)	17.2	1.6	15.6	31.9	80.5

Serious Fraud Office Investigation

On 4 July 2019, Serco Geografix Ltd, a wholly owned subsidiary, received judicial approval of a Deferred Prosecution Agreement with the UK Serious Fraud Office (SFO). This ruling concludes the SFO's investigation into Serco companies announced in November 2013. As this ruling is evidence of conditions which existed at the end of the reporting period, a provision of £19.2m relating to the fine and £3.7m of SFO investigation costs has been recorded in the 30 June 2019 balance sheet.

Angus Cockburn
Group Chief Financial Officer

30 July 2019

INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC

Conclusion

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 2019 which comprises Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

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 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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 DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

The purpose of our review work and to whom we owe our responsibilities

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

John Luke
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
30 July 2019

Financial Statements

Condensed Consolidated Income Statement

Continuing operations	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Revenue	1,475.5	1,366.2	2,836.8
Cost of sales	(1,336.9)	(1,239.4)	(2,546.6)
Gross profit	138.6	126.8	290.2
Administrative expenses			
Other general and administrative expenses	(101.5)	(96.4)	(202.3)
Exceptional loss on disposal of subsidiaries and operations	-	-	(0.5)
Other exceptional operating items	(31.1)	(11.6)	(31.4)
Other expenses - amortisation and impairment of intangibles arising on acquisition	(2.3)	(1.9)	(4.3)
Total administrative expenses	(134.9)	(109.9)	(238.5)
Share of profits in joint ventures and associates, net of interest and tax	13.5	15.0	28.8
Operating profit	17.2	31.9	80.5
Operating profit before exceptional items	48.3	43.5	112.4
Investment revenue	1.5	2.7	4.3
Finance costs	(12.0)	(9.0)	(18.2)
Exceptional finance income	-	-	7.5
Net finance costs	(10.5)	(6.3)	(6.4)
Profit before tax	6.7	25.6	74.1
Profit before tax and exceptional finance income	6.7	25.6	66.6
Tax on profit before exceptional items	(8.5)	(11.2)	(8.8)
Exceptional tax	0.4	0.2	2.1
Tax charge	(8.1)	(11.0)	(6.7)
(Loss)/profit for the period	(1.4)	14.6	67.4
Attributable to:			
Equity owners of the Company	(1.7)	14.5	67.4
Non-controlling interests	0.3	0.1	-
Earnings per share (EPS)			
Basic EPS	(0.15p)	1.32p	6.16p
Diluted EPS*	(0.15p)	1.30p	5.99p

* The number of dilutive ordinary shares for the six months ended 30 June 2018 has been restated to ensure that the calculation is consistent with the method used for the current financial period and prior full year.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
(Loss)/profit for the period	(1.4)	14.6	67.4
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain/(loss) on defined benefit pension schemes*	1.9	(4.6)	52.1
Actuarial gain/(loss) on reimbursable rights*	1.9	(0.9)	(0.2)
Tax relating to items not reclassified*	(0.9)	1.0	(9.2)
Share of other comprehensive income in joint ventures and associates	0.7	1.2	2.0
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations**	(2.4)	(4.8)	(5.3)
Fair value (loss)/gain on cash flow hedges**	(0.6)	(0.2)	0.6
Total other comprehensive income for the period	0.6	(8.3)	40.0
Total comprehensive (expense)/income for the period	(0.8)	6.3	107.4
Attributable to:			
Equity owners of the Company	(1.1)	6.2	107.3
Non-controlling interest	0.3	0.1	0.1

* Recorded in retirement benefit obligations reserve in the Condensed Consolidated Statement of Changes in Equity.
** Recorded in hedging and translation reserve in the Condensed Consolidated Statement of Changes in Equity.

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2018	22.0	327.9	0.1	41.8	(180.1)	88.3	(46.1)	10.1	264.0	1.3
Total comprehensive income for the period	-	-	-	15.7	(4.5)	-	-	(5.0)	6.2	0.1
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(13.8)	13.2	-	(0.6)	-
Expense in relation to share based payments	-	-	-	-	-	6.9	-	-	6.9	-
At 30 June 2018	22.0	327.9	0.1	57.5	(184.6)	81.4	(32.9)	5.1	276.5	1.4
Total comprehensive income for the period	-	-	-	53.6	47.2	-	-	0.3	101.1	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(14.2)	14.2	-	-	-
Expense in relation to share based payments	-	-	-	-	-	7.8	-	-	7.8	-
At 31 December 2018	22.0	327.9	0.1	111.1	(137.4)	75.0	(18.7)	5.4	385.4	1.4
Opening balance adjustment – IFRS16 (note 3)	-	-	-	3.3	-	-	-	-	3.3	-
Total comprehensive income for the period	-	-	-	(1.0)	2.9	-	-	(3.0)	(1.1)	0.3
Issue of share capital	2.5	135.0	-	-	-	-	(0.3)	-	137.2	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(9.3)	9.4	-	0.1	-
Expense in relation to share based payments	-	-	-	-	-	5.6	-	-	5.6	-
At 30 June 2019	24.5	462.9	0.1	113.4	(134.5)	71.3	(9.6)	2.4	530.5	1.7

Condensed Consolidated Balance Sheet

	As at 30 June 2019 £m	As at 30 June 2018 (restated*) £m	As at 31 December 2018 £m
Non-current assets			
Goodwill	581.4	567.0	579.6
Other intangible assets	58.5	64.3	67.3
Property, plant and equipment	161.3	63.3	64.8
Interests in joint ventures and associates	21.4	19.9	20.6
Trade and other receivables	30.9	59.7	30.3
Derivative financial instruments	0.1	4.2	0.1
Deferred tax assets	69.9	60.1	60.9
Retirement benefit assets	95.2	31.8	85.8
	1,018.7	870.3	909.4
Current assets			
Inventories	18.9	20.8	22.9
Contract assets	277.4	250.0	244.3
Trade and other receivables	315.0	325.8	299.5
Current tax assets	7.0	6.1	7.3
Cash and cash equivalents	173.4	50.3	62.5
Derivative financial instruments	7.7	2.9	7.7
	799.4	655.9	644.2
Total assets	1,818.1	1,526.2	1,553.6
Current liabilities			
Contract liabilities	(90.8)	(77.8)	(74.3)
Trade and other payables	(431.6)	(439.5)	(419.7)
Derivative financial instruments	(2.1)	(3.8)	(3.7)
Current tax liabilities	(20.9)	(24.2)	(29.2)
Provisions	(123.5)	(122.4)	(120.1)
Lease obligations	(52.0)	(6.6)	(5.7)
Loans	(28.4)	(38.0)	(21.9)
	(749.3)	(712.3)	(674.6)
Non-current liabilities			
Contract liabilities	(82.4)	(72.3)	(86.6)
Trade and other payables*	(13.3)	(21.5)	(23.3)
Deferred tax liabilities	(25.0)	(21.5)	(21.4)
Provisions*	(91.2)	(153.8)	(119.3)
Lease obligations	(92.8)	(8.7)	(9.1)
Loans	(212.2)	(246.7)	(217.6)
Retirement benefit obligations	(19.7)	(11.5)	(14.9)
	(536.6)	(536.0)	(492.2)
Total liabilities	(1,285.9)	(1,248.3)	(1,166.8)
Net assets	532.2	277.9	386.8
Equity			
Share capital	24.5	22.0	22.0
Share premium account	462.9	327.9	327.9
Capital redemption reserve	0.1	0.1	0.1
Retained earnings	113.4	57.5	111.1
Retirement benefit obligations reserve	(134.5)	(184.6)	(137.4)
Share based payment reserve	71.3	81.4	75.0
Own shares reserve	(9.6)	(32.9)	(18.7)
Hedging and translation reserve	2.4	5.1	5.4
Equity attributable to owners of the Company*	530.5	276.5	385.4
Non-controlling interest	1.7	1.4	1.4
Total equity*	532.2	277.9	386.8

* Balances as at 30 June 2018 have been restated to include the impact of the additional balance sheet classification relating to the adoption of IFRS15 disclosed at 31 December 2018. See note 3.

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Net cash inflow/(outflow) from operating activities before exceptional items	31.4	(16.6)	42.9
Exceptional items	(12.1)	(24.1)	(40.2)
Net cash inflow/(outflow) from operating activities	19.3	(40.7)	2.7
Investing activities			
Interest received	0.1	0.2	0.6
Decrease in security deposits	(0.1)	(0.3)	(0.3)
Dividends received from joint ventures and associates	13.4	16.1	29.7
Proceeds from disposal of property, plant and equipment	-	0.1	5.3
Proceeds from disposal of intangible assets	-	0.1	0.5
Net cash inflow on disposal of subsidiaries and operations	-	1.8	1.5
Acquisition of subsidiaries, net of cash acquired	(9.3)	(16.7)	(32.8)
Proceeds from loans receivable	-	-	29.9
Exceptional finance income received	-	-	7.5
Purchase of other intangible assets	(2.8)	(4.6)	(8.9)
Purchase of property, plant and equipment	(8.9)	(13.1)	(26.4)
Net cash (outflow)/inflow from investing activities	(7.6)	(16.4)	6.6
Financing activities			
Interest paid	(9.7)	(8.2)	(16.7)
Capitalised finance costs paid	(0.9)	-	(2.0)
Net loan advances/(repayments)	-	6.7	(31.3)
Capital element of lease repayments	(22.3)	(5.0)	(8.7)
Cash movements on hedging instruments	(7.0)	3.3	0.2
Issue of share capital	138.7	-	-
Purchase of own shares net of share option proceeds	0.1	(0.6)	-
Net cash inflow/(outflow) from financing activities	98.9	(3.8)	(58.5)
Net increase/(decrease) in cash and cash equivalents	110.6	(60.9)	(49.2)
Opening cash and cash equivalents	62.5	112.1	112.1
Net exchange gain/(loss)	0.3	(0.9)	(0.4)
Closing cash and cash equivalents	173.4	50.3	62.5

Notes to the Condensed Consolidated Financial Statements

1. General information, accounting policies and going concern

The financial information herein for the year ended 31 December 2018 does not constitute the Company's statutory accounts as defined in section 434 of the Companies Act 2006, but is derived from those accounts. The auditors' report on the 2018 accounts contained no emphasis of matter and did not contain statements under S498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The annual financial statements of Serco Group plc are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*, as adopted by the EU. The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

In the six months ended 30 June 2019, the only significant change to accounting under IFRS which has impacted the Group's consolidated financial statements is in respect of the adoption of IFRS16 *Leases*. Details of the impact of applying IFRS16 in the six months ended 30 June 2019 are provided in note 3. With the exception of the adoption of IFRS16, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

Going concern

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

In assessing the basis of preparation of the financial statements for the six months ended 30 June 2019, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, which indicate sufficient capacity in our financing facilities and associated covenants to support the Group. In order to satisfy themselves that they have adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities and working capital requirements.

The Group's current principal debt facilities as at 30 June 2019 comprised a £250m revolving credit facility, and £244m of US private placement notes. As at 30 June 2019, the Group had £494m of committed credit facilities and committed headroom of £418m excluding an additional £75m acquisition facility available for the acquisition of NSBU. We expect to complete the acquisition in the second half of 2019 for an amount of $225m (approximately £173m) which is expected to reduce the committed headroom to £295m. In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 31 December 2020.

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 1 above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material and outside of the normal operating practice of the Company to be suitable for separate presentation. Further details can be seen in note 8.

The segmental analysis in note 4 includes the additional performance measure of Trading Profit, which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those we consider material and outside of the normal operating practice of the Company to be suitable of separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgments about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice.

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustment to the carrying amounts of onerous contract provisions within the next financial reporting period.

In the current period no material revisions have been made to onerous contract provisions other than in relation to the adoption of IFRS16 *Leases* which had a material impact on the Group's balance sheet. This resulted in a number of Right of Use assets created under IFRS16 being impaired and utilising the onerous contract provision to recognise this impairment.

Major sources of uncertainty which could result in a material adjustment within the next financial reporting period are:

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels.
- Volume driven revenue and costs being within the expected ranges.
- The outcome of matters dependent on the behaviour of the customer, such as a decision to extend a contract where it has the unilateral right to do so.
- The outcome of open claims made by or against a customer regarding contractual performance.
- The ability of suppliers to deliver their contractual obligations on time and on budget.

To mitigate the level of uncertainty in making these estimates, Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

The future range of possible outcomes in respect of those assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of onerous contract provisions in the next financial reporting period. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts.

The individual provisions are discounted where the impact is assessed to be significant.

Investigation by the Serious Fraud Office

On 4 July 2019, Serco Geografix Ltd (SGL), a wholly owned subsidiary, received judicial approval of a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO). This ruling concludes the SFO's investigation into Serco companies announced in November 2013. As this ruling is evidence of conditions which existed at the end of the reporting period, a provision of £19.2m relating to the fine and £3.7m of SFO investigation costs has been recorded in the 30 June 2019 balance sheet.

Impairment of assets

Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate.

We seek to mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates is performed based on a risk-free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS36 *Impairment of Assets* we calculate a pre-tax rate based on post tax targets.

A key area of focus in recent years has been in the impairment testing of goodwill as a result of the pressure on the results of the Group. However, no impairment of goodwill was noted in the year ended 31 December 2018 and no indicators of impairment were noted as at 30 June 2019.

Deferred tax

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

Current tax

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

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

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

Retirement benefit obligations

Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme. The Group's retirement benefit obligations are covered in note 17.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

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

- The asset recognised for the Serco Pension and Life Assurance Scheme is based on the assumption that the full surplus will ultimately be available to the Group as a future refund of surplus.
- No foreign exchange item is shown in the disclosures as the non-UK liabilities are not material.
- No pension assets are invested in the Group's own financial instruments or property.
- Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

3. Impact of adoption of IFRS16 *Leases*

The Group has used the modified retrospective approach in its transition to IFRS16 *Leases.* As a result the Group has not restated amounts presented in previous periods, instead an opening adjustment has been reflected in the Group's opening balance sheet position. The impact for the Group of adopting IFRS16 is as follows:

	£m
Retained earnings at 31 December 2018	111.1
Lease liability recognised	(129.1)
Right of use asset recognised, net of impairments	104.2
Impact of IFRS16 on opening provisions	12.5
Impact of IFRS16 on other creditors	10.6
Deferred tax asset recognised	5.1
Adjustment to retained earnings due to the implementation of IFRS16	3.3
Retained earnings at 1 January 2019	114.4

The Right of use asset recognised is included within property, plant and equipment.

In calculating the lease liability to be recognised on transition, the Group used a weighted average incremental borrowing rate on 1 January 2019 of 3.50%. Applying this weighted average incremental borrowing rate to the operating lease commitments disclosed in the financial statements for the year ended 31 December 2018 gives a liability of £187.2m. This differs from the lease liability recognised as a result of transitioning to IFRS16 for the following reasons:

	£m
Operating lease commitments discounted at the weighted average incremental borrowing rate	187.2
Less: leases ending within 12 months of the transition date to IFRS16 covered by the practical expedient	(44.8)
Less: leases included in the operating lease commitment not meeting the recognition criteria of IFRS16	(13.3)
Lease liability on transition to IFRS16	129.1

The implementation of IFRS16 has required the Group to make a number of judgements, the certainty of the exercise of termination options and estimates. The key judgements applied relate to the likelihood of lease extension options being exercised, the certainty of the exercise of termination options and the identification of leases embedded within other contracts. The key estimates used in assessing the impact of adopting the new standard are the incremental borrowing rates applied in calculating the present value of future lease payments to identify the lease liability at 1 January 2019.

In addition to the areas where a financial impact has been identified as a result of adoption of IFRS16 as identified above, there are certain accounting policies which are new or change existing policies applied by the Group and may have an impact on the future financial performance of the Group. The policies in these areas to be adopted by the Group are set out below:

(i) Lease amendments. Where changes in a lease occur, this will trigger a reassessment of the lease liability. Changes in the lease liability will be recognised via an adjustment to the right of use asset. However, if the carrying amount of the right of use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, any remaining amount of the remeasurement will be recognised in profit or loss.

(ii) Lease incentives. Where a lease incentive is received prior to the commencement of a lease, the amount is offset against the right of use asset at inception. Where a lease includes a period or periods of reduced or free rentals, these are included in the calculation of the present value of the lease liability on inception.

(iii) Variable lease payments. Where a contract to lease an asset has a pricing mechanism that allows for changes after the commencement date, other than those that change simply due to the passage of time, it is considered to have variable lease payments. These payments will depend on an index or rate and are included in the calculated lease liability at the lease commencement date according to the rate or index as at that date.

(iv) Sub-leases. Where a Group entity leases an asset and this asset is subsequently leased to another entity, this is considered to be a sub-lease if the original head lease remains in place. In this instance the entity which has entered into the head lease is acting as both a lessee and a lessor simultaneously. As a result, the head lease is accounted for in accordance with the Group's lease accounting policy. When acting as a lessor, there is a requirement to determine whether the sub-lease is an operating lease or a finance lease, with the accounting following this determination.

(v) Separate lease and non-lease components. Lease contracts can often contain elements related to the use of an asset and elements that are unrelated, for example where a property lease also includes a charge for insurance or maintenance. The lease component and the associated non-lease component are accounted for as a single lease component.

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in the six months ended 30 June 2019 under IFRS8 *Operating Segments* are as set out below.

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

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess their performance. The CODM is considered to be the Board of Directors as a body.

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each operating segment as they are reviewed on a consolidated basis by CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables (excluding corporation recoverable) and any retirement benefit asset. Segment liabilities comprise trade and other payables, contract liabilities, lease liabilities and any retirement benefit obligation.

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

Revenue disaggregation

An analysis of the Group's revenue from contracts with customers is as follows:

Six months ended 30 June 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	109.0	202.3	23.5	13.6	348.4
Justice & Immigration	136.1	-	134.2	-	270.3
Transport	67.8	50.3	10.0	105.0	233.1
Health	131.9	-	47.7	15.4	195.0
Citizen Services	213.1	119.7	64.3	31.6	428.7
	657.9	372.3	279.7	165.6	1,475.5

Six months ended 30 June 2018 (restated*)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	111.1	154.1	28.3	20.8	314.3
Justice & Immigration	130.1	-	130.0	-	260.1
Transport	65.8	42.4	9.8	98.3	216.3
Health	103.0	-	48.4	13.7	165.1
Citizen Services	225.0	108.8	46.9	29.7	410.4
	635.0	305.3	263.4	162.5	1,366.2

* The prior period balances have been restated to ensure consistent application of the sector definitions used for the six months to 30 June 2019. The change has no impact to the income statement or balance sheet of the Group.

Year ended 31 December 2018 (restated*)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	213.5	337.6	56.2	40.8	648.1
Justice & Immigration	269.8	-	271.4	-	541.2
Transport	141.6	90.2	18.3	204.6	454.7
Health	232.4	-	96.4	28.5	357.3
Citizen Services	443.4	217.8	105.9	68.4	835.5
	1,300.7	645.6	548.2	342.3	2,836.8

* The prior period balances have been restated to ensure consistent application of the sector definitions used for the six months to 30 June 2019. The change has no impact to the income statement or balance sheet of the Group.

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

Information about major customers

The Group has four major governmental customers which each represent more than 8% of Group revenues. The customers' revenues were £509.5m for the UK Government, £338.8m for the US Government, £265.6m for the Australian Government and £121.2m for the Government of the United Arab Emirates.

Financial performance and position

Six months ended 30 June 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	657.9	372.3	279.7	165.6	-	1,475.5
Result						
Trading profit/(loss)*	12.5	40.4	11.8	7.4	(21.5)	50.6
Amortisation and impairment of intangibles arising on acquisition	(0.6)	(1.6)	(0.1)	-	-	(2.3)
Operating profit/(loss) before exceptional items	11.9	38.8	11.7	7.4	(21.5)	48.3
Other exceptional operating items**	(23.2)	(1.1)	(1.2)	-	(5.6)	(31.1)
Operating profit/(loss)	(11.3)	37.7	10.5	7.4	(27.1)	17.2
Investment revenue						1.5
Finance costs						(12.0)
Profit before tax						6.7
Tax charge						(8.5)
Tax on exceptional items						0.4
Loss for the period						(1.4)

* Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Six months ended 30 June 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	13.5	-	-	-	-	13.5
Depreciation of plant, property and equipment	(11.3)	(7.1)	(4.1)	(1.6)	(2.7)	(26.8)
Impairment of plant, property and equipment	(12.6)	-	-	-	-	(12.6)
Total depreciation and impairment of plant, property and equipment	(23.9)	(7.1)	(4.1)	(1.6)	(2.7)	(39.4)
Amortisation of intangible assets arising on acquisition	(0.6)	(1.6)	(0.1)	-	-	(2.3)
Amortisation of other intangible assets	(0.1)	(0.9)	(2.5)	(0.2)	(5.7)	(9.4)
Total amortisation and impairment of intangible assets	(0.7)	(2.5)	(2.6)	(0.2)	(5.7)	(11.7)
Segment assets						
Interests in joint ventures and associates	20.3	-	0.7	0.4	-	21.4
Other segment assets***	499.9	488.5	257.5	142.7	150.0	1,538.6
Total segment assets	520.2	488.5	258.2	143.1	150.0	1,560.0
Unallocated assets						258.1
Consolidated total assets						1,818.1
Segment liabilities						
Segment liabilities***/****	(391.9)	(189.6)	(172.0)	(92.6)	(151.2)	(997.3)
Unallocated liabilities						(288.6)
Consolidated total liabilities						(1,285.9)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.
**** Following the adoption of IFRS16 *Leases* all recognised lease liabilities are included within segment liabilities. Previously, finance lease liabilities were considered to be unallocated liabilities.

Six months ended 30 June 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	635.0	305.3	263.4	162.5	-	1,366.2
Result						
Trading profit/(loss)*	21.6	19.1	13.5	9.9	(18.7)	45.4
Amortisation and impairment of intangibles arising on acquisition	-	(1.6)	(0.3)	-	-	(1.9)
Operating profit/(loss) before exceptional items	21.6	17.5	13.2	9.9	(18.7)	43.5
Other exceptional operating items**	(1.7)	-	(0.6)	-	(9.3)	(11.6)
Operating profit/(loss)	19.9	17.5	12.6	9.9	(28.0)	31.9
Investment revenue						2.7
Finance costs						(9.0)
Profit before tax						25.6
Tax charge						(11.2)
Tax on exceptional items						0.2
Profit for the period						14.6

* Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Six months ended 30 June 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	14.9	-	0.1	-	-	15.0
Depreciation of plant, property and equipment	(6.7)	(1.6)	(1.2)	(0.4)	(0.8)	(10.7)
Impairment of plant, property and equipment	-	-	-	-	-	-
Total depreciation and impairment of plant, property and equipment	(6.7)	(1.6)	(1.2)	(0.4)	(0.8)	(10.7)
Amortisation of intangible assets arising on acquisition	-	(1.6)	(0.3)	-	-	(1.9)
Amortisation of other intangible assets	(0.5)	(0.7)	(2.4)	(0.1)	(5.9)	(9.6)
Total amortisation and impairment of intangible assets	(0.5)	(2.3)	(2.7)	(0.1)	(5.9)	(11.5)
Segment assets						
Interests in joint ventures and associates	19.0	-	0.5	0.4	-	19.9
Other segment assets***	468.3	429.9	232.9	131.8	119.8	1,382.7
Total segment assets	487.3	429.9	233.4	132.2	119.8	1,402.6
Unallocated assets						123.6
Consolidated total assets						1,526.2
Segment liabilities						
Segment liabilities***	(383.2)	(132.5)	(158.9)	(92.9)	(133.1)	(900.6)
Unallocated liabilities						(347.7)
Consolidated total liabilities						(1,248.3)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

Year ended 31 December 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,300.7	645.6	548.2	342.3	-	2,836.8
Result						
Trading profit/(loss)*	51.6	43.2	40.5	21.5	(40.1)	116.7
Amortisation and impairment of intangibles arising on acquisition	(0.5)	(3.2)	(0.6)	-	-	(4.3)
Operating profit/(loss) before exceptional items	51.1	40.0	39.9	21.5	(40.1)	112.4
Exceptional profit/(loss) on disposal of subsidiaries and operations	(0.5)	-	-	-	-	(0.5)
Other exceptional operating items**	(11.0)	(2.8)	(4.5)	-	(13.1)	(31.4)
Operating profit/(loss)	39.6	37.2	35.4	21.5	(53.2)	80.5
Investment revenue						4.3
Finance costs						(18.2)
Exceptional finance income						7.5
Profit before tax						74.1
Tax charge						(8.8)
Tax on exceptional items						2.1
Profit for the year						67.4

* Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Year ended 31 December 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	28.6	-	0.2	-	-	28.8
Depreciation of plant, property and equipment	(11.4)	(3.3)	(2.5)	(0.7)	(1.6)	(19.5)
Impairment of plant, property and equipment	(0.7)	-	-	-	-	(0.7)
Total depreciation and impairment of plant, property and equipment	(12.1)	(3.3)	(2.5)	(0.7)	(1.6)	(20.2)
Amortisation of intangible assets arising on acquisition	(0.5)	(3.2)	(0.6)	-	-	(4.3)
Amortisation of other intangible assets	(0.4)	(1.5)	(4.9)	(0.3)	(11.5)	(18.6)
Impairment of other intangible assets	(0.1)	-	-	-	-	(0.1)
Total amortisation and impairment of intangible assets	(1.0)	(4.7)	(5.5)	(0.3)	(11.5)	(23.0)
Segment assets						
Interests in joint ventures and associates	19.6	-	0.6	0.4	-	20.6
Other segment assets***	487.6	426.4	222.1	123.4	135.0	1,394.5
Total segment assets	507.2	426.4	222.7	123.8	135.0	1,415.1
Unallocated assets						138.5
Consolidated total assets						1,553.6
Segment liabilities						
Segment liabilities***	(339.4)	(130.3)	(152.1)	(93.6)	(142.8)	(858.2)
Unallocated liabilities						(308.6)
Consolidated total liabilities						(1,166.8)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

5. Joint ventures and associates

AWE Management Limited (AWEML) and Merseyrail Services Holding Company Limited (MSHCL) were the only equity accounted entities which were material to the Group during the six months ended 30 June 2019 or comparative periods. Dividends of £10.0m (2018: £11.8m) and £3.4m (2018: £4.3m) respectively were received from these companies in the period.

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

30 June 2019

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	524.7	84.2	170.7	22.2	192.9
Operating profit	47.4	8.9	16.0	0.5	16.5
Net investment revenue/(finance costs)	0.4	0.1	0.1	-	0.1
Income tax charge	(9.3)	(1.7)	(3.1)	-	(3.1)
Profit	38.5	7.3	13.0	0.5	13.5
Other comprehensive income	-	1.5	0.7	-	0.7
Total comprehensive income	38.5	8.8	13.7	0.5	14.2
Non-current assets	434.8	7.5	110.3	2.4	112.7
Current assets	228.5	53.1	82.5	16.8	99.3
Current liabilities	(211.3)	(42.9)	(73.2)	(13.5)	(86.7)
Non-current liabilities	(433.9)	9.0	(101.8)	(2.1)	(103.9)
Net assets	18.1	26.7	17.8	3.6	21.4
Proportion of group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment	4.4	13.4	17.8	3.6	21.4

* Total results of the entity multiplied by the respective proportion of Group ownership.

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Supplementary information					
Cash and cash equivalents	115.3	39.4	48.0	4.6	52.6
Current financial liabilities excluding trade and other payables and provisions	(6.7)	(1.5)	(2.4)	(0.2)	(2.6)
Non-current financial liabilities excluding trade and other payables and provisions	(0.1)	-	-	(2.3)	(2.3)
Depreciation and amortisation	-	(0.7)	(0.4)	(0.5)	(0.9)
Interest income	0.4	0.1	0.1	-	0.1
Interest expense	-	-	-	-	-

* Total results of the entity multiplied by the respective proportion of Group ownership.

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

Main assumptions: 2019	**AWEML**	**MSHCL**
Rate of salary increases (%)	2.2%	3.1%
Inflation assumption (CPI %)	2.2%	2.2%
Discount rate (%)	2.3%	2.3%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	22.9	N/A
Future male industrial pensioners at 65 (years)	24.6	N/A

Retirement benefit funding position (100% of results)	**£m**	**£m**
Present value of scheme liabilities	(2,130.2)	(335.5)
Fair value of scheme assets	1,696.4	207.9
Net amount recognised	(433.8)	(127.6)
Members' share of deficit	-	51.0
Franchise adjustment*	-	76.6
Related asset, right to reimbursement	433.8	-
Net retirement benefit obligation	-	-

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

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

30 June 2018

Summarised financial information	**AWEML (100% of results) £m**	**MSHCL (100% of results) £m**	**Group portion of material joint ventures and associates* £m**	**Group portion of other joint venture arrangements and associates* £m**	**Total £m**
Revenue	533.2	80.2	170.7	21.6	192.3
Operating profit	58.1	7.4	17.9	0.4	18.3
Net investment revenue/(finance costs)	0.2	(0.2)	(0.1)	-	(0.1)
Income tax charge	(10.4)	(1.3)	(3.2)	-	(3.2)
Profit	47.9	5.9	14.6	0.4	15.0
Other comprehensive income	-	2.5	1.3	(0.1)	1.2
Total comprehensive income	47.9	8.4	15.9	0.3	16.2
Non-current assets	660.0	8.5	166.0	2.2	168.2
Current assets	180.8	48.1	68.3	16.0	84.3
Current liabilities	(162.8)	(30.6)	(55.2)	(12.5)	(67.7)
Non-current liabilities	(658.6)	(1.6)	(162.2)	(2.7)	(164.9)
Net assets	19.4	24.4	16.9	3.0	19.9
Proportion of group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment	4.8	12.2	16.9	3.0	19.9

* Total results of the entity multiplied by the respective proportion of Group ownership.

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Supplementary information					
Cash and cash equivalents	77.2	33.6	32.7	8.5	41.2
Current financial liabilities excluding trade and other payables and provisions	(8.3)	(1.9)	(2.9)	(0.9)	(3.8)
Non-current financial liabilities excluding trade and other payables and provisions	-	-	-	(2.7)	(2.7)
Depreciation and amortisation	-	(2.2)	(1.1)	(1.4)	(2.5)
Interest income	0.2	0.1	0.1	-	0.1
Interest expense	-	(0.3)	(0.2)	-	(0.2)

* Total results of the entity multiplied by the respective proportion of Group ownership.

Main assumptions: 2018	AWEML	MSHCL
Rate of salary increases (%)	2.1%	3.0%
Inflation assumption (CPI %)	2.1%	2.1%
Discount rate (%)	2.9%	2.9%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	23.0	N/A
Future male industrial pensioners at 65 (years)	25.6	N/A

Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,042.8)	(277.1)
Fair value of scheme assets	1,574.1	197.6
Net amount recognised	(468.7)	(79.5)
Members' share of deficit	-	31.8
Franchise adjustment*	-	47.7
Related asset, right to reimbursement	468.7	-
Net retirement benefit obligation	-	-

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

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

31 December 2018

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,024.7	160.8	331.5	43.6	375.1
Operating profit before exceptional items	100.4	17.1	33.2	1.4	34.6
Exceptional items	-	(0.6)	(0.3)	-	(0.3)
Operating profit	100.4	16.5	32.9	1.4	34.3
Net investment revenue/(finance costs)	0.6	0.2	0.2	0.1	0.3
Income tax charge	(18.6)	(3.3)	(6.2)	0.1	(6.1)
Profit	82.4	13.4	26.9	1.6	28.5
Profit before exceptional items	82.4	14.0	27.2	1.6	28.8
Other comprehensive income	-	4.1	2.0	-	2.0
Total comprehensive income	82.4	17.5	28.9	1.6	30.5
Non-current assets	518.5	8.0	131.0	2.6	133.6
Current assets	210.1	45.7	74.3	15.4	89.7
Current liabilities	(190.6)	(28.0)	(60.7)	(12.5)	(73.2)
Non-current liabilities	(517.6)	(0.8)	(127.2)	(2.3)	(129.5)
Net assets	20.4	24.9	17.4	3.2	20.6
Proportion of group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment*	5.0	12.4	17.4	3.2	20.6

* Total results of the entity multiplied by the respective proportion of Group ownership.

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Supplementary information					
Cash and cash equivalents	98.1	34.3	41.2	5.1	46.3
Current financial liabilities excluding trade and other payables and provisions	(9.7)	(2.0)	(3.4)	(0.2)	(3.6)
Non-current financial liabilities excluding trade and other payables and provisions	-	-	-	(2.3)	(2.3)
Depreciation and amortisation	-	(2.0)	(1.0)	(1.0)	(2.0)
Interest income	0.6	0.2	0.2	0.1	0.3
Interest expense	-	-	-	-	-

* Total results of the entity multiplied by the respective proportion of Group ownership.

Main assumptions: 2018	AWEML	MSHCL**
Rate of salary increases (%)	2.2%	3.1%
Inflation assumption (CPI %)	2.2%	2.2%
Discount rate (%)	3.0%	2.9%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	23.0	N/A
Future male industrial pensioners at 65 (years)	25.6	N/A

Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,030.4)	(290.3)
Fair value of scheme assets	1,512.8	193.3
Net amount recognised	(517.6)	(97.0)
Members' share of deficit	-	38.8
Franchise adjustment*	-	58.2
Related asset, right to reimbursement	517.6	-
Net retirement benefit obligation	-	-

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.
** An adjustment has been made to the relative amounts of the Members' share of deficit and the Franchise adjustment for MSHCL as at 31 December 2018. The amounts previously disclosed had been transposed meaning the Members' share of deficit was incorrectly disclosed as £58.2m and the Franchise adjustment was incorrectly disclosed as £38.8m.

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

6. Acquisitions

On 23 May 2019, the Group announced that it had entered into a definitive Asset Purchase Agreement to acquire for $225m the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation. NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. In the 12 months to September 2018, NSBU had revenues of $336m, which compares with Serco's North American Defence revenues in 2018 of $453m; NSBU has an order book of around $600m and a new business pipeline of over $2bn.

At 30 June 2019 the acquisition had not completed and as a result there are no balances or transactions associated with NSBU included in the Group's results for the six months ended 30 June 2019. Costs incurred to date by the Group in connection with the acquisition have been included in exceptional items during the period.

The total impact of acquisitions in the period to the Group's cash flow position was as follows:

	£m
Acquisition costs for NSBU	(1.1)
Deferred consideration paid in respect of historic acquisition: Clarence (formerly Grafton) Correctional Centre	(8.0)
Net cash outflow arising on acquisitions in the period	(9.1)

7. Disposals

No material disposals took place in the six months ended 30 June 2019.

8. Exceptional items

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

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Exceptional loss on disposal of subsidiaries and	-	-	(0.5)
Other exceptional operating items			
Restructuring costs	(5.4)	(11.3)	(32.3)
Increase in onerous lease provision	-	-	(1.8)
Costs associated with UK Government review	(24.0)	(0.3)	0.4
Reversal of impairment of interest in joint ventures and related loan balances	-	-	0.8
Reversal of impairment on loan balances	-	-	13.9
Cost of Guaranteed Minimum Pension equalisation	-	-	(9.6)
Increase in other provisions	-	-	(2.8)
Acquisition costs for NSBU	(1.7)	-	-
Other exceptional operating items	(31.1)	(11.6)	(31.4)
Exceptional operating items	(31.1)	(11.6)	(31.9)
Exceptional finance income	-	-	7.5
Exceptional tax	0.4	0.2	2.1
Total operating and financing exceptional items net of tax	(30.7)	(11.4)	(22.3)

The Group is incurring costs in relation to restructuring programmes resulting from the Strategy Review announced in 2015. These costs include redundancy payments, provisions, external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation phase of the Strategy Review, the incremental costs associated with this programme are considered to be exceptional. Costs associated with the restructuring programme resulting from the Strategy Review must meet the following criteria: that they are directly linked to the implementation of the Strategy Review; they are incremental costs as a result of the activity; and they are non business as usual costs. In the six months ended 30 June 2019 a charge of £5.4m (2018: £11.3m) arose in relation to the restructuring programme resulting from the Strategy Review. Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the period totalled £2.2m (2018: £4.1m) and were included within operating profit before exceptional items. We expect restructuring costs of approximately £20.0m will be treated as exceptional in the year ended 31 December 2019.

There were exceptional costs totalling £24.0m (2018: £0.3m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2019. Additional information regarding the £22.9m for the fine and costs of SFO's investigation into Serco companies can be found in note 20.

Exceptional costs of £31.1m only gave rise to an exceptional tax credit of £0.4m, as the majority of these costs were incurred in the UK where they only impact our unrecognised deferred tax in relation to losses.

9. Investment revenue

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Interest receivable on other loans and deposits	0.1	1.4	2.3
Net interest receivable on retirement benefit obligations (note 17)	1.1	0.4	0.8
Interest arising on customer contracts	0.2	0.2	-
Movement in discount on other debtors	0.1	0.7	1.2
	1.5	2.7	4.3

10. Finance costs

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Interest payable on lease obligations*	2.4	0.2	0.6
Interest payable on other loans	6.7	6.5	13.8
Facility fees and other charges	0.9	1.8	3.1
Movement in discount on provisions	1.1	0.3	0.5
	11.1	8.8	18.0
Foreign exchange on financing activities	0.9	0.2	0.2
	12.0	9.0	18.2

* Interest in prior periods represents interest on leases previously classified as finance leases.

11. Tax

We recognised a tax charge of £8.5m (2018: £11.2) on pre-exceptional profits, which includes £9.8m underlying tax, a £0.4m tax credit on amortisation of intangibles arising on acquisition and a £0.9m credit on non-underlying items. The £0.9m credit relates to the tax impact of movements in the valuation of the Group's defined benefit pension schemes which leads to a corresponding adjustment to the deferred tax asset to match the future profit forecasts. Such a change in the deferred tax asset impacts tax in the income statement. Where deferred tax charges or releases are the result of movements in the pension scheme valuations rather than trading activity, these are excluded from the calculation of tax on underlying profit and the underlying effective tax rate.

The tax rate on profits before exceptional items, at 22.5% (2018: 30.1%), is higher than the UK standard corporation tax rate of 19%. This is mainly due to the impact of higher rates of tax on profits arising on our international operations, together with the absence of any deferred tax credit for current year losses incurred in the UK (which includes the result of UK divisions and the majority of corporate costs) which is only partially offset by credits in relation to the impact of our joint ventures whose post-tax results are included in our pre-tax profit.

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

12. Earnings per share

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

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

Number of shares	Six months ended 30 June 2019 millions	Six months ended 30 June 2018 (restated*) millions	Year ended 31 December 2018 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,122.0	1,096.6	1,094.4
Effect of dilutive potential ordinary shares: Share options	24.3	21.3	31.0
Weighted average number of ordinary shares for the purpose of diluted EPS	1,146.3	1,117.9	1,125.4

* The number of dilutive ordinary shares has been restated to ensure that the calculation is consistent with the method used for the current financial period and the 2018 full year.

At 30 June 2019, no options over shares were excluded from the weighted average number of shares used for calculating diluted earnings per share. At 30 June 2018, 139,049 shares were excluded from the calculation because their exercise price was above the average share price for the period and they were, therefore, anti-dilutive.

Basic EPS	Earnings 30 June 2019 £m	Per share amount 30 June 2019 pence	Earnings 30 June 2018 £m	Per share amount 30 June 2018 (restated*) pence	Earnings 31 December 2018 £m	Per share amount 31 December 2018 pence
Earnings for the purpose of basic EPS	(1.7)	(0.15)	14.5	1.32	67.4	6.16
Effect of dilutive potential ordinary shares	-	-	-	(0.02)	-	(0.17)
Diluted EPS	(1.7)	(0.15)	14.5	1.30	67.4	5.99
Basic EPS excluding exceptional items						
Earnings for the purpose of basic EPS	(1.7)	(0.15)	14.5	1.32	67.4	6.16
Add back exceptional items	31.1	2.77	11.6	1.06	24.4	2.23
Add back tax on exceptional items	(0.4)	(0.04)	(0.2)	(0.02)	(2.1)	(0.19)
Earnings excluding exceptional items for the basis of basic EPS	29.0	2.58	25.9	2.36	89.7	8.20
Effect of dilutive potential ordinary shares	-	(0.05)	-	(0.04)	-	(0.23)
Excluding exceptional items, diluted	29.0	2.53	25.9	2.32	89.7	7.97

* The number of dilutive ordinary shares has been restated to ensure that the calculation is consistent with the method used for the current financial period and the 2018 full year.

13. Goodwill

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

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

There have been no indicators of impairment since the full impairment test undertaken for the 2018 year-end. Within the impairment review conducted during 2018, the lowest headroom was identified in relation to the Middle East CGU on an absolute basis and the Americas CGU as a proportion of the goodwill balance. Both businesses have performed either ahead of expectations or within expected tolerances in the six months ended 30 June 2019.

14. Analysis of Net Debt

	As at 1 January 2019* £m	Opening adjustment – IFRS16** £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non-cash movements £m	As at 30 June 2019 £m
Loans payable	(239.5)	-	-	-	(1.5)	0.4	(240.6)
Lease obligations	(14.8)	(129.1)	22.3	-	(0.7)	(22.5)	(144.8)
Liabilities arising from financing activities	(254.3)	(129.1)	22.3	-	(2.2)	(22.1)	(385.4)
Cash and cash equivalents	62.5	-	110.6	-	0.3	-	173.4
Derivatives relating to Net Debt	3.8	-	-	-	1.5	-	5.3
Net Debt	(188.0)	(129.1)	132.9	-	(0.4)	(22.1)	(206.7)

* The position disclosed as at 1 January 2019 is the closing position as at 31 December 2018.
** The opening Net Debt balance has been adjusted to include lease liabilities recognised on the adoption of IFRS16 *Leases*.

	As at 1 January 2018 £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non-cash movements £m	As at 30 June 2018 £m
Loans payable	(271.5)	(6.7)	-	(6.0)	(0.5)	(284.7)
Lease obligations	(20.2)	5.0	-	-	(0.1)	(15.3)
Liabilities arising from financing activities	(291.7)	(1.7)	-	(6.0)	(0.6)	(300.0)
Cash and cash equivalents	112.1	(62.1)	1.2	(0.9)	-	50.3
Loan receivables	25.7	-	-	-	0.8	26.5
Derivatives relating to Net Debt	12.8	-	-	(9.7)	-	3.1
Net Debt	(141.1)	(63.8)	1.2	(16.6)	0.2	(220.1)

	As at 1 January 2018 £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non-cash movements £m	As at 31 December 2018 £m
Loans payable	(271.5)	33.3	-	(12.9)	11.6	(239.5)
Lease obligations	(20.2)	8.7	-	0.1	(3.4)	(14.8)
Liabilities arising from financing activities	(291.7)	42.0	-	(12.8)	8.2	(254.3)
Cash and cash equivalents	112.1	(50.4)	1.2	(0.4)	-	62.5
Loan receivables	25.7	(37.4)	-	-	11.7	-
Derivatives relating to Net Debt	12.8	-	-	(9.0)	-	3.8
Net Debt	(141.1)	(45.8)	1.2	(22.2)	19.9	(188.0)

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

15. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
As at 1 January 2019	59.5	12.4	82.1	85.4	239.4
Opening adjustment - IFRS16	-	0.8	(13.3)	-	(12.5)
Charged to income statement – exceptional	0.4	-	-	22.9	23.3
Charged to income statement – other	6.1	0.8	3.9	9.0	19.8
Released to income statement – exceptional	(0.3)	-	-	-	(0.3)
Released to income statement – other	(0.5)	(0.3)	(3.9)	(2.6)	(7.3)
Utilised during the year	(5.2)	(0.4)	(42.1)	(1.5)	(49.2)
Unwinding of discount	-	1.1	(0.2)	-	0.9
Exchange differences	0.1	-	0.2	0.3	0.6
As at 30 June 2019	60.1	14.4	26.7	113.5	214.7
Analysed as:					
Current	19.1	6.3	26.7	71.4	123.5
Non-current	41.0	8.1	-	42.1	91.2
	60.1	14.4	26.7	113.5	214.7

The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. Individual provisions are discounted where the impact is assessed to be significant. Discount rates used are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

The exceptional charge to the income statement within Other provisions relates to costs associated with the settlement of the SFO's investigation into Serco companies as disclosed in note 20.

16. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures and associates up to a maximum value of £4.3m (31 December 2018: £4.3m). The actual commitment outstanding at 30 June 2019 was £4.3m (31 December 2018: £4.3m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 30 June 2019 was £226.7m (31 December 2018: £225.3m).

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

17. Defined benefit schemes

Characteristics

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of SPLAS was undertaken as at 5 April 2018 and completed in June 2019. The actuarially assessed deficit for funding purposes at 5 April 2018 was of £26m. A summary valuation was also undertaken as at 31 December 2018 when the estimated actuarial deficit of SPLAS was £28m on the funding basis, whereas the accounting valuation at 31 December 2018 resulted in an asset of £85.8m. Pension obligations are valued separately for funding and accounting purposes and there is often a material difference between these valuations. The primary reason is that pension scheme accounting requires the valuation to be performed on the 'best estimate' basis, whereas for the funding valuation the SPLAS Trustee adopts more prudent assumptions. A revised schedule of contributions for SPLAS was agreed in June 2019, which saw the employer contribution rate rise from 1 July 2019 to 31.3% of pensionable salaries from 28.3%. In 2018, shortfall contributions of £5.2m were paid by the Company in addition. Further shortfall contributions of £4m are scheduled to be paid by 1 April in each of 2020 and 2021, and £1.7m each year from 2022 through to 2028.

Values recognised in total comprehensive income

The total amounts recognised in the financial statements in respect of all schemes are analysed as follows:

Recognised in the income statement	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Current service cost - employer	2.1	2.9	5.7
Past service cost	1.1	-	9.3
Administrative expenses and taxes	0.7	2.0	3.9
Recognised in arriving at operating profit after exceptionals	3.9	4.9	18.9
Interest income on scheme assets - employer	(19.0)	(16.9)	(33.7)
Interest on franchise adjustment	(0.1)	-	(0.1)
Interest cost on scheme liabilities - employer	18.0	16.5	33.0
Finance income	(1.1)	(0.4)	(0.8)

Included within the SOCI	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 (restated*) £m
Actual return on scheme assets	99.9	(54.5)	40.2
Less: interest income on scheme assets	(19.0)	(17.0)	(33.8)
	80.9	(71.5)	6.4
Effect of changes in demographic assumptions	41.7	-	(48.9)
Effect of changes in financial assumptions	(119.1)	75.2	75.7
Effect of experience adjustments	(1.6)	(8.3)	18.9
Remeasurements	1.9	(4.6)	52.1
Change in franchise adjustment	1.2	(0.5)	-
Change in members' share	0.7	(0.4)	(0.2)
Actuarial profit/(loss) on reimbursable rights	1.9	(0.9)	(0.2)
Total pension gain/(loss) recognised in the SOCI	3.8	(5.5)	51.9

* For the year ended 31 December 2018 a reassessment of the causes of changes in the liability associated with the SPLAS scheme identified that the previously disclosed effect of experience adjustment contained a component that related to a change in demographic assumptions. There is no impact on the closing liability associated with the SPLAS scheme and no impact on the Group's gross or net pension assets or obligations.

Balance sheet values

The total assets and liabilities of all schemes are:

Scheme assets at fair value	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Equities	52.6	58.8	49.6
Bonds except LDIs	198.8	25.0	97.2
LDIs	488.8	668.9	580.7
Gilts	-	0.2	-
Property	1.6	2.5	1.2
Cash and other	75.5	10.3	11.6
Private debt mandates	-	-	11.4
Annuity policies	611.1	524.9	600.2
Fair value of scheme assets	1,428.4	1,290.6	1,351.9
Present value of scheme liabilities	(1,361.1)	(1,275.6)	(1,287.0)
Net amount recognised	67.3	15.0	64.9
Franchise adjustment*	4.9	3.2	3.7
Members' share of deficit	3.3	2.1	2.3
Net retirement benefit asset	75.5	20.3	70.9
Net pension liability	(19.7)	(11.5)	(14.9)
Net pension asset	95.2	31.8	85.8
Net retirement benefit asset	75.5	20.3	70.9
Deferred tax liabilities	(10.8)	(1.5)	(9.9)
Net retirement benefit asset (after tax)	64.7	18.8	61.0

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

Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which represents 92% of total liabilities and 94% of total assets of the defined benefit pension schemes in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

Main assumptions	30 June 2019 %	30 June 2018 %	31 December 2018 %
Rate of salary increases	2.7	2.60	2.80
Rate of increase in pensions in payment	2.25 (CPI) and 3.05 (RPI)	2.30 (CPI) and 3.00 (RPI)	2.20 (CPI) and 3.00 (RPI)
Rate of increase in deferred pensions	2.20 (CPI) and 3.20 (RPI)	2.15 (CPI) and 3.10 (RPI)	2.30 (CPI) and 3.30 (RPI)
Inflation assumption	2.20 (CPI) and 3.20 (RPI)	2.10 (CPI) and 3.10 (RPI)	2.30 (CPI) and 3.30 (RPI)
Discount rate	2.30	2.80	2.90

Post retirement mortality	30 June 2019 years	30 June 2018 years	31 December 2018 years
Current pensioners at 65 – male	21.6	22.6	22.6
Current pensioners at 65 – female	24.1	25.1	25.1
Future pensioners at 65 – male	23.8	24.4	24.4
Future pensioners at 65 – female	26.2	27.0	27.0

Sensitivity analysis

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 30 June 2019 where the Group's defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. The Group's defined benefit obligation as at 30 June 2019 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the Group's defined benefit obligation.

Pension assumption sensitivities	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Discount rate - 0.5% increase	(109.0)	(99.0)	(102.8)
Discount rate - 0.5% decrease	118.9	111.9	112.2
Inflation - 0.5% increase	72.0	77.6	66.9
Inflation - 0.5% decrease	(69.4)	(75.3)	(64.7)
Rate of salary increase - 0.5% increase	2.7	4.1	2.4
Rate of salary increase - 0.5% decrease	(2.6)	(3.9)	(2.3)
Mortality - one year age rating	41.9	37.5	39.9

18. Related party transactions

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

Transactions

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

	Transactions for the six months ended 30 June 2019 £m	Outstanding at 30 June 2019* £m
Sale of goods and services		
Joint ventures	0.8	0.1
Associates	3.9	2.0
Other		
Dividends received - joint ventures	3.4	-
Dividends received - associates	10.0	-
Receivable from consortium for tax - joint ventures	(0.9)	5.7
Total	17.2	7.8

* All amounts outstanding as at 30 June 2019 are due within 12 months of the balance sheet date.

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

	Transactions for the six months ended 30 June 2018 £m	Outstanding at 30 June 2018* £m
Sale of goods and services		
Joint ventures	0.4	-
Associates	3.3	0.5
Other		
Dividends received - joint ventures	4.3	-
Dividends received - associates	11.8	-
Receivable from consortium for tax - joint ventures	(2.1)	3.2
Total	17.7	3.7

* All amounts outstanding as at 30 June 2018 are due within 12 months of the balance sheet date.

	Transactions for the year ended 31 December 2018 £m	Outstanding at 31 December 2018* £m
Sale of goods and services		
Joint ventures	0.4	0.1
Associates	7.3	0.6
Other		
Dividends received – joint ventures	9.7	-
Dividends received – associates	20.0	-
Receivable from consortium for tax – joint ventures	4.8	5.3
Total	42.2	6.0

* All amounts outstanding as at 31 December 2018 are due within 12 months of the balance sheet date.

19. Notes to the Condensed Consolidated Cash Flow Statement

Six months ended 30 June	2019 Before exceptional items £m	2019 Exceptional items £m	2019 Total £m	2018 Before exceptional items £m	2018 Exceptional items £m	2018 Total (restated*) £m
Operating profit for the period	48.3	(31.1)	17.2	43.5	(11.6)	31.9
Adjustments for:						
Share of profits in joint ventures and associates	(13.5)	-	(13.5)	(15.0)	-	(15.0)
Share based payment expense	5.6	-	5.6	6.9	-	6.9
Impairment of property, plant and equipment	12.6	-	12.6	-	-	-
Depreciation of property, plant and equipment	26.8	-	26.8	10.7	-	10.7
Amortisation of intangible assets	11.7	-	11.7	11.5	-	11.5
Loss on disposal of property, plant and equipment	0.1	-	0.1	0.3	-	0.3
Loss on disposal of intangible assets	-	-	-	0.3	-	0.3
Exceptional transaction costs	-	1.7	1.7	-	-	-
Increase/(decrease) in provisions*	(35.4)	21.7	(13.7)	(42.7)	(11.0)	(53.7)
Other non-cash movements	(0.1)	-	(0.1)	-	-	-
Total non-cash items*	7.8	23.4	31.2	(28.0)	(11.0)	(39.0)
Operating cash inflow/(outflow) before movements in working capital*	56.1	(7.7)	48.4	15.5	(22.6)	(7.1)
Decrease/(increase) in inventories	4.1	-	4.1	(3.0)	-	(3.0)
Increase in receivables	(44.6)	-	(44.6)	(60.1)	-	(60.1)
Increase/(decrease) in payables*	33.0	(4.4)	28.6	35.8	(1.5)	34.3
Movements in working capital*	(7.5)	(4.4)	(11.9)	(27.3)	(1.5)	(28.8)
Cash generated by operations	48.6	(12.1)	36.5	(11.8)	(24.1)	(35.9)
Tax paid	(17.2)	-	(17.2)	(4.8)	-	(4.8)
Net cash inflow/(outflow) from operating activities	31.4	(12.1)	19.3	(16.6)	(24.1)	(40.7)

* Results as at 30 June 2018 have been restated to include the impact of the additional balance sheet classification relating to the adoption of IFRS15 disclosed at 31 December 2018. See note 3.

Year ended 31 December	2018 Before exceptional items £m	2018 Exceptional items £m	2018 Total £m
Operating profit for the year	112.4	(31.9)	80.5
Adjustments for:			
Share of profits in joint ventures and associates	(28.8)	-	(28.8)
Share based payment expense	14.7	-	14.7
Impairment of property, plant and equipment	0.7	-	0.7
Impairment of intangible assets	0.1	-	0.1
Depreciation of property, plant and equipment	19.5	-	19.5
Amortisation of intangible assets	22.9	-	22.9
Exceptional loss on disposal of subsidiaries and operations	-	0.5	0.5
Reversal of impairment on loan balances	-	(13.9)	(13.9)
Loss on disposal of property, plant and equipment	0.5	-	0.5
Loss on disposal of intangible assets	1.5	-	1.5
Exceptional interest in joint venture	-	0.3	0.3
Decrease in provisions	(68.1)	(13.8)	(81.9)
Other non-cash movements	(0.2)	-	(0.2)
Total non-cash items	(37.2)	(26.9)	(64.1)
Operating cash inflow/(outflow) before movements in working capital	75.2	(58.8)	16.4
Increase in inventories	(5.0)	-	(5.0)
(Increase)/decrease in receivables	(22.9)	0.4	(22.5)
Decrease in payables	6.3	18.2	24.5
Movements in working capital	(21.6)	18.6	(3.0)
Cash generated by operations	53.6	(40.2)	13.4
Tax paid	(10.6)	-	(10.6)
Non-cash R&D expenditure	(0.1)	-	(0.1)
Net cash inflow/(outflow) from operating activities	42.9	(40.2)	2.7

20. Post balance sheet events

On 23 May, 2019 the Group announced that it had entered into a definitive Asset Purchase Agreement to acquire for $225m the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation.

After the balance sheet date the Group received all necessary regulatory approvals for the acquisition, including the customary Hart-Scott-Rodino ('HSR') and Committee on Foreign Investments into the United States ('CFIUS') approvals. As a result of this completion of the transaction is expected imminently.

At 30 June 2019 the acquisition had not completed and as a result there are no balances or transactions associated with NSBU included in the Group's results for the six months ended 30 June 2019. Costs incurred to date by the Group in connection with the acquisition have been included in exceptional items during the period.

On 4 July 2019, Serco Geografix Ltd (SGL), a wholly owned subsidiary, received judicial approval of a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO). This ruling concludes the SFO's investigation into Serco companies announced in November 2013. Significant progress had been made in the period to finalise the investigation by the SFO and agree the terms of the DPA.

Key points to note in respect of the investigation, ruling and DPA

- Serco Geografix Ltd has taken responsibility under the terms of the proposed Deferred Prosecution Agreement for three offences of fraud and two of false accounting committed between 2010 and 2013 related to the reporting to the UK Ministry of Justice (MoJ) of the levels of profitability of Serco's Electronic Monitoring (EM) contract. These issues were reported by Serco to the SFO and the MoJ in November 2013.
- Investigations into allegations of wrongful billing which were the subject of significant public and Parliamentary concern in 2013 have now been concluded without any criminal charges against Serco.
- SGL will pay a fine of £19.2m together with £3.7m related to the SFO's investigation costs. The fine reflects a discount of 50% as a result of Serco's self-reporting, as well as its significant and substantial cooperation with the investigation. No damages or disgorgement of profit will be payable to the MoJ because the SFO has agreed that Serco has already fully compensated the Department in respect of the offences as part of a £70m settlement paid by Serco to the MoJ in December 2013.
- The SFO has recognised the significant steps Serco has taken to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government. This programme included over 80 actions and initiatives, and included rewriting our system of management control, as well as strengthening our bidding, contract management, internal audit and management assurance processes.
- Alongside the DPA, Serco has assumed certain obligations including on-going co-operation with the SFO and further strengthening of its Group-wide Ethics and Compliance functions, as well as agreeing to report annually to the SFO and the Cabinet Office on the Group's assurance programme.

As this ruling is evidence of conditions which existed at the end of the reporting period, a provision of £19.2m relating to the fine and £3.7m of SFO investigation costs has been recorded in the 30 June 2019 balance sheet.