Stock Exchange Announcement

2018 half year results

2 August 2018
Serco Group plc
LEI: 549300PT2CIHYN5GWJ21

Six months ended 30 June	2018	2017[5]
Revenue[1]	£1,366.2m	£1,507.3m
Underlying Trading Profit (UTP)[2]	£37.6m	£34.0m
Reported Operating Profit (ie after exceptional items)[2]	£31.9m	£20.4m
Underlying EPS, basic[3]	1.88p	1.46p
Reported EPS, basic (ie after exceptional items)	1.32p	(1.77p)
Free Cash Flow[4]	(£26.0m)	(£26.8m)
Net Debt	£220.1m	£148.9m

Rupert Soames, Serco Group Chief Executive, said: "As foreseen in our five-year strategy, profits are now starting to grow, with Underlying Trading Profit having increased by 20% at constant currency in the first half. We have also seen a continuation of the strong order intake achieved in 2017, with contract awards so far in 2018 of some £1.6bn, around 80% of which is from customers outside the UK; this order intake delivers another period during which the book-to-bill ratio has exceeded 100%, and sees our order book increase to £11.0bn. The financial and order intake performance has been accompanied by strong operational delivery and effective implementation of our transformation programme. In addition we have also made progress with value-enhancing acquisitions; BTP has been integrated within our US defence business to deepen our satellite and radar capabilities, and we have now completed the transfer of all six Carillion hospital contracts which will materially increase the scale and profitability of our UK health facilities management business. Notwithstanding market conditions that remain less than ideal, particularly in the UK, we are responding appropriately and continue to make progress in line with our strategy."

- Revenue[1] at constant currency was down 5.6%, comprising a 6.0% organic decline from net contract attrition, partially offset by a 0.4% net contribution from acquisitions. In addition there was an adverse currency impact of £57m or 3.8%, resulting in a 9.4% decline in revenue at reported currency.
- Order intake of £1.6bn, includes the rebid of our US health insurance eligibility contract and 16 other awards worth more than £10m; around 80% of order intake came from customers of our Americas, Middle East and AsPac divisions, with the remaining 20% from the UK & Europe. 70% of the order intake comprised existing work being rebid or extended, and 30% was new business.
- Book-to-bill ratio of close to 120%; closing order book increased to £11.0bn, up from £10.7bn at the start of the year; a further £0.7bn will be added following the Carillion contract transfers.
- Underlying Trading Profit[2] at constant currency increased by 20%, largely as a result of the successful implementation of our transformation plans; adverse currency impact of £3.2m or 9%, resulted in an 11% increase at reported currency. Margin increased to 2.8% (2017: 2.3%).
- Reported Operating Profit increased by 56% and includes a £7.8m release of Contract & Balance Sheet Review items, which is excluded from Underlying Trading Profit. Onerous Contract Provisions (OCPs) tracking to plan and liability now stands at £123m, down from £447m in 2014 and £168m at the start of the year.
- Pre-exceptional tax costs of £11m (2017: £16m); net exceptional costs also lower at £11m (2017: £27m).
- Underlying EPS increased by 29%, reflecting the growth in Underlying Trading Profit, together with lower net finance costs and tax rate; Reported EPS, which includes the impact of the other non-underlying items and lower tax and exceptional costs, resulted in a profit per share of 1.32p (2017: loss per share of 1.77p).
- Free Cash Flow[4] outflow of £26m, similar to the comparable period; in addition, £24m cash exceptional costs, £15m net acquisition consideration and a £13m net foreign exchange and hedging impact led to a £79m increase in net debt. Leverage for covenant purposes of 1.75x, comfortably within our normal target range of 1-2x.
- Value-enhancing acquisitions: completed and integrated BTP Systems within our US defence business to deepen our satellite and radar capabilities; after the period end, completed the transfer of the six Carillion health facilities management contracts in the UK.
- Pipeline of larger new bid opportunities increased to £4.7bn, reflecting successfully reloading the pipeline with new opportunities to replace those removed on bid outcomes during the first half of the year.
- Consistent with the closed period update issued on 29 June, guidance for 2018 full year is revenue of £2.7-2.8bn and Underlying Trading Profit to grow to around £80m. For 2019, we expect revenues to be broadly flat in constant currency, and to see further good growth in Underlying Trading Profit. With the completion of the Carillion contract transactions in the second half, we expect accounting net debt at the end of 2018 to increase slightly from the June position and to be at the mid-to-upper end of our £200-250m guidance range, equivalent to leverage for covenant purposes of 1.5-2x.

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Presentation:
A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting at 9.00am. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility is also available on +44 (0)330 336 9105 (USA: +1 323 794 2094) with participant pin code 3895109.

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 2018 into Sterling at the average exchange rates for the six months ended 30 June 2017.

(2) Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures 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 (although there were no such items in the latest or comparable period). A reconciliation of Underlying Trading Profit to Trading Profit and Reported Operating Profit is as follows:

Six months ended 30 June £m	**2018**	**2017**
Underlying Trading Profit	**37.6**	**34.0**
Include: non-underlying items		
Contract & Balance Sheet Review adjustments	7.8	-
Trading Profit	**45.4**	**34.0**
Amortisation of intangibles arising on acquisition	(1.9)	(2.2)
Operating Profit Before Exceptional Items	43.5	31.8
Operating Exceptional Items	(11.6)	(11.4)
Reported Operating Profit (after exceptional items)	**31.9**	**20.4**

(3) Underlying EPS reflects the Underlying Trading Profit measure after deducting 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 Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases.

(5) The results for the six months ended 30 June 2017 have been restated for the adoption of IFRS15. The restatement to revenue is £0.9m from £1,508.2m to £1,507.3m, and to Underlying Trading Profit is £1.3m from £35.3m to £34.0m. All references to comparable period performance referred to in the Chief Executive's Review and the Divisional Reviews have been restated accordingly. Further details regarding the impact of the adoption of IFRS15 are included in note 1 to the condensed consolidated financial statements on pages 40 to 51.

Reconciliations and further detail of financial performance are included in the Finance Review on pages 14 to 29. 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 32 to 70.

Forward looking statements:

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

Chief Executive's Review

Summary of financial performance

Revenue and Trading Profit

Reported Revenue declined 9.4% to £1,366m (2017: £1,507m); this measure excludes Serco's share of revenue from joint ventures and associates of £192m (2017: £180m). Net currency movements reduced revenue by £57m or 3.8%, while the contribution from acquisitions net of disposals added £6m or 0.4%. At constant currency the organic revenue decline was £91m or 6.0%; this decline was driven by a £55m reduction in two particularly volume-related areas in the Americas business (the CMS health insurance eligibility support contract and our frameworks for ship modernisation task orders), a £26m impact from the transfer of the Glasgow ACCESS operations, and a £31m impact in AsPac from the end of the Armidale Class Patrol Boats (ACPB) and the Western Australia Court Security and Custodial Services (WACSCS) contracts. These and the effect of other smaller contract attrition were only partially offset by growth elsewhere including: hospital facility management services for Barts Health NHS Trust and University Hospital Southampton NHS Foundation Trust, and new Skills Support for the Workforce (SSW) contracts also in the UK; in the US, growth from new or expanded work for the Defense Logistics Agency (DLA), and for Anti-Terrorism/Force Protection (ATFP) and Naval Electronic Surveillance Systems (NESS) services; in AsPac from growth in a number of Citizen Services contracts for contact centre and processing support services; and in the Middle East from some volume growth of transport operations.

Underlying Trading Profit increased 11% to £37.6m (2017: £34.0m); excluding the £3.2m net currency impact, the increase was £6.8m or 20%. The improvement was driven by transformation savings and other cost efficiencies, which more than offset the impact of contract attrition and the other areas of reduction in workload volumes, as well as some new contracts that added revenue growth but operated at reduced profitability due to their initial transition and transformation stages. Transformation has continued to focus on driving efficiencies in central support functions and overheads, with our reported administrative expenses in the first half some £16m lower. Reflecting the increase in profit on reduced revenue, the Underlying Trading Profit margin increased to 2.8% (2017: 2.3%).

Trading Profit was £45.4m (2017: £34.0m), benefitting from a £7.8m release of Contract & Balance Sheet Review items and Onerous Contract Provisions (OCPs). 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 OCPs; the £34m utilised in the first half of 2018 was in line with our expectations and lower than the £38m utilised in the comparable period. The closing balance of OCPs now stands at £123m, compared to £168m at the start of the year and the initial charge of £447m taken at the end of 2014.

Financing and pensions

Net finance costs were £6.3m (2017: £7.4m); while average net debt was £38m higher than the comparable period, this was more than offset by our interest payable reducing from the foreign exchange rate and the effect of having repaid some of our US private placement notes, by the discount unwind on provisions being lower, and by other small movements. Cash net interest paid was £8.0m (2017: £9.2m).

Serco's pension schemes are in a strong funding position, resulting in a balance sheet accounting surplus, before tax, of £20m (31 December 2017: £26m) on scheme gross assets and gross liabilities each of approximately £1.3bn. The net asset position leads to a small net credit within net finance costs of £0.4m (2017: £1.6m), which is lower than the comparable period due to the purchase in June 2017 by the Trustees of the Serco Pension and Life Assurance Scheme (SPLAS) of a bulk annuity from an insurer, which, for a significant proportion of 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 and exceptional costs

The underlying effective tax cost was £10.6m (2017: £10.6m), representing an underlying effective rate of 34% (2017: 40%) based upon £31.3m (2017: £26.6m) 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 increase and mix of profitability and the net effect of US tax reform; we continue to expect the rate to reduce further over the longer term assuming further improvement in UK profitability.

Non-underlying tax was a net charge of £0.6m (2017: £5.7m). Total pre-exceptional tax costs were therefore £11.2m (2017: £16.3m). Cash net tax paid was £4.8m (2017: £7.9m). As previously described, although we expect our cash tax to be reasonably predictable in future periods, our 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.

The Group incurred operating exceptional costs of £11.6m (2017: £11.4m), mainly comprising restructuring programme costs of £11.3m (2017: £13.3m) related to the Transformation stage of our strategy, including redundancy charges, asset impairments and other incremental costs. Tax on exceptional items was a credit of £0.2m (2017: £0.2m) and in the comparable period there was an exceptional one-time non-cash deferred tax charge of £16.1m related to the pension asset movements on the bulk annuity purchase. Total net exceptional costs were therefore £11.4m (2017: £27.3m).

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 32, was a profit of £14.6m (2017: loss of £19.2m). This reflects: Trading Profit of £45.4m (2017: £34.0m); amortisation of intangibles arising on acquisition of £1.9m (2017: £2.2m); net finance costs of £6.3m (2017: £7.4m); pre-exceptional tax costs of £11.2m (2017: £16.3m); and total net exceptional costs of £11.4m (2017: £27.3m).

Earnings Per Share (EPS)

Underlying EPS, which reflects the Underlying Trading Profit measure after deducting net finance costs and related tax effects, increased by 29% to 1.88p (2017: 1.46p). The improvement reflects the 11% increase in Underlying Trading Profit, together with the lower net finance costs and tax rate; the weighted average number of shares in issue was broadly unchanged at 1,096.6m (2017: 1,091.1m). Reported EPS, which includes the impact of the other non-underlying items and lower tax and exceptional costs, was a profit per share of 1.32p (2017: loss per share of 1.77p).

Cash Flow and Net Debt

Free Cash Flow was negative £26m (2017: negative £27m). Cash generated from Underlying Trading Profit was broadly offset by the outflows related to loss-making contracts subject to OCPs. These cash outflows lessened versus the comparable period, as reflected in the lower rate of OCP utilisation. There was an increased working capital outflow of £27m (2017: outflow of £17m), and the comparable period included £8m of reduction in the utilisation of the Group's receivables financing facility; since the first quarter of 2017 there has been no utilisation of the £30m facility. The increased working capital outflow included some short term timing factors around the end of the period. Average working capital days in the period were unchanged, as is our view of working capital and Free Cash Flow for the full year.

Closing net debt at 30 June 2018 increased to £220m (31 December 2017: £141m); the increase of £79m includes the Free Cash outflow of £26m, together with a £24m cash outflow related to exceptional items, £15m net outflow for acquisitions and an adverse currency translation and hedging effect on net debt of £13m, predominantly reflecting the Group's US Private Placement debt partially offset by the movement on hedging instruments. The closing net debt compares to a daily average of £216m for the period (2017: £178m) and a peak net debt of £278m (2017: £243m).

At the closing balance sheet date, our leverage for debt covenant purposes was 1.75x EBITDA (31 December 2017: 1.4x), which compares with the covenant requirement to be less than 3.5x and remains within our medium term target range of 1-2x.

Dividends

The Board has not declared an interim dividend for 2018. The Board's appraisal of the appropriateness of dividend payments takes into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it believes it prudent to do so, in assessing whether we should resume dividend payments in respect of 2018, we have been mindful of the fact that whilst there has been an improvement in earnings, there remains a free cash outflow and an increase in net debt. In these circumstances, the Board believes that it would not be prudent to resume dividend payments at the current juncture. For the 2018 financial year as a whole, our guidance is for continued improvement in Underlying Trading Profit, but we anticipate a further Free Cash outflow and expect net debt to still increase, largely as a result of cash outflows related to exceptional restructuring costs and value-enhancing infill acquisitions. The Board will continue to keep the dividend policy under close consideration as we progress with transforming the Group and implementing 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

The Group signed contracts with a total value of £1.6bn during the first half of 2018, representing a book-to-bill ratio close to 120% which therefore continues 2017's success as the first time since 2012 that the ratio was over 100%. There were 17 contract awards worth more than £10m each, by far the largest of which was the rebid of our health insurance eligibility support contract in the US for the Center for Medicare & Medicaid Services (CMS) which is estimated to be worth around £700m over the next five years. Given the importance of securing this as well as other rebids and extensions of existing work, together they represented approximately 70% of the total value signed, with the balance represented by the value of new business won.

Other notable contract awards included, again in the US, a sole-source contract vehicle to support Naval Electronic Surveillance Systems (NESS), and a single-award Indefinite Delivery/Indefinite Quantity (ID/IQ) to support the Federal Emergency Management Agency (FEMA), though on the latter only a very small initial value is included within the awards value and a losing bidder protest requires conclusion. In the UK, we received an 18-month extension for the NorthLink Ferries service, and a new award for environmental services with Hart and Basingstoke councils. In AsPac, awards were dominated by new contact centre services for Victoria Police, Australia's National Disability Insurance Scheme and the Department of Human Services. In the Middle East, we added new fire and rescue services at King Fahd International Airport in Saudi Arabia, extended air navigation services in Iraq, and successfully rebid facilities management support in Abu Dhabi. In aggregate, around 80% of order intake came from customers of our Americas, AsPac and Middle East divisions, with the remaining 20% from the UK.

The two largest losses during the period were the Defence Fire & Risk Management Organisation (DFRMO) tender in the UK, and maintenance and logistics support for Solid State Phased Array Radar Systems (SSPARS) in the US. In regard to DFRMO, we have submitted a legal challenge to the procurement. Of existing work, very pleasingly, there were no losses of any note during the period.

Win rates by volume were around 50% for new bids and well over 90% for rebids and extensions. Win rate by value was around 25% for new work; the win rate by value was almost 100% for securing existing work.

Order book

The Group's order book now stands at an estimated £11.0bn, up by £0.3bn versus £10.7bn at the start of the year. This excludes the further £0.7bn that will be added to the order book as a result of the transfers of the six UK health facilities management contracts completed since the period end. There is now over £2.6bn of revenue already delivered or secured in the order book for 2018, equivalent to around 95% visibility of our £2.7-2.8bn revenue guidance at current exchange rates. The secured order book is £2.0bn for 2019 and £1.4bn for 2020.

Rebids

Through to the end of 2020, 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 approximately £1.2bn in aggregate or around 40% of the Group's 2018 £2.7-2.8bn 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). Contracts that could potentially end at some point before the conclusion of 2018 have aggregate annual revenue of less than £100m, with this being significantly lower than the situation at the start of the year given securing in particular the CMS contract. 2019 is an important year for the extension or rebid of existing business, with over £700m aggregate annual revenue to be determined; the outcome of a number of these contracts could have significant impact on our future profitability. The current MELABS contract is due to end at the very start of 2019; the heavily loss-making COMPASS contract ends in September 2019, and we are currently considering which regions to bid for its successor (known as AASC); the Australian immigration services contract is due for extension or re-compete at the very end of 2019. Other contracts that are due for rebid or extension in 2019 include the Dubai Metro, a US Navy installation contract and NorthLink Ferries. In 2020, the annual value of rebid or extension revenue is significantly lower at around £400m, with Prisoner Escorting Services (PECS) in the UK being the largest contract anticipated to become due in that year.

Pipeline

Our pipeline is tightly defined as measuring only opportunities for new business, with estimated Annual Contract Value (ACV) of at least £10m, and which we expect to bid and to be adjudicated within a rolling 24-month timeframe. The Total Contract Value (TCV) of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities, and on average over the last five years, more than half of our order intake has come from opportunities outside the reported pipeline. It is a relatively small proportion of the total universe of opportunities, many of which either have annual revenues less than £10m, or are likely to be decided beyond the next 24 months, or are rebids and extensions. It should also be remembered that in the Americas division in particular, we have numerous arrangements which are classed as 'ID/IQ' – Indefinite Delivery / Indefinite Quantity – which are essentially framework agreements under which the customer issues task orders one at a time; whilst the ultimate value of such an agreement may be very large and run over many years, if these frameworks are multi-award or in any other way uncertain in value to Serco, then a value is only recorded in our order book when there is sufficient certainty such as when individual task orders are contracted, and few of them would appear in the pipeline as they tend to be individually less than £10m and contracted on short lead times.

The new bid pipeline stood at £4.4bn at the beginning of 2018. Around £1.5bn has come out of the pipeline due to wins and losses, together with the net effect of a small number of removals due to opportunities no longer meeting our definition, and value changes. A number of new opportunities have now matured to the stage where they meet our pipeline definition, adding in aggregate £1.8bn over the course of the period. As a result, the pipeline has increased to now stand at £4.7bn, which consists of around 20 bids that have an ACV averaging approximately £35m and a contract length averaging around seven years.

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. In 2017, a number of unusually large bids moved through the pipeline, and, as anticipated, subsequently replacing these has been challenging in the prevailing market conditions. As we have previously noted, a lower pipeline is not a matter of undue concern, as evidenced by the strong order intake in the first half, and the large number of rebid and extension opportunities that we have in 2019, as well as the £700m which will be added to our order book by the acquisition of the Carillion health facilities management contracts.

Key opportunities in the pipeline are described further in the Divisional Reviews.

Guidance and outlook

At the end of June we provided 2018 full year guidance for revenue of £2.7-2.8bn and Underlying Trading Profit of around £80m. This guidance still holds, although we also reiterate that there remains a wide range of potential outcomes reflecting the sensitivity of our profits to even small changes in revenues and costs, as well as further movements in currency during the balance of the financial year. Our guidance includes the assumption that latest currency rates continue for the remainder of 2018, which now implies adverse currency impacts estimated at around £80m for revenue and £4-5m for profit when compared to the average rates for 2017.

Having anticipated a further small Free Cash outflow for the year, our guidance range for accounting net debt at the end of 2018 was previously £200-250m, equivalent to leverage for covenant purposes of 1.5-2x EBITDA. Notwithstanding the subsequent completion of the acquisition of the Carillion healthcare contracts, and the associated cash outflows, we still anticipate being within that range, but most likely in the mid-to-upper end. A vendor loan note with an original face value of £30m before capitalised interest was issued on our disposal of Intelenet; this may be repaid early as a consequence of the announcement that Intelenet are to be acquired by Teleperformance. The value of this loan note is already included within accounting net debt, but it is excluded from covenant net debt, thus on any early repayment it would lower covenant leverage by approximately 0.25x.

We anticipate net finance costs of £13-14m in 2018; this includes approximately £4m non-cash credit related to the loan note, which would no longer be earned following any early repayment. Our underlying effective tax rate is anticipated to reduce towards 30%, and exceptional restructuring costs are expected to be approximately £30m as we implement further transformation activity. Further background to these areas are included in the Finance Review.

Looking further ahead to 2019, we expect broadly flat revenue on a constant currency basis. However, we anticipate 2019 to be a year of further good growth in Underlying Trading Profit, which is again likely to be driven by additional transformation savings and improvements in operating efficiency. As stated previously, the rate of growth beyond 2019 will be more dependent on our ability to grow revenues and to convert loss-making contracts into profitable contracts on rebid. The Strategy Review announced in March 2015 set out a long term ambition that the business could grow in line with a market which was expected to expand at a long term trend rate of 5-7% a year and deliver margins of 5-6%. Our margin ambition was predicated on three conditions: first, reducing costs as a percentage of sales; second, containing losses on onerous contracts and converting a number of them into profitable contracts on rebid; and, thirdly, increasing margins by growing revenues whilst bearing down on overheads. We remain broadly on track on costs and on onerous contracts, but demand in some of our markets, and in particular in the UK, which accounts for around 40% of the Group's reported revenues, has weakened noticeably since 2015. We can and will partly compensate for a weaker organic revenue outlook through increased actions on the cost base, and our long term ambitions of 5-7% revenue growth and 5-6% margin remain intact, but the timing of achieving this is inevitably dependent on the timing of demand growth in our largest markets reverting to historic levels.

Update on market backdrop and concluding thoughts

Market conditions for Serco remain less than ideal, particularly in the UK. Notwithstanding this, we are responding appropriately and continuing to make progress in line with our strategy. I am particularly pleased that while the first half of 2018 has seen good profit growth and order intake, these have been accompanied by equally strong operational delivery and effective implementation of our transformation programme and targeted cost saving initiatives. In addition we have also progressed with value-enhancing acquisitions. Whilst demand across our main markets has not been as strong as we anticipated at the time we announced our strategy in 2015, the availability of value-adding acquisitions, be they of companies or of contracts, presents an opportunity to increase our scale and capabilities which was not foreseen in 2015. In our US defence business, the acquisition of BTP Systems for $20m has added deep skills in satellite communication and radar engineering technical services, which complements our existing service offering, and has also brought with it further bidding opportunities. In the UK, the transfer of six health facilities management contracts from Carillion has now been completed, which will significantly increase the scale and profitability of our Health business and will add around £700m or 6% to our order book.

In our non-UK markets, conditions remain mixed. In the US, we are delighted to have secured our CMS contract to continue providing eligibility processing services to those seeking health insurance subsidies, and we are hopeful that government policy in this area will continue to see our skills and capabilities required in one form or another. There is also anticipation of growth in Defence spending, though we await clearer signs of a more meaningful increase in new tenders and in particular in task order volumes on some of our key existing frameworks. In the Middle East, we are starting to progress with rebuilding a pipeline of bidding opportunities for Serco across a number of our sectors. Our business in Australia already operates across four of our five sectors and sees opportunities in its pipeline related to each, though the political environment and appetite for private sector involvement in the delivery of public services across the different states is not uniform. We remain confident that our business directly serving European bodies, which accounts for around 5% of Serco's revenue, is unlikely to be greatly affected by the ongoing Brexit negotiations, as we tend to serve this market with EU-resident subsidiary companies and local workforce and supply chains.

In the UK, which accounts for around 40% of the Group's reported revenues, there are a number of factors which are affecting demand. First, in regard to Brexit, as we have expressed before, our prediction that the Government and the Civil Service would become focused upon the immense challenges of negotiating and implementing Brexit is proving to be correct, and this has had the effect of reducing demand for new outsourcing and transformation projects. We also remain mindful of the potential impact on labour cost and availability in the UK if EU citizens are unwilling or are unable to come to the UK to work in essential frontline service roles. If there were such an effect, it would likely be indirect, as only 6% of our employees in the UK are Continental EU nationals, but some of the markets from which we recruit staff (eg construction and health) have significantly higher proportions of EU staff. However, we also believe that, in the medium term, the repatriation of regulatory functions may lead to new opportunities for our industry.

As well as the challenges of Brexit, the UK market for Government outsourced services has been somewhat dysfunctional for several years. However, the collapse of Carillion had the effect of convincing Government that it needed to pay serious attention to the state of the market. Although it is traditionally considered inappropriate for Government suppliers to enter into public debate, we took the decision to speak out in an attempt to influence a public debate that seemed to us occasionally ill-informed and increasingly politicised. In our 2017 results statement, and subsequently in evidence to the House of Commons Public & Constitutional Affairs Committee and to the Public Accounts Committee, we set out our analysis of the problems besetting the market, including pointing out the damage caused by the transfer by Government of unmanageable risk to suppliers. Rather than just moan, we made some constructive and balanced suggestions as to how things could be made better, proposing Four Principles which we felt could rebalance the relationship between Government and its supply chain. These principles covered: greater **Transparency** in regard to the make-or-buy decision-making process for Government services, as well as publishing operational and financial key performance indicators so that taxpayers could see the quality of service they were receiving; **Security of Supply**, including the lodging of 'living wills'; **Orderly Exit** rights, for both the Government and suppliers; and **Fairness**, including codes of conduct for both Government and suppliers.

The reaction to our analysis and ideas has been generally encouraging. Both Committees to whom we had given evidence drew heavily on our Four Principles in their reports and recommendations, and there is now widespread consensus that there must be change. However, all this would be of nought if Government itself were not prepared to publicly defend the principle of private sector involvement in the delivery of public services; it was far from obvious that that it would do so, in the face of fierce parliamentary opposition calling for taking services back in house, and unease amongst many even in Government about the role of private companies. We have therefore been pleased to see that senior Government Ministers have devoted significant thought to the question of private sector involvement in public service delivery, and they have been straightforward and clear as to their conclusions. David Lidington, Minister for the Cabinet Office, gave a speech in June in which he called for a society where:

...people from all parts of our country can access the best public services, and for those services to run efficiently and smoothly for them and their families. Whether that service is managed and provided directly by the public sector, by private companies or by voluntary organisations, what matters is that it works for them and their everyday needs, while providing value for money for the taxpayer. From running our hospitals to operating our call centres; building our railways to supporting our armed forces, the private sector has a vital role to play in delivering public services – something this government will never cease to champion.

In similar vein, Oliver Dowden, Minister for Implementation at the Cabinet Office, wrote in an article:

This government recognises the vital role of business in delivering public services. This approach is not guided by ideology, but because the evidence is clear on the benefits of using the private sector. Economies of scale mean services can be provided at better value for the taxpayer; indeed, academic research has shown that outsourcing delivers savings of 20 per cent compared with bringing services in-house. In doing so, the private sector brings skills and expertise as well as creating jobs and contributing to a vibrant economy.

This is all we as suppliers could ask for: a level playing field in which the objective is to ensure the best outcomes in terms of service delivery and value for money and Government is agnostic as to whether that solution be delivered by the state or private companies. The task now is to build on these supportive statements to effect changes in the behaviours and contracting practices of both suppliers and Government. We are under no illusion that this will be an easy process, and it will take some time to shift some deeply-ingrained attitudes to risk transfer, but we will be continuing to work with Government to develop new approaches to Government contracting which will deliver in the long term a vibrant and competitive supply chain for public services.

Whilst we manage through what we believe is a market hiatus caused by a combination of Brexit and market dysfunction, Serco is fortunate to be focussed on frontline services such as prisons, health, immigration, defence and transport, which are non-discretionary elements of expenditure. This gives us a level of assurance on future demand for existing services, and the opportunity to acquire or win market share. Our strategy is to weather as safely as we can the current storm, attempting to influence for the better the future shape of the market as we navigate the various hazards, dipping our net in the water if we see opportunity, so we will be well positioned when we reach calmer waters. In the meantime, we see significant opportunities in our markets outside the UK, where we are now directing the majority of our bidding investment, and which in the first half of 2018 contributed 80% of our order intake.

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. 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 2018 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**635.0**	**305.3**	**263.4**	**162.5**	**-**	**1,366.2**
Change	*(3%)*	*(17%)*	*(14%)*	*(7%)*		*(9%)*
Change at constant currency	*(4%)*	*(10%)*	*(9%)*	*+2%*		*(6%)*
Organic change at constant currency	*(3%)*	*(12%)*	*(11%)*	*+2%*		*(6%)*
Underlying Trading Profit/(Loss)	**14.2**	**19.1**	**13.1**	**9.9**	**(18.7)**	**37.6**
Change	*(1%)*	*(14%)*	*+27%*	*+34%*	*(7%)*	*+11%*
Change at constant currency	*(1%)*	*(6%)*	*+34%*	*+45%*	*(7%)*	*+20%*
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**

Six months ended 30 June 2017 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**656.6**	**369.0**	**307.1**	**174.6**	**-**	**1,507.3**
Underlying Trading Profit/(Loss)	**14.3**	**22.2**	**10.3**	**7.4**	**(20.2)**	**34.0**
Margin	*2.2%*	*6.0%*	*3.4%*	*4.2%*	*n/a*	*2.3%*
Contract & Balance Sheet Review adjustments	-	-	-	-	-	-
Trading Profit/(Loss)	**14.3**	**22.2**	**10.3**	**7.4**	**(20.2)**	**34.0**
Amortisation of intangibles arising on acquisition	-	(1.5)	(0.7)	-	-	(2.2)
Operating profit/(loss) before exceptionals	**14.3**	**20.7**	**9.6**	**7.4**	**(20.2)**	**31.8**

Year ended 31 December 2017 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**1,331.5**	**689.3**	**577.5**	**352.6**	**-**	**2,950.9**
Underlying Trading Profit/(Loss)	**34.9**	**36.4**	**22.3**	**17.3**	**(41.6)**	**69.3**
Margin	*2.6%*	*5.3%*	*3.9%*	*4.9%*	*n/a*	*2.3%*
Contract & Balance Sheet Review adjustments	(39.0)	3.4	11.4	-	-	(24.2)
Trading Profit/(Loss)	**(4.1)**	**39.8**	**33.7**	**17.3**	**(41.6)**	**45.1**
Amortisation of intangibles arising on acquisition	-	(3.0)	(1.4)	-	-	(4.4)
Operating profit/(loss) before exceptionals	**(4.1)**	**36.8**	**32.3**	**17.3**	**(41.6)**	**40.7**

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 14 to 29. 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 32 to 70.

UK & Europe

Serco's UK & Europe division supports public service delivery and outcomes across all five of the Group's chosen sectors: our Justice & Immigration business provides a wide range of services to support safeguarding society and reducing reoffending, from secure accommodation management through to housing and welfare services for asylum seekers; in Defence, we are trusted to deliver critical support services and operate sensitive facilities; we operate complex public Transport systems and services; our Health business provides primarily non-clinical support services to hospitals; and the 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 or European institutions. Serco's operations in the UK represent approximately 40% of the Group's reported revenue, and those across the rest of Europe approximately 5%.

Revenue for the first half of 2018 was £635.0m (2017: £656.6m), a decline of 3%; reported revenue excludes that from our joint venture and associate holdings which are predominantly the operations of AWE and Merseyrail, with these representing the vast majority of the Group's activity in joint ventures and associates. At constant currency, the decline in revenue was 4%, or £23m. The Glasgow ACCESS operations which transferred at the end of 2017 accounted for £26m of the overall reduction; some other smaller contracts ending as well as some areas of reduced project work or volumes, such as the London Cycle Hire Scheme and the Child Maintenance Group, extended the level of revenue reduction. There was offset from new contract growth, in particular annualising last year's start of hospital facility management services for Barts Health NHS Trust and University Hospital Southampton NHS Foundation Trust, as well as from the new Skills Support for the Workforce (SSW) contracts.

Underlying Trading Profit was £14.2m (2017: £14.3m), representing an implied margin of 2.2% (2017: 2.2%). Trading Profit includes the profit contribution (from which interest and tax have already been deducted) of joint ventures and associates; if the £191m (2017: £176m) proportional share of revenue from joint ventures and associates was also included and if the £3.3m (2017: £3.2m) share of interest and tax cost was excluded, the overall divisional margin would have been similar to that reported at 2.1% (2017: 2.1%). The joint venture and associate profit contribution was broadly flat at £14m. The reduction in Underlying Trading Profit included the impact of contract attrition and in-contract reductions, and the lower profitability from new contracts in their initial transition and transformation stages. These were largely offset by our own transformation savings and other cost efficiencies. Within Underlying Trading Profit there was £30m of OCP utilisation (2017: £29m), which served to offset the Division's loss-making operations, principally the COMPASS UK asylum seeker support services, Prisoner Escort & Custody Services (PECS), Caledonian Sleeper and Lincolnshire Country Council contracts.

Contract & Balance Sheet Review adjustments resulted in a £7.4m release of non-OCP provisions (2017: nil adjustment), after which Trading Profit was therefore £21.6m (2017: £14.3m).

The UK & Europe division represented around £0.3bn or 20% of the Group's aggregate total value of signed contracts during the period. The largest award was an 18-month contract extension to continue managing and operating the NorthLink Ferries service for Transport Scotland. The largest new contract was an eight-year joint award for environmental services for Hart District Council and Basingstoke & Deane Borough Council. Other notable awards in the period included successfully rebidding our repair and maintenance contract for Command Support Air Transport (CSAT) aircraft operated out of RAF Northolt by 32 (The Royal) Squadron, expanding our contact centre services for the DWP, launching a new cycle hire scheme with Transport for Edinburgh, and extending our support services for 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 2020, there are around 20 contracts with annual revenue of over £5m within the UK & Europe division; in aggregate, these represent approximately 30% of the current level of annual revenue for the division. The largest of these are the NorthLink Ferries contract that was recently extended to 31 October 2019; the COMPASS contract is also due in 2019; and in 2020, the current PECS contract ends assuming a final extension option is not exercised by the customer, as well as that year our Anglia Support Partnership healthcare shared services operations and the Lincolnshire County Council contract.

The rebid of our COMPASS contract for the housing and support provided to asylum seekers is one of the largest opportunities the Group is currently responding to. In its new form, it will be known as AASC (the Asylum Accommodation and Support Services Contract), and at the time of writing we are assessing which contract regions we should be bidding for; if we are successful it is likely to have a material impact on our order book as the contract term is for ten years. Other smaller opportunities in our new bid pipeline include those for various defence support, environmental and other Citizen Services bids.

Americas

Our Americas division accounts for approximately 22% of Serco's overall 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 2018 was £305.3m (2017: £369.0m), a 17% reduction in reported currency. In US dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately US$421m (2017: US$465m). The strengthening of Sterling reduced revenue by £27m or 7%; the acquisition of BTP added 2% to revenue; the organic change at constant currency was therefore a decline of 12%, or £43m. Lower volumes of work in relation to our CMS health insurance eligibility support contract, together with fewer task orders in areas of ship modernisation work, accounted for £55m of the constant currency decline. There was partial offset from growth related to the new contract for supply chain management services for the Defense Logistics Agency (DLA), and for Anti-Terrorism/Force Protection (ATFP) and Naval Electronic Surveillance Systems (NESS) services.

Underlying Trading Profit was £19.1m (2017: £22.2m), representing a margin of 6.3% (2017: 6.0%). The adverse currency movement accounted for £1.8m of the decline, and the impact of the reduction in task order volumes was largely offset by other cost efficiencies. Within Underlying Trading Profit there was £1m (2017: £2m) of OCP utilisation, which reflects the offset of losses on the Ontario Driver Examination Services (DES) contract. There were no Contract & Balance Sheet Review adjustments in the latest or comparable period, therefore no difference between Underlying Trading Profit and Trading Profit.

Americas represented around £1.1bn ($1.4bn) or 65% of the Group's aggregate total value of signed contracts during the period. The largest award was the rebid of our health insurance eligibility support contract for the US Department of Health and Human Services, Center for Medicare & Medicaid Services (CMS), with an estimated total value to Serco, subject to workload volumes, of approximately $900m if all options of the five-year contract are exercised. The second largest was a $232m sole-source contract vehicle for Serco to continue supporting Naval Electronic Surveillance Systems (NESS). A new single-award Indefinite Delivery/Indefinite Quantity (ID/IQ) contract to provide public technical assistance to the Federal Emergency Management Agency (FEMA) was awarded to Serco; while this has a potentially large ceiling value of $600m over the next five years, only a very small initial value for programme management is recognised in our value of signed contracts and order book, as the workload will ultimately be dictated by task orders issued in response to declared major disasters and emergencies; transitioning this contract to Serco has also been delayed by a losing bidder protest. Other notable awards in the period included medical coding compliance services to support the Air Force Medical Service (AFMS), along with numerous defence equipment modernisation task orders under our various ID/IQ frameworks.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are 13 contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent around 40% of the current level of annual revenue for the division, which is a significantly lower proportion now that the CMS and NESS contracts have been secured. In 2019, the Global Installation Contract covering areas of our defence ship modernisation work is due for rebid, while our support to the Federal Aviation Administration's (FAA) Contract Tower (FCT) Program will become due for rebid once again in 2020.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes further important opportunities to provide various defence support functions, most notably a C5ISR integration, kitting and cabling opportunity for the US Navy (referred to a 'CIKC'). Other tenders include support to transport operations, as well as those in aviation and air traffic control. We also continue to look for opportunities to leverage Serco's strength in our other core sectors.

AsPac

Operations in the Asia Pacific division include Justice, Immigration, Defence, Health, Transport and Citizen Services in Australia, New Zealand and Hong Kong. Serco's operations in Australia are by far the largest element of the division; the country represents approximately 19% of total Revenue for the Group.

Revenue for the first half of 2018 was £263.4m (2017: £307.1m), a decline of 14%. In Australian dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately A$469m (2017: A$516m). The strengthening of Sterling reduced revenue by £17m or 5%; the acquisition of the other 50% of a small defence services joint venture added 2% to revenue; the organic change at constant currency was therefore a decline of 11%, or £33m. This reduction was almost fully accounted for by the end of the Armidale Class Patrol Boats (ACPB) and Western Australia Court Security & Custodial Services (WACSCS) contracts, both of which ended in the first half of 2017. There was some reduction in workload in Immigration Services, though this was offset by growth in our Citizen Services business which provides contact centre and processing support services.

Underlying Trading Profit was £13.1m (2017: £10.3m), representing a margin of 5.0% (2017: 3.4%). Progress on transformation savings and other cost efficiencies more than offset the adverse currency impact of £0.7m and the net of other movements from contract attrition and growth from new work. Within Underlying Trading Profit there was £2m of OCP utilisation (2017: £7m), significantly reduced following the end of the ACPB contract.

Contract & Balance Sheet Review adjustments resulted in a £0.4m OCP release (2017: nil adjustment), after which Trading Profit was therefore £13.5m (2017: £10.3m).

AsPac represented around £0.2bn or 10% of the Group's aggregate total value of signed contracts during the year. The largest new award was to provide and operate for Victoria Police contact centre services for non-urgent incidents. Other similar awards in our Citizen Services business have included contact services for Australia's National Disability Insurance Scheme, and further expanding operations supporting the Department of Human Services.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are 10 contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent 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 over 30% of current divisional revenue. Also in 2019 our contract for South Queensland Correctional Centre will require extending or rebidding, with this prison also expected to be transitioned to a female cohort by the end of the year. Others that will require extending or rebidding include the Australian Tax Office framework contract and our support to Traffic Camera Services in Victoria.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes several in Justice & Immigration, Citizen Services and Defence support. We will look to build the pipeline further in these sectors as well as Transport and Health.

Middle East

Operations in the Middle East division include Transport, Defence, Health and Citizen Services, with the region accounting for approximately 12% of the Group's total revenue.

Revenue for the first half of 2018 was £162.5m (2017: £174.6m), a decrease of 7%. The strengthening of Sterling reduced revenue by £15m or 9%; the organic change at constant currency was therefore growth of 2%. The increase included some volume growth of transport operations, with other new or expanding contracts broadly offsetting other small areas of attrition or reductions in scope or volumes.

Underlying Trading Profit was £9.9m (2017: £7.4m), representing a margin of 6.1% (2017: 4.2%). While there was a £0.8m adverse currency movement, there was an overall improvement in profitability due in large part to the non-repeat of the heavy costs of bidding the rail tenders experienced in the comparable period, together with progress on transformation savings and other cost efficiencies. 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, therefore no difference between Underlying Trading Profit and Trading Profit.

The Middle East represented around £0.1bn of the Group's aggregate total value of signed contracts during the first half of 2018. The largest new contract was with Dammam Airports Company (DACO) for the provision of fire and rescue services at King Fahd International Airport (KFIA), the first Saudi airport to leverage an international service provider's expertise in firefighting systems. Other awards included further extensions to our air navigation services and training in Iraq, and successfully rebidding our facilities management contract for Abu Dhabi Global Market Square.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are 12 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. The MELABS contract is due to end at the start of 2019, and we currently await the conclusion of the rebid process which will determine the magnitude of the profit impact on that financial year. Other contracts that could potentially come to an end in 2019 include the Dubai Metro and the Cleveland Clinic Abu Dhabi contracts; by 2020, our Dubai Air Navigation Services will also become due for further extension or rebid.

Our pipeline of major new bid opportunities in the region reduced very significantly in 2017 following the outcome of the light rail and tram bids. There are some other smaller opportunities in integrated facilities management and transport support services, and effort is ongoing to rebuild a stronger pipeline.

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.

Benefiting from actions to deliver savings and improve efficiencies of our central functions, corporate costs in the first half of 2018 reduced by 7% to £18.7m (2017: £20.2m).

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Finance Review

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)
Other gains	-	-	-	-	-	-	-
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 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 per share (pence)	*1.88*		*2.50*		*2.36*		*1.32*

For the six months ended 30 June 2017 (restated*)	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	1,507.3	-	1,507.3	-	1,507.3	-	1,507.3
Cost of sales	(1,375.2)	-	(1,375.2)	-	(1,375.2)	-	(1,375.2)
Gross profit	132.1	-	132.1	-	132.1	-	132.1
Administrative expenses	(112.7)	-	(112.7)	(2.2)	(114.9)	(11.4)	(126.3)
Share of profits in joint ventures and associates, net of interest and tax	14.6	-	14.6	-	14.6	-	14.6
Profit before interest and tax	34.0	-	34.0	(2.2)	31.8	(11.4)	20.4
Margin	*2.3%*		*2.3%*		*2.1%*		*1.4%*
Net finance costs	(7.4)	-	(7.4)	-	(7.4)	-	(7.4)
Other gains	-	-	-	-	-	-	-
Profit before tax	26.6	-	26.6	(2.2)	24.4	(11.4)	13.0
Tax charge	(10.6)	(6.3)	(16.9)	0.6	(16.3)	(15.9)	(32.2)
Effective tax rate	*(39.8%)*		*(63.5%)*		*(66.8%)*		*(247.7%)*
Profit/(loss) for the period	16.0	(6.3)	9.7	(1.6)	8.1	(27.3)	(19.2)
Minority interest	0.1		0.1		0.1		0.1
Earnings/(loss) per share (pence)	*1.46*		*0.88*		*0.73*		*(1.77)*

* Results for the six months ended 30 June 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3 to the Condensed Consolidated Financial Statements.

For the year ended 31 December 2017 (restated*)	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	2,950.9	-	2,950.9	-	2,950.9	-	2,950.9
Cost of sales	(2,686.4)	(24.2)	(2,710.6)	-	(2,710.6)	-	(2,710.6)
Gross profit	264.5	(24.2)	240.3	-	240.3	-	240.3
Administrative expenses	(222.2)	-	(222.2)	(4.4)	(226.6)	(19.6)	(246.2)
Share of profits in joint ventures and associates, net of interest and tax	27.0	-	27.0	-	27.0	-	27.0
Profit before interest and tax	69.3	(24.2)	45.1	(4.4)	40.7	(19.6)	21.1
Margin	*2.3%*		*1.5%*		*1.4%*		*0.7%*
Net finance costs	(11.2)	-	(11.2)	-	(11.2)	-	(11.2)
Other gains	-	0.7	0.7	-	0.7	-	0.7
Profit before tax	58.1	(23.5)	34.6	(4.4)	30.2	(19.6)	10.6
Tax charge	(20.2)	5.0	(15.2)	1.6	(13.6)	(5.0)	(18.6)
Effective tax rate	*(34.8%)*		*(43.9%)*		*(45.0%)*		*(175.5%)*
Profit/(loss) for the period	37.9	(18.5)	19.4	(2.8)	16.6	(24.6)	(8.0)
Minority interest	0.3		0.3		0.3		0.3
Earnings/(loss) per share (pence)	*3.45*		*1.75*		*1.50*		*(0.76)*

* Results for the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3 to the Condensed Consolidated Financial Statements.

Restatement for the impact of IFRS15

IFRS15 *Revenue from Contracts with Customers* was adopted during the period, replacing previous revenue recognition guidance for goods, services and construction contracts. The cumulative effect of initial application of the standard has been applied as an adjustment to brought forward retained earnings as at 1 January 2017 and the results for the comparative periods restated to reflect the impact as if the standard had always been in place (subject to any practical expedients as described in note 3). The new accounting standard has no impact on the historic or future cash flows of the Group, but does have an impact on the timing of revenues and profits.

The impact for the Group of adopting IFRS15 was a reduction in revenue, UTP and retained profit of £0.9m, £1.3m and £1.0m respectively for the six months ended 30 June 2017. Full details of the impact of adopting IFRS15 are provided in note 3 to the Condensed Consolidated Financial Statements.

The total adjustment to the opening balance of the Group's equity at 1 January 2017 was a decrease of £33.8m. The principal components of the adjustment were as follows:

- A decrease of £14.7m due to revenues being recognised at a constant amount over the life of the contract where the level of services provided is broadly consistent.
- A decrease of £11.8m due to a change in the basis of measuring progress for asset maintenance and replacement services, including dry docking. Where the resources used to fulfil the performance obligations best depicts how control is passed to the customer, the input method of accounting has been applied.
- A decrease of £7.0m due to upfront fees and transition payments being deferred and spread in line with delivery of the core services.

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 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 the announcement, including the other sections of this Finance Review, as well as the Condensed Consolidated Financial Statements and the accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

The methodology applied to calculating the APMs has not changed during the period for any measure.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 32, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the prior period's results, reported revenue is recalculated by translating non-Sterling values for the six months ended 30 June 2018 into Sterling at the average exchange rate for the six months ended 30 June 2017. All revenue in 2017 and 2018 arose from continuing activities.

For the six months ended 30 June	2018 £m
Reported revenue at constant currency	1,422.9
Foreign exchange differences	(56.7)
Reported revenue at reported currency	1,366.2

Organic Revenue at constant currency

Reported revenue may include revenue generated by businesses acquired during a particular year and/or generated by businesses sold during a particular year up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals on the previous year's results, Organic Revenue at constant currency is recalculated by excluding the impact of any relevant acquisitions or disposals.

For the six months ended 30 June 2017, an adjustment was required for the disposal of the remaining element of the UK private sector BPO business, consisting of a single contract, sold on 3 July 2017. The Group disposed of Service Glasgow LLP on 1 December 2017, which also consisted of a single contract. However, this disposal arose as a result of normal contract attrition rather than as a result of the disposal of a wider business and hence this is not excluded for the Organic Revenue calculation.

There are two acquisitions excluded for the calculation of Organic Revenue in the six months to 30 June 2018. The first relates to the acquisition of 50% of the issued share capital of Serco Sodexo Defence Services Pty Ltd (SSDS) on 7 September 2017, resulting in full control being obtained. SSDS was previously a 50% owned joint venture accounted for on an equity accounting basis and therefore no revenues had previously been recorded in the Group's results. The second relates to the acquisition of 100% of the issued share capital of BTP Systems, LLC (BTP) on 26 January 2018. The first of six UK health facilities management contracts was transferred from Carillion in the latter part of June 2018, with no significant revenues being recognised in this half year period, therefore no adjustment was required.

Organic Revenue growth is calculated by comparing the current period 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	2018 £m
Organic Revenue at constant currency	1,411.2
Foreign exchange differences	(55.9)
Organic Revenue at reported currency	1,355.3
Impact of acquisitions	10.9
Reported revenue at reported currency	1,366.2

For the six months ended 30 June	2017 (restated) £m
Organic Revenue at reported currency	1,502.0
Impact of disposals	5.3
Reported revenue at reported currency	1,507.3

Revenue including share of joint ventures and associates

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 32, 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 2018 £m	Six months ended 30 June 2017 (restated) £m	Year ended 31 December 2017 (restated) £m
Revenue including share of joint ventures and associates	1,558.5	1,687.5	3,307.3
Exclude share of revenue from joint ventures and associates	(192.3)	(180.2)	(356.4)
Reported revenue	1,366.2	1,507.3	2,950.9

Alternative profit measures

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated) £m	Year ended 31 December 2017 (restated) £m
Underlying Trading Profit	37.6	34.0	69.3
Non-underlying items:			
Include OCP charges and releases	0.4	-	(27.4)
Include other Contract & Balance Sheet Review adjustments	7.4	-	3.2
	7.8	-	(24.2)
Trading Profit	45.4	34.0	45.1
Include operating exceptional items	(11.6)	(11.4)	(19.6)
Include amortisation and impairment of intangibles arising on acquisition	(1.9)	(2.2)	(4.4)
Operating profit	31.9	20.4	21.1

Underlying Trading Profit (UTP)

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

Charges and releases on all Onerous Contract Provisions (OCPs) are excluded in the current and prior periods. OCPs reflect the future multi-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 £33.7m in 2018 (2017 restated: £38.2m) which neutralises the in-period losses on previously identified onerous contracts, 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. Only one such item was noted in 2018, relating to a release of part of a non-OCP provision made during the Contract & Balance Sheet Review, which has been credited following a change in the Group's obligations.

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

Finally, any other significant items that have a one-time financial impact are excluded. However, no such material one-time items occurred in the current or comparative periods.

Underlying trading margin is calculated as UTP divided by revenue.

The non-underlying column in the summary income statement on page 14 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 32, by making two adjustments. Trading Profit is a metric used to determine the performance and remuneration of the Executive Directors and other management.

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 ended 30 June 2018 into Sterling at the average exchange rate for the six months ended 30 June 2017.

For the six months ended 30 June	2018 £m
Underlying Trading Profit at constant currency	40.8
Foreign exchange differences	(3.2)
Underlying Trading Profit at reported currency	37.6

Alternative Earnings or Loss Per Share (EPS) measures

	Six months ended 30 June 2018 pence	Six months ended 30 June 2017 (restated) pence	Year ended 31 December 2017 (restated) pence
Underlying EPS, basic	1.88	1.46	3.45
Impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	0.48	(0.73)	(1.95)
EPS before exceptional items	2.36	0.73	1.50
Impact of exceptional items	(1.04)	(2.50)	(2.26)
Reported EPS, basic	1.32	(1.77)	(0.76)

EPS before exceptional items

EPS before exceptional items, as shown on the Group's Condensed Consolidated Income Statement on page 32, aids consistency between historical results and is a metric used in assessing the performance and remuneration of the Executive Directors and other management.

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 14.

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 36. The IFRS measure is adjusted to include dividends we receive from joint ventures and associates and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases. FCF is considered relevant to reflect the cash performance of business operations after meeting usual obligations of financing and tax. It is therefore a measure that is before all other remaining cash flows, being those related to exceptional items, acquisitions and disposals, other equity-related and debt-related funding movements, and foreign exchange impacts on financing and investing activities. FCF is therefore a measure to assess the cash flow generated by the business and aids consistency for comparison to historical results. FCF is a metric used to determine the performance and remuneration of the Executive Directors and other management.

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated) £m	Year ended 31 December 2017 (restated) £m
Free Cash Flow	(26.0)	(26.8)	(6.7)
Exclude dividends from joint ventures and associates	(16.1)	(13.8)	(28.2)
Exclude net interest paid	8.0	9.2	17.0
Exclude purchase of intangible and tangible assets net of proceeds from disposal*	17.5	14.9	30.1
Cash flow from operating activities before exceptional items*	(16.6)	(16.5)	12.2
Exceptional operating cash flows	(24.1)	(19.7)	(32.5)
Cash flow from operating activities*	(40.7)	(36.2)	(20.3)

* While the impact of IFRS15 has had no impact on cash flows, certain items previously capitalised as tangible assets are no longer treated as such and all such expense is treated as an operating cash flow.

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. As Trading Cash Flow was an outflow in the six months ended 30 June 2018 and 2017, a conversion percentage of UTP is not presented.

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated) £m	Year ended 31 December 2017 (restated) £m
Free Cash Flow	(26.0)	(26.8)	(6.7)
Add back:			
Tax paid	4.8	7.9	11.4
Non-cash R&D expenditure	-	-	0.2
Net interest paid	8.0	9.2	17.0
Trading Cash Flow	(13.2)	(9.7)	21.9
Underlying Trading Profit*	37.6	34.0	69.3
Underlying Trading Profit cash conversion*	N/A	N/A	32%

* While the impact of IFRS15 has had no impact on cash flows, the impact on UTP results in an impact on the Underlying Trading Profit cash conversion rate.

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 35 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.

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Cash and cash equivalents	50.3	117.7	112.1
Loans receivable	26.5	23.5	25.7
Loans payable	(284.7)	(281.7)	(271.5)
Obligations under finance leases	(15.3)	(21.5)	(20.2)
Derivatives relating to Net Debt	3.1	13.1	12.8
Net Debt	(220.1)	(148.9)	(141.1)

Pre-tax Return on Invested Capital (ROIC)

ROIC is a measure to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors and other management. ROIC is calculated based on UTP and Trading Profit 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 comparative period for the six months ended 30 June 2017 has not been provided. Calculating the IFRS15 impact on the balance sheet position at 30 June 2016 for the opening Invested Capital and the results of the Group for the six months ended 31 December 2016 would require significant incremental effort and only the full year measure is used as a performance measure. The 30 June 2018 period is provided for indicative purposes only.

	30 June 2018 £m	31 December 2017 (restated) £m
Non-current assets		
Goodwill	567.0	551.3
Other intangible assets	64.3	66.7
Property, plant and equipment	63.3	61.3
Interest in joint ventures and associates	19.9	19.7
Trade and other receivables	59.7	57.3
Current assets		
Inventory	20.8	17.4
Trade and other receivables	575.8	512.0
Total invested capital assets	1,370.8	1,285.7
Current liabilities		
Trade and other payables	(517.3)	(471.9)
Non-current liabilities		
Trade and other payables	(93.6)	(103.3)
Total invested capital liabilities	(610.9)	(575.2)
Invested Capital	759.9	710.5
Two point average of opening and closing Invested Capital	747.2	721.9
Trading Profit, 12 months ended	56.5	45.1
ROIC%	7.6%	6.2%
Underlying Trading Profit, 12 months ended	72.9	69.3
Underlying ROIC%	9.8%	9.6%

Overview of financial performance

Revenue

Reported Revenue declined by 9% to £1,366.2m when compared with the same six-month period in the prior year (2017 restated: £1,507.3m), a 6% reduction in constant currency.

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

Trading Profit

Trading Profit for the six months was £45.4m, an increase of 34% when compared with the same six-month period in the prior year (2017 restated: £34.0m).

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 £37.6m (2017 restated: £34.0m), up 11%. At constant currency, the increase in UTP was £6.8m, up 20%.

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

Excluded from UTP were net releases from OCPs of £0.4m and net releases of £7.4m in respect of non OCP items identified during the 2014 Contract & Balance Sheet Review. There were no such items in the comparable period.

As at 30 June 2018 the cumulative to date improvement to Trading Profit as a result of adjustments to items identified during the 2014 Contract & Balance Sheet Review, including those related to OCPs, was £27.1m. This represents 4% 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.

Joint ventures and associates – share of results

In 2018, the most significant joint ventures and associates in terms of scale of operations are AWE Management Limited and Merseyrail Services Holding Company Limited, with dividends received of £11.8m (2017: £9.9m) and £4.3m (2017: £3.3m) respectively. Total revenues generated by these businesses were £533.2m (2017: £480.2m) and £80.2m (2017: £78.2m) 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 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 (restated*) £m
Revenue	192.3	180.2	356.4
Operating profit	18.3	17.8	34.1
Net investment finance costs	(0.1)	-	(0.1)
Income tax expense	(3.2)	(3.2)	(7.0)
Profit after tax	15.0	14.6	27.0
Dividends received from joint ventures and associates	16.1	13.8	28.2

* Restated to reflect the impact of IFRS15, no impact in the six months ended 30 June 2017.

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 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Exceptional profit on disposal of subsidiaries and operations	-	0.1	0.3
Other exceptional operating items			
Restructuring costs	(11.3)	(13.3)	(28.6)
Costs associated with UK Government review	(0.3)	(0.4)	(0.4)
Release of UK frontline clinical health contract provisions	-	-	0.4
Settlement of defined benefit pension obligations	-	-	10.3
Impairment of interest in joint venture and related loan balances	-	2.2	4.5
Impairment of AsPac customer lists	-	-	(6.1)
Other exceptional operating items	(11.6)	(11.5)	(19.9)
Exceptional operating items	(11.6)	(11.4)	(19.6)
Exceptional tax	0.2	(15.9)	(5.0)
Total operating and financing exceptional items post tax	(11.4)	(27.3)	(24.6)

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 2018 a charge of £11.3m (2017: £13.3m) 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 totalled £4.1m in the period (2017: £7.5m) and were included within operating profit before exceptional items. We expect restructuring costs of approximately £30m will be treated as exceptional in the year ended 31 December 2018.

There were exceptional costs totalling £0.3m (2017: £0.4m) 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 2018.

Exceptional tax

Exceptional tax for the six months was a credit of £0.2m (2017: charge of £15.9m). In 2018 the credit relates purely to tax on exceptional items within operating profit whereas in the six months ended 30 June 2017 there was a credit of £0.2m in relation to tax on exceptional items within operating profit and a charge of £16.1m in respect of exceptional tax items. The 2017 exceptional tax items arose from the tax impact of the pension buy-in reported in that period which gave rise to a deferred tax charge of £16.1m.

Exceptional costs of £11.6m only gave rise to a credit of £0.2m, as the majority of these costs were incurred in the UK where they only impact our unrecognised deferred tax in relation to losses.

Pre exceptional finance costs and investment revenue

Investment revenue of £2.7m (2017: £3.6m) includes interest accruing on net retirement benefit assets of £0.4m (2017: £1.6m), interest earned on deposits and other receivables of £1.4m (2017: £1.4m), the movement in discounting of other receivables of £0.7m (2017: £0.6m) and interest arising on customer contracts of £0.2m (2017 restated: £0.2m).

Finance costs of £9.0m (2017: £11.2m) includes interest incurred on the USPP loans and the Revolving Credit Facility of £6.5m (2017: £7.2m), facility fees and other charges of £1.8m (2017: £1.4m), interest payable on finance leases of £0.2m (2017: £0.8m), the movement in discount on provisions of £0.3m (2017: £1.7m) and a charge for foreign exchange on financing activities of £0.2m (2017: credit of £0.1m).

Tax

Tax charge

Underlying tax

We recognised a tax charge of £10.6m on underlying trading profits after finance cost. The effective tax rate (33.9%) is slightly lower than 2017 (39.8% restated). This is mainly because of differences in the proportions of profits and losses made in the various geographical regions in which we operate which affects the tax charge due to both the varying tax rates and the impact of not recognising the tax benefits arising on UK losses.

Pre exceptional tax

We recognised a tax charge of £11.2m (2017 restated: £16.3m) on pre exceptional profits, which includes £10.6m underlying tax, a £0.4m credit on amortisation of intangibles arising on acquisition and a £1.0m charge on non-underlying items. The £1.0m charge consists of the tax impact of movements in the valuation of the Group's defined benefit pension schemes which lead 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 on continuing operations, at 30.1% (2017 restated: 66.8%) is higher than the UK corporation tax rate of 19%. This is due to the upward 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. This is only partially offset by the downward 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 be higher than 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

Analysis of exceptional tax is provided in the Exceptional items section above.

Deferred tax assets

As at June 2018 there is a deferred tax asset of £38.6m (31 December 2017 restated: £39.3m). This consists of a deferred tax asset of £60.1m (31 December 2017 restated: £59.7m) and a deferred tax liability of £21.5m (31 December 2017 restated: £20.4m).

A £17.4m UK tax asset has been recognised at 30 June 2018 (31 December 2017: £17.4m) on the basis of utilisation of losses against forecast taxable profits.

At 30 June 2018, the Group has estimated unrecognised UK deferred tax assets of £164m which are contingent on further improvement in the UK profit forecast.

Taxes paid

Net corporation tax of £4.8m was paid during the period, relating primarily to our operations in AsPac (£5.9m), Europe (£1.5m) and Middle East (£0.6m). 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 £2.8m and a tax repayment in Canada due to the carry back of tax losses led to a cash tax inflow in Americas (£0.4m).

The amount of tax paid (£4.8m) differs from the tax charge in the period (£11.0m) mainly due to the effect of future expected cash tax outflows for which a charge has been taken in the current period and the impact of the time lag on receipts of cash from joint ventures and associates for losses transferred to them.

Dividends

The Board has not declared an interim dividend for 2018. The Board's appraisal of the appropriateness of dividend payments takes into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the prevailing market outlook. Although the Board is committed to resuming dividend payments as soon as it believes it prudent to do so, in assessing whether we should resume dividend payments in respect of 2018, we have been mindful of the fact that whilst there has been an improvement in earnings, there remains a free cash outflow and an increase in net debt. In these circumstances, the Board believes that it would not be prudent to resume dividend payments at the current juncture. For the 2018 financial year as a whole, our guidance is for continued improvement in Underlying Trading Profit, but we anticipate a further Free Cash outflow and expect net debt to still increase, largely as a result of cash outflows related to exceptional restructuring costs and value-enhancing infill acquisitions. The Board will continue to keep the dividend policy under close consideration as we progress with transforming the Group and implementing our strategy.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,096.6m for the six months ended 30 June 2018 (2017: 1,091.1m). EPS before exceptional items was 2.36p per share (2017 restated: 0.73p); including the impact of exceptional items, EPS was 1.32p (2017 restated: loss of 1.77p). Underlying EPS was 1.88p per share (2017 restated: 1.46p).

Cash flows

The UTP of £37.6m (2017 restated: £34.0m) converts into a trading cash outflow of £13.2m (2017: outflow of £8.0m). The negative conversion is primarily due to the cash outflows arising on the utilisation of contract provisions of £33.7m (2017 restated: £38.2m).

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the period was an outflow of £26.0m compared to an outflow of £26.8m in 2017, with an increase in profits offset by an increase in working capital.

The movement in Net Debt is an increase of £79.0m in 2018, a reconciliation of which is provided at the bottom of the following table. In addition to the FCF outflow of £26.0m, the movement includes £24.1m cash expenditure on exceptional items and a net outflow of £14.9m arising on the acquisition and disposal of subsidiaries, primarily relating to the acquisition of BTP Systems, LLC, for consideration of £14.4m. During the six months ended 30 June 2018 £31.3m was paid down against loan notes maturing in May and £38.0m was drawn down against the Group's revolving credit facility, resulting in a net cash inflow from loan facilities of £6.7m.

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated*) £m	Year ended 31 December 2017 (restated*) £m
Operating profit*	31.9	20.4	21.1
Remove exceptional items*	11.6	11.4	19.6
Operating profit before exceptional items*	43.5	31.8	40.7
Less: profit from joint ventures and associates*	(15.0)	(14.6)	(27.0)
Movement in provisions*	(42.9)	(40.3)	(33.6)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets*	22.2	24.7	46.6
Other non-cash movements	7.5	6.8	11.4
Operating cash inflow before movements in working capital, exceptional items and tax*	15.3	8.4	38.1
Working capital movements*	(27.1)	(17.0)	(14.3)
Tax paid	(4.8)	(7.9)	(11.4)
Non-cash R&D expenditure	-	-	(0.2)
Cash flow from operating activities before exceptional items*	(16.6)	(16.5)	12.2
Dividends from joint ventures and associates	16.1	13.8	28.2
Interest received	0.2	0.3	0.5
Interest paid	(8.2)	(9.5)	(17.5)
Purchase of intangible and tangible assets net of proceeds from disposals*	(17.5)	(14.9)	(30.1)
Free Cash Flow	(26.0)	(26.8)	(6.7)
Net cash (outflow)/inflow on acquisition and disposal of subsidiaries	(14.9)	0.8	(5.6)
Purchase of own shares net of share option proceeds	(0.6)	-	-
Other movements on investment balances	(0.3)	-	0.2
Capitalisation and amortisation of loan costs	(0.5)	(0.4)	(0.8)
Unwind of discounting and capitalisation of interest on loans receivable	0.8	0.6	3.4
New, acquired and disposed finance leases	(0.1)	(1.0)	(4.7)
Exceptional items	(24.1)	(19.7)	(32.5)
Cash movements on hedging instruments	3.3	(1.6)	(2.5)
Foreign exchange (loss)/gain on Net Debt	(16.6)	8.5	17.4
Movement in Net Debt	(79.0)	(39.6)	(31.8)
Opening Net Debt	(141.1)	(109.3)	(109.3)
Closing Net Debt	(220.1)	(148.9)	(141.1)

* While the impact of IFRS15 has had no impact on cash flows, the impact on the certain items in the Group's income statement and balance sheet have resulted in the restatement of the highlighted items above.

Net Debt

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Cash and cash equivalents	50.3	117.7	112.1
Loans receivable	26.5	23.5	25.7
Loans payable	(284.7)	(281.7)	(271.5)
Obligations under finance leases	(15.3)	(21.5)	(20.2)
Derivatives relating to Net Debt	3.1	13.1	12.8
Net Debt	(220.1)	(148.9)	(141.1)

Average Net Debt as calculated on a daily basis for the six months ended 30 June 2018, was £216.3m (2017: £178.2m), compared with the opening and closing positions of £141.1m and £220.1m respectively. Peak Net Debt was £277.9m (2017: £242.7m).

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 senior management outlining performance against the Treasury Policy and the treasury function is subject to periodic internal audit review.

Liquidity and funding

As at 30 June 2018, the Group had committed funding of £715m (at 31 December 2017: £741m), comprising £235m of private placement notes and a £480m revolving credit facility with a syndicate of banks, which was drawn down by £38m at 30 June 2018 (at 31 December 2017: undrawn). In addition, the Group had a receivables financing facility of £30.0m which was unutilised at the start and end of the six-month period.

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 Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 30 June 2018, 112% of the Group's Net Debt was at fixed rates. Interest on the revolving credit facility is at floating rate.

Foreign exchange risk

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

Credit risk

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

Debt covenants

The principal financial covenant ratios are consistent across the private placement loan notes, receivables financing facility and 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.

The comparative period for the twelve months ended 30 June 2017 has not been provided. Calculating the IFRS15 impact on the results of the Group six months ended 31 December 2016 would require significant incremental effort and covenant ratios are calculated on a pre IFRS15 basis. The CTNB/covenant EBITDA ratio was 1.4x for the twelve months ended 30 June 2017 and the Covenant EBITDA/covenant net finance costs ratio was 8.1x.

	Twelve months ended 30 June 2018 £m	Year ended 31 December 2017 (restated*) £m
Operating profit before exceptional items*	52.4	40.7
Remove: Amortisation and impairment of intangibles arising on acquisition	4.1	4.4
Trading Profit*	56.5	45.1
Exclude: Share of joint venture post-tax profits*	(27.4)	(27.0)
Include: Dividends from joint ventures	30.5	28.2
Add back: Net non-exceptional charges to OCPs*	27.0	27.4
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non acquisition intangible assets*	40.0	42.2
Add back: Foreign exchange credit on investing and financing arrangements	0.3	0.4
Add back: Share based payment expense	11.4	11.4
Other covenant adjustments to EBITDA*	0.2	3.6
Covenant EBITDA	138.5	131.3
Net finance costs*	10.1	11.2
Exclude: Net interest receivable on retirement benefit obligations	2.6	3.8
Exclude: Movement in discount on other debtors	1.3	1.2
Exclude: Foreign exchange on investing and financing arrangements	0.3	0.4
Add back: Movement in discount on provisions	0.1	(1.3)
Other covenant adjustments to net finance costs*	0.4	0.4
Covenant net finance costs	14.8	15.7
Recourse Net Debt	220.1	141.1
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	26.5	30.3
Covenant adjustment for average FX rates	(4.4)	7.8
CTNB	242.2	179.2
CTNB/covenant EBITDA (not to exceed 3.5x)	1.75x	1.36x
Covenant EBITDA/covenant net finance costs (at least 3.0x)	9.4x	8.4x

* While the impact of IFRS15 has had no impact on the Group's covenants as a result of provisions to remove the impact of any changes in accounting standards, the impact on the certain items in the Group's income statement have resulted in the restatement of the highlighted items above.

Net assets summary

	As at 30 June 2018 £m	As at 30 June 2017 (restated*) £m	As at 31 December 2017 (restated*) £m
Non-current assets			
Goodwill	567.0	564.4	551.3
Other intangible assets	64.3	75.5	66.7
Property, plant and equipment*	63.3	62.5	61.3
Other non-current assets*	83.8	77.3	80.7
Deferred tax assets*	60.1	58.6	59.7
Retirement benefit assets	31.8	18.3	41.8
	870.3	856.6	861.5
Current assets			
Inventories	20.8	16.6	17.4
Trade and other current assets*	578.7	580.4	522.3
Current tax assets	6.1	14.1	11.2
Cash and cash equivalents	50.3	117.7	112.1
	655.9	728.8	663.0
Total assets	1,526.2	1,585.4	1,524.5
Current liabilities			
Trade and other current liabilities*	(521.1)	(523.4)	(473.0)
Current tax liabilities	(24.2)	(28.2)	(25.3)
Provisions*	(122.4)	(147.8)	(147.3)
Obligations under finance leases	(6.6)	(9.6)	(8.5)
Loans	(38.0)	(33.1)	(31.8)
	(712.3)	(742.1)	(685.9)
Non-current liabilities			
Other non-current liabilities*	(93.6)	(105.7)	(103.3)
Deferred tax liabilities	(21.5)	(34.1)	(20.4)
Provisions*	(154.0)	(187.8)	(182.7)
Obligations under finance leases	(8.7)	(11.9)	(11.7)
Loans	(246.7)	(248.6)	(239.7)
Retirement benefit obligations	(11.5)	(17.5)	(15.5)
	(536.0)	(605.6)	(573.3)
Total liabilities*	(1,248.3)	(1,347.7)	(1,259.2)
Net assets*	277.9	237.7	265.3

* Balances as at 30 June 2017 and as at 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017.

At 30 June 2018 the balance sheet had net assets of £277.9m, a movement of £12.6m from the closing net asset position of £265.3m as at 31 December 2017 (restated). The increase in net assets is mainly due to the following movements:

- Net Debt increased by £79.0m. Further detail of the movement is provided in the Net Debt section above.
- A decrease in provisions of £53.6m. Further details on provision movements are provided below.
- An increase in goodwill of £15.7m, driven by acquisitions in the period and movements in foreign exchange rates.
- The combined position of trade and other current assets and trade and other current liabilities increased by £8.3m.

Provisions

The total of current and non-current provisions has decreased by £53.6m since 31 December 2017. The movement is due to a decrease in onerous contract provisions of £34.6m, an increase in employee-related provisions of £1.4m, a decrease in property provisions of £1.8m and a reduction in other provisions of £18.6m.

Included in the reduction in other provisions is £7.4m of releases related to non-OCP provisions created during the Contract and Balance Sheet Review, for which the obligations lapsed during the period. Also, during the period, the final £8.3m of the obligation in respect of the Dockland Light Railway defined benefit pension scheme was repaid, further decreasing the amounts provided for.

Movements in contract provisions since the 31 December 2017 balance sheet date are as follows:

	Onerous Contract Provisions £m
As at 1 January 2018 as previously stated	168.2
Impact of adoption of IFRS15	(10.4)
As at 1 January 2018 as restated	157.8
Released to income statement – trading	(0.4)
Utilisation	(33.7)
Unwinding of discount	0.3
Foreign exchange	(0.8)
As at 30 June 2018	123.2

The balance of OCPs at 30 June 2018 was £123.2m (31 December 2017 restated): £157.8m). 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 which takes place in the second half of the year. Utilisation in the year to date was £33.7m (2017 restated: £38.2m).

Acquisitions

On 26 January 2018, the Group acquired 100% of the issued share capital of BTP Systems, LLC, for consideration of US Dollar $20.5m in cash. The acquired business contributed £5.6m of revenue and £0.7m of UTP to the Group's results during the six months ended 30 June 2018.

Working closely with the Special Managers and Liquidators of Carillion, together with all other relevant parties, Serco agreed acquisition terms to take responsibility for facilities management services at six major NHS hospital sites: Great Western Hospital in Swindon; Darent Valley Hospital in Dartford; James Cook University Hospital in Middlesbrough; Harplands Hospital in Stoke-on-Trent; The Langlands Unit of Queen Elizabeth University Hospital in Glasgow; and Addenbrooke's Treatment Centre in Cambridge. The first contract, Great Western Hospital in Swindon, transferred in June 2018, with the remainder having completed subsequently. Revenues from the Great Western Hospital contract in the period were immaterial. The five remaining acquisitions took place after the period end and therefore the financial results and impact of these five contracts have not been recognised in these Condensed Consolidated Financial Statements. The total annual revenue of all six contracts is expected to be around £70m and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and other incremental overheads, will be approximately £4m, the aggregate consideration payable is approximately £18m, which includes finalised adjustments for potential liabilities and indemnities. As there will only be a part-year trading contribution in 2018, after the costs of the transition and integration phase that will be completed over the coming months, this will likely result in a small negative impact on Serco's net profitability for the 2018 financial year; this has been taken into account in our guidance as stated in the Chief Executive's review. The transactions will be immediately accretive to earnings following the completion of the integration phase.

Angus Cockburn
Group Chief Financial Officer
1 August 2018

Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 20 to 29 of the 2017 Annual Report and Accounts and the key headline risks for the remainder of 2018 are restated below. This summary is not intended, and should not be used, as a substitute for reading the appropriate pages of the 2017 Annual Report and Accounts which include further commentary on the risks and the Group's management of them.

- Failure to grow profitably
- Failure to manage our reputation
- Failure to deliver expected benefits from Transformation
- Financial control failure
- Major information security breach
- Contract non-compliance, non-performance or misreporting
- Failure of business critical partner, supplier, or sub-contractor
- Failure to act with integrity
- Catastrophic incident
- Material legal and regulatory compliance failure

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

Responsibility statement

We confirm to the best of our knowledge:

a. the condensed set of financial statements has been prepared in accordance with IAS34 *Interim Financial Reporting*;
b. the interim management report includes a fair review of the information required by the DTR 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
c. the interim management report includes a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

Rupert Soames
Group Chief Executive

Angus Cockburn
Group Chief Financial Officer

1 August 2018

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 2018 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

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 2018 is not prepared, in all material respects, in accordance with IAS34 *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.

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 IAS34 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
1 August 2018

Financial Statements

Condensed Consolidated Income Statement

Continuing operations	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated*) £m	Year ended 31 December 2017 (restated*) £m
Revenue*	1,366.2	1,507.3	2,950.9
Cost of sales*	(1,239.4)	(1,375.2)	(2,710.6)
Gross profit*	126.8	132.1	240.3
Administrative expenses			
General and administrative expenses	(96.4)	(112.7)	(222.2)
Exceptional profit on disposal of subsidiaries and operations	-	0.1	0.3
Other exceptional operating items	(11.6)	(11.5)	(19.9)
Other expenses - amortisation and impairment of intangibles arising on acquisition	(1.9)	(2.2)	(4.4)
Total administrative expenses	(109.9)	(126.3)	(246.2)
Share of profits in joint ventures and associates, net of interest and tax	15.0	14.6	27.0
Operating profit*	31.9	20.4	21.1
Operating profit before exceptional items*	43.5	31.8	40.7
Investment revenue*	2.7	3.8	8.0
Finance costs	(9.0)	(11.2)	(19.2)
Net finance costs*	(6.3)	(7.4)	(11.2)
Other gains	-	-	0.7
Profit before tax*	25.6	13.0	10.6
Tax on profit before exceptional items*	(11.2)	(16.3)	(13.6)
Exceptional tax	0.2	(15.9)	(5.0)
Tax charge	(11.0)	(32.2)	(18.6)
Profit/(loss) for the period*	14.6	(19.2)	(8.0)
Attributable to:			
Equity owners of the Company*	14.5	(19.3)	(8.3)
Non controlling interests	0.1	0.1	0.3
Earnings per share (EPS)			
Basic EPS*	1.32p	(1.77p)	(0.76p)
Diluted EPS*	1.27p	(1.77p)	(0.76p)

* Results for the six months ended 30 June 2017 and the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated***) £m	Year ended 31 December 2017 (restated***) £m
Profit/(loss) for the period* **	14.6	(19.2)	(8.0)
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial loss on defined benefit pension schemes*	(4.6)	(130.8)	(106.5)
Actuarial loss on reimbursable rights*	(0.9)	-	(0.6)
Tax relating to items not reclassified*	1.0	22.4	18.1
Share of other comprehensive income in joint ventures and associates	1.2	0.8	0.9
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations**	(4.8)	(7.2)	(14.6)
Fair value loss on cash flow hedges**	(0.2)	(0.3)	(0.2)
Tax relating to items that may be reclassified	-	0.1	-
Share of other comprehensive income in joint ventures and associates	-	-	-
Total other comprehensive income for the period	(8.3)	(115.0)	(102.9)
Total comprehensive income for the period* **	6.3	(134.2)	(110.9)
Attributable to:			
Equity owners of the Company***	6.2	(134.2)	(111.0)
Non controlling interest	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.
*** Results for the six months ended 30 June 2017 and the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3.

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 2017 (restated*)	22.0	327.9	0.1	49.3	(91.1)	82.9	(52.1)	24.6	363.6	1.4
Total comprehensive income for the period	-	-	-	(18.3)	(108.4)	-	-	(7.5)	(134.2)	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(1.1)	1.1	-	-	-
Expense in relation to share based payments	-	-	-	-	-	6.9	-	-	6.9	-
Change in non controlling interest	-	-	-	-	-	-	-	-	-	-
At 30 June 2017 (restated*)	22.0	327.9	0.1	31.0	(199.5)	88.7	(51.0)	17.1	236.3	1.4
Total comprehensive income for the period	-	-	-	10.8	19.4	-	-	(7.0)	23.2	0.1
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(4.9)	4.9	-	-	-
Expense in relation to share based payments	-	-	-	-	-	4.5	-	-	4.5	-
Change in non controlling interest	-	-	-	-	-	-	-	-	-	(0.2)
At 31 December 2017 (restated*)	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	-
Change in non controlling interest	-	-	-	-	-	-	-	-	-	-
At 30 June 2018	22.0	327.9	0.1	57.5	(184.6)	81.4	(32.9)	5.1	276.5	1.4

* Opening retained earnings for each of the periods provided and total comprehensive income for the six months ended 30 June 2017 and the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3.

Condensed Consolidated Balance Sheet

	As at 30 June 2018 £m	As at 30 June 2017 (restated*) £m	As at 31 December 2017 (restated*) £m
Non current assets			
Goodwill	567.0	564.4	551.3
Other intangible assets	64.3	75.5	66.7
Property, plant and equipment*	63.3	62.5	61.3
Interests in joint ventures and associates*	19.9	21.7	19.7
Trade and other receivables	59.7	51.1	57.3
Derivative financial instruments	4.2	4.5	3.7
Deferred tax assets*	60.1	58.6	59.7
Retirement benefit assets	31.8	18.3	41.8
	870.3	856.6	861.5
Current assets			
Inventories	20.8	16.6	17.4
Trade and other receivables*	575.8	568.8	512.0
Current tax assets	6.1	14.1	11.2
Cash and cash equivalents	50.3	117.7	112.1
Derivative financial instruments	2.9	11.6	10.3
	655.9	728.8	663.0
Total assets*	1,526.2	1,585.4	1,524.5
Current liabilities			
Trade and other payables*	(517.3)	(520.4)	(471.9)
Derivative financial instruments	(3.8)	(3.0)	(1.1)
Current tax liabilities	(24.2)	(28.2)	(25.3)
Provisions*	(122.4)	(147.8)	(147.3)
Obligations under finance leases	(6.6)	(9.6)	(8.5)
Loans	(38.0)	(33.1)	(31.8)
	(712.3)	(742.1)	(685.9)
Non current liabilities			
Trade and other payables*	(93.6)	(105.7)	(103.3)
Deferred tax liabilities	(21.5)	(34.1)	(20.4)
Provisions*	(154.0)	(187.8)	(182.7)
Obligations under finance leases	(8.7)	(11.9)	(11.7)
Loans	(246.7)	(248.6)	(239.7)
Retirement benefit obligations	(11.5)	(17.5)	(15.5)
	(536.0)	(605.6)	(573.3)
Total liabilities*	(1,248.3)	(1,347.7)	(1,259.2)
Net assets*	277.9	237.7	265.3
Equity			
Share capital	22.0	22.0	22.0
Share premium account	327.9	327.9	327.9
Capital redemption reserve	0.1	0.1	0.1
Retained earnings*	57.5	31.0	41.8
Retirement benefit obligations reserve	(184.6)	(199.5)	(180.1)
Share based payment reserve	81.4	88.7	88.3
Own shares reserve	(32.9)	(51.0)	(46.1)
Hedging and translation reserve	5.1	17.1	10.1
Equity attributable to owners of the Company*	276.5	236.3	264.0
Non controlling interest	1.4	1.4	1.3
Total equity*	277.9	237.7	265.3

* Balances as at 30 June 2017 and as at 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 3.

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 (restated*) £m	Year ended 31 December 2017 (restated*) £m
Net cash (outflow)/inflow from operating activities before exceptional items*	(16.6)	(16.5)	12.2
Exceptional items	(24.1)	(19.7)	(32.5)
Net cash outflow from operating activities*	(40.7)	(36.2)	(20.3)
Investing activities			
Interest received	0.2	0.3	0.5
Movement in security deposits	(0.3)	-	0.2
Dividends received from joint ventures and associates	16.1	13.8	28.2
Proceeds from disposal of property, plant and equipment	0.1	0.3	1.5
Proceeds from disposal of intangible assets	0.1	0.1	0.1
Net cash inflow/(outflow) on disposal of subsidiaries and operations	1.8	0.8	(7.1)
Acquisition of subsidiaries, net of cash acquired	(16.7)	-	1.5
Proceeds from loans receivable	-	-	0.6
Purchase of other intangible assets	(4.6)	(8.3)	(18.4)
Purchase of property, plant and equipment*	(13.1)	(7.0)	(13.3)
Net cash outflow from investing activities*	(16.4)	-	(6.2)
Financing activities			
Interest paid	(8.2)	(9.5)	(17.5)
Net repayment of loans	-	(3.8)	(3.8)
Net loan advances	6.7	-	-
Capital element of finance lease repayments	(5.0)	(7.6)	(12.6)
Cash movements on hedging instruments	3.3	(1.6)	(2.5)
Purchase of own shares net of share option proceeds	(0.6)	-	-
Net cash outflow from financing activities	(3.8)	(22.5)	(36.4)
Net decrease in cash and cash equivalents	(60.9)	(58.7)	(62.9)
Opening cash and cash equivalents	112.1	177.8	177.8
Net exchange loss	(0.9)	(1.4)	(2.8)
Closing cash and cash equivalents	50.3	117.7	112.1

* While the impact of IFRS15 has had no impact on cash flows, the impact on the certain items in the Group's income statement and balance sheet have resulted in the restatement of the highlighted items above.

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 2017 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 2017 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 2018, the only significant change to accounting under IFRS which has impacted the Group's consolidated financial statements is in respect of the adoption of IFRS15 *Revenue from Contracts with Customers*. Details of the restatement for IFRS15 are provided in note 3. With the exception of the adoption of IFRS15, 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 2017.

IFRS9 *Financial Instruments* became effective on 1 January 2018. This standard replaces IAS39 and introduces new requirements for classifying and measuring financial instruments and puts in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The impact of IFRS9 on the regular trading activities of the Group has been immaterial. The key areas of focus for the Group under IFRS9 are:

- Expected credit losses being recognised on trade debtors and contract assets recognised under IFRS15.
- External loan receivables, including those from equity accounted entities.
- Debt refinancing not accounted for as a significant modification under IAS39, which is not applicable in the current or comparator periods.
- Intercompany loan recoverability with respect to individual companies' financial statements.

With the exception of IFRS16 *Leases*, none of the accounting standards issued but not yet effective are expected to have a significant impact on the Group's annual financial statements, including IFRIC23 *Uncertainty over income tax treatments*. With respect to IFRS16, we have not quantified the likely impact of the new standard or the transition approach to be taken. The quantitative impact of the adoption of IFRS16 will be disclosed prior to the adoption of this new standard.

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 2018, 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 2018 comprised a £480m revolving credit facility, and £235m of US private placement notes. As at 30 June 2018, the Group had £715m of committed credit facilities and committed headroom of £479m.

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 2019.

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 historic onerous contract provisions.

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. Discount rates used are calculated based on the estimated risk free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision. Rates applied are in the range of 0.72% and 1.95%.

Investigation by the Serious Fraud Office

In November 2013, the UK's Serious Fraud Office announced that it had opened an investigation, which remains ongoing, into the Group's Electronic Monitoring contract.

We are cooperating fully with the Serious Fraud Office's investigation but it is not possible to predict the outcome. However, disclosed in the Principal Risks and Uncertainties in the 2017 Annual Report and Accounts is a description of the range of possible outcomes in the event that the Serious Fraud Office decides to prosecute the individuals and/or the Serco entities involved.

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 are performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with 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 2017 and no indicators of impairment were noted as at 30 June 2018.

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.

Further details on taxes are disclosed in note 11.

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 on an annual basis and adjusted to reflect any changes in positions taken by the Company, local tax audits, the expiry of the statute of limitations following the passage of time and any change in the broader tax environment.

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, 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. Prior year restatement for the impact of IFRS15 *Revenue from Contracts with Customers*

IFRS15 *Revenue from Contracts with Customers* was adopted during the period, replacing previous revenue recognition guidance for goods, services and construction contracts included in IAS11 *Construction Contracts* and IAS18 *Revenue*.

Under the transition rules, IFRS15 has been applied retrospectively to the prior period in accordance with IAS8 *Accounting policies, changes in accounting estimates and errors*, subject to the following expedients:

- contracts completed prior to 1 January 2018 and that begin and end within the same annual reporting period have not been restated;
- for contracts that have variable consideration and which completed prior to 1 January 2018, the revenues recognised reflected the actual outcome, rather than being estimated and trued up; and
- the disclosures required for comparative periods in respect of amount of revenue allocated to the remaining performance obligations, and an explanation of when that amount is expected to be recognised, will not be made in the financial statements for the year ended 31 December 2018.

There was no material impact of applying the practical expedients noted above.

The cumulative effect of initial application of the standard has been applied as an adjustment to brought forward retained earnings as at 1 January 2017.

The following table details the specific areas impacted as a result of the adoption of IFRS15 and cross-referenced below the table are Serco's policies in adopting the requirements of the standard:

Impact on retained earnings as at 1 January 2017 and the consolidated income statement for the year ended 31 December 2017	**Retained earnings £m**	**Revenue £m**	**Operating profit before exceptional items £m**
As previously stated	83.1	2,953.6	49.6
IFRS15 adjustments:			
(i) Declining unit prices	(14.7)	5.4	5.1
(ii) Upfront fees	(2.7)	0.9	0.5
(iii) Transition, transformation and other mobilisation activities	(4.3)	2.2	(1.6)
(iv) Asset maintenance and replacement, including vessel dry docking	(11.8)	1.3	(3.9)
(v) Pass through revenues and procurement arrangements	-	(12.5)	-
(vi) Consideration payable to a customer	-	(0.5)	-
(vii) Percentage of completion accounting	(0.3)	0.5	0.1
(viii) OCP charges and releases	-	-	(8.4)
As restated	49.3	2,950.9	40.7

The Group's accounting policy for the items above are covered in the Group's revenue recognition policy below this restatement section. The reason the adjustments noted above arise is:

(i) Declining unit prices. Where unit prices have been set to decline over the future periods, revenue recognised in prior years for these contracts has been deferred under IFRS15 in order to recognise revenue consistently in line with output received by the customer.

(ii) Upfront fees. In some instances upfront fees were recognised as revenue under IAS18 but are deferred under IFRS15 where no separate performance obligation exists relating to these fees.

(iii) Transition, transformation and other mobilisation activities. In some instances revenue recognised under IAS18 has been deferred under IFRS15 where no separate performance obligation exists.

(iv) Asset maintenance and replacement, including vessel dry docking. Adopting IFRS15 has resulted in the deferral of revenue recognised under IAS18 on certain contracts as a result of changing to the appropriate revenue recognition method.

(v) Pass through revenues and procurement arrangements. For certain procurement arrangements the Group does not have control prior to transfer, but does have a level of risk associated with the activity, therefore these arrangements are recognised on a net basis under IFRS15 instead of the gross basis under IAS18.

(vi) Consideration payable to a customer. Under IFRS15 all amounts payable to a customer (including all payments to the customer and all reductions to amounts paid by the customer) are recorded as a reduction in revenue. In 2017, an element of reductions have been recorded as costs.

(vii) Percentage of completion accounting. Changes to the Group's current accounting policy arise when the percentage of completion model under IAS11 is replaced by the output method of accounting. The output method is used where the customer simultaneously receives and consumes the benefits in direct proportion to the deliverable performed rather than the level of expense incurred to date.

(viii) OCP charges and releases. Where an adjustment is required by IFRS15 and the relevant contract is loss making, the deferral of revenue from prior years can result in a decrease in the level of OCP needed under IFRS15, as future losses will reduce by the level of deferred revenue. During the second half of 2017, one contract recorded a release against the OCP balance held under current accounting standards. As a result of IFRS15, revenues on this contract have been deferred, reducing the opening OCP balance, increasing deferred revenue and therefore the release of the relevant OCP balance is lower under IFRS15.

The impact on the Group's primary financial statements as a result of adopting IFRS15 was as follows:

Impact on consolidated income statement	Six months ended 30 June 2017 as previously stated £m	Adjustment £m	Six months ended 30 June 2017 as restated £m
Revenue	1,508.2	(0.9)	1,507.3
Cost of sales	(1,374.8)	(0.4)	(1,375.2)
Gross profit	133.4	(1.3)	132.1
Administrative expenses			
General and administrative expenses	(112.7)	-	(112.7)
Exceptional profit on disposal of subsidiaries and operations	0.1	-	0.1
Other exceptional operating items	(11.5)	-	(11.5)
Other expenses - amortisation and impairment of intangibles arising on acquisition	(2.2)	-	(2.2)
Total administrative expenses	(126.3)	-	(126.3)
Share of profits in joint ventures and associates, net of interest and tax	14.6	-	14.6
Operating profit	21.7	(1.3)	20.4
Operating profit before exceptional items	33.1	(1.3)	31.8
Investment revenue	3.6	0.2	3.8
Finance costs	(11.2)	-	(11.2)
Net finance costs	(7.6)	0.2	(7.4)
Other gains	-	-	-
Profit before tax	14.1	(1.1)	13.0
Tax on profit before exceptional items	(16.4)	0.1	(16.3)
Exceptional tax	(15.9)	-	(15.9)
Tax charge	(32.3)	0.1	(32.2)
Loss for the period	(18.2)	(1.0)	(19.2)

Impact on consolidated statement of other comprehensive income	Six months ended 30 June 2017 as previously stated £m	Adjustment £m	Six months ended 30 June 2017 as restated £m
Loss for the period	(18.2)	(1.0)	(19.2)
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial loss on defined benefit pension schemes	(130.8)	-	(130.8)
Tax relating to items not reclassified	22.4	-	22.4
Share of other comprehensive income in joint ventures and associates	0.8	-	0.8
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations	(7.2)	-	(7.2)
Fair value loss on cash flow hedges	(0.3)	-	(0.3)
Tax relating to items that may be reclassified	0.1	-	0.1
Total other comprehensive income for the period	(115.0)	-	(115.0)
Total comprehensive income for the period	(133.2)	(1.0)	(134.2)

Impact on consolidated balance sheet	As at 30 June 2017 as previously stated £m	Adjustment £m	As at 30 June 2017 as restated £m
Non current assets			
Goodwill	564.4	-	564.4
Other intangible assets	75.5	-	75.5
Property, plant and equipment	66.6	(4.1)	62.5
Interests in joint ventures and associates	16.0	5.7	21.7
Trade and other receivables	51.1	-	51.1
Derivative financial instruments	4.5	-	4.5
Deferred tax assets	54.1	4.5	58.6
Retirement benefit assets	18.3	-	18.3
	850.5	6.1	856.6
Current assets			
Inventories	16.6	-	16.6
Trade and other receivables	563.0	5.8	568.8
Current tax assets	14.1	-	14.1
Cash and cash equivalents	117.7	-	117.7
Derivative financial instruments	11.6	-	11.6
	723.0	5.8	728.8
Total assets	1,573.5	11.9	1,585.4
Current liabilities			
Trade and other payables	(512.4)	(8.0)	(520.4)
Derivative financial instruments	(3.0)	-	(3.0)
Current tax liabilities	(28.2)	-	(28.2)
Provisions	(156.4)	8.6	(147.8)
Obligations under finance leases	(9.6)	-	(9.6)
Loans	(33.1)	-	(33.1)
	(742.7)	0.6	(742.1)
Non current liabilities			
Trade and other payables	(26.0)	(79.7)	(105.7)
Deferred tax liabilities	(34.1)	-	(34.1)
Provisions	(220.2)	32.4	(187.8)
Obligations under finance leases	(11.9)	-	(11.9)
Loans	(248.6)	-	(248.6)
Retirement benefit obligations	(17.5)	-	(17.5)
	(558.3)	(47.3)	(605.6)
Total liabilities	(1,301.0)	(46.7)	(1,347.7)
Net assets	272.5	(34.8)	237.7
Equity			
Share capital	22.0	-	22.0
Share premium account	327.9	-	327.9
Capital redemption reserve	0.1	-	0.1
Retained earnings	65.8	(34.8)	31.0
Retirement benefit obligations reserve	(199.5)	-	(199.5)
Share based payment reserve	88.7	-	88.7
Own shares reserve	(51.0)	-	(51.0)
Hedging and translation reserve	17.1	-	17.1
Equity attributable to owners of the Company	271.1	(34.8)	236.3
Non controlling interest	1.4	-	1.4
Total equity	272.5	(34.8)	237.7

Impact on components of the cash flow statement	Six months ended 30 June 2017 as previously stated £m	Adjustment £m	Six months ended 30 June 2017 as restated £m
Operating profit for the period	21.7	(1.3)	20.4
Adjustments for:			
Share of profits in joint ventures and associates	(14.6)	-	(14.6)
Share based payment expense	6.9	-	6.9
Exceptional impairment of intangible assets	2.8	-	2.8
Depreciation of property, plant and equipment	13.1	(1.8)	11.3
Amortisation of intangible assets	13.4	-	13.4
Exceptional profit on disposal of subsidiaries and operations	(0.8)	-	(0.8)
Loss on disposal of property, plant and equipment	0.1	-	0.1
Non cash R&D expenditure offset against intangible assets	(0.4)	-	(0.4)
Decrease in provisions	(42.7)	1.8	(40.9)
Other non cash movements	0.2	-	0.2
Total non cash items	(22.0)	-	(22.0)
Operating cash outflow before movements in working capital	(0.3)	(1.3)	(1.6)
Decrease in inventories	5.6	-	5.6
Decrease in receivables	(25.8)	0.1	(25.7)
Decrease in payables	(4.6)	(2.0)	(6.6)
Movements in working capital	(24.8)	(1.9)	(26.7)
Cash generated by operations	(25.1)	(3.2)	(28.3)
Tax paid	(7.9)	-	(7.9)
Non cash R&D expenditure	-	-	-
Net cash outflow from operating activities	(33.0)	(3.2)	(36.2)

Impact on consolidated income statement	Year ended 31 December 2017 as previously stated £m	Adjustment £m	Year ended 31 December 2017 as restated £m
Revenue	2,953.6	(2.7)	2,950.9
Cost of sales	(2,704.7)	(5.9)	(2,710.6)
Gross profit	248.9	(8.6)	240.3
Administrative expenses			
General and administrative expenses	(222.2)	-	(222.2)
Exceptional profit on disposal of subsidiaries and operations	0.3	-	0.3
Other exceptional operating items	(19.9)	-	(19.9)
Other expenses - amortisation and impairment of intangibles arising on acquisition	(4.4)	-	(4.4)
Total administrative expenses	(246.2)	-	(246.2)
Share of profits in joint ventures and associates, net of interest and tax	27.3	(0.3)	27.0
Operating profit	30.0	(8.9)	21.1
Operating profit before exceptional items	49.6	(8.9)	40.7
Investment revenue	7.6	0.4	8.0
Finance costs	(19.2)	-	(19.2)
Net finance costs	(11.6)	0.4	(11.2)
Other gains	0.7	-	0.7
Profit before tax	19.1	(8.5)	10.6
Tax on profit before exceptional items	(14.0)	0.4	(13.6)
Exceptional tax	(5.0)		(5.0)
Tax charge	(19.0)	0.4	(18.6)
Profit for the year	0.1	(8.1)	(8.0)

Impact on consolidated statement of other comprehensive income	Year ended 31 December 2017 as previously stated £m	Adjustment £m	Year ended 31 December 2017 as restated £m
Profit for the year	0.1	(8.1)	(8.0)
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial loss on defined benefit pension schemes	(106.5)	-	(106.5)
Actuarial loss on reimbursable rights	(0.6)	-	(0.6)
Tax relating to items not reclassified	18.1	-	18.1
Share of other comprehensive income in joint ventures and associates	0.9	-	0.9
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations	(14.6)	-	(14.6)
Fair value loss on cash flow hedges	(0.2)	-	(0.2)
Total other comprehensive income for the year	(102.9)	-	(102.9)
Total comprehensive income for the year	(102.8)	(8.1)	(110.9)

Impact on consolidated balance sheet	Aa at 31 December 2017 as previously stated £m	Adjustment £m	As at 31 December 2017 as restated £m
Non current assets			
Goodwill	551.3	-	551.3
Other intangible assets	66.7	-	66.7
Property, plant and equipment	65.2	(3.9)	61.3
Interests in joint ventures and associates	14.3	5.4	19.7
Trade and other receivables	57.3	-	57.3
Derivative financial instruments	3.7	-	3.7
Deferred tax assets	55.0	4.7	59.7
Retirement benefit assets	41.8	-	41.8
	855.3	6.2	861.5
Current assets			
Inventories	17.4	-	17.4
Trade and other receivables	506.5	5.5	512.0
Current tax assets	11.2	-	11.2
Cash and cash equivalents	112.1	-	112.1
Derivative financial instruments	10.3	-	10.3
	657.5	5.5	663.0
Total assets	1,512.8	11.7	1,524.5
Current liabilities			
Trade and other payables	(462.9)	(9.0)	(471.9)
Derivative financial instruments	(1.1)	-	(1.1)
Current tax liabilities	(25.3)	-	(25.3)
Provisions	(148.5)	1.2	(147.3)
Obligations under finance leases	(8.5)	-	(8.5)
Loans	(31.8)	-	(31.8)
	(678.1)	(7.8)	(685.9)
Non current liabilities			
Trade and other payables	(28.7)	(74.6)	(103.3)
Deferred tax liabilities	(20.4)	-	(20.4)
Provisions	(211.5)	28.8	(182.7)
Obligations under finance leases	(11.7)	-	(11.7)
Loans	(239.7)	-	(239.7)
Retirement benefit obligations	(15.5)	-	(15.5)
	(527.5)	(45.8)	(573.3)
Total liabilities	(1,205.6)	(53.6)	(1,259.2)
Net assets	307.2	(41.9)	265.3
Equity			
Share capital	22.0	-	22.0
Share premium account	327.9	-	327.9
Capital redemption reserve	0.1	-	0.1
Retained earnings	83.7	(41.9)	41.8
Retirement benefit obligations reserve	(180.1)	-	(180.1)
Share based payment reserve	88.3	-	88.3
Own shares reserve	(46.1)	-	(46.1)
Hedging and translation reserve	10.1	-	10.1
Equity attributable to owners of the Company	305.9	(41.9)	264.0
Non controlling interest	1.3	-	1.3
Total equity	307.2	(41.9)	265.3

Impact on components of the cash flow statement	Year ended 31 December 2017 as previously stated £m	Adjustment £m	Year ended 31 December 2017 as restated £m
Operating profit for the year	30.0	(8.9)	21.1
Adjustments for:			
Share of profits in joint ventures and associates	(27.3)	0.3	(27.0)
Share based payment expense	11.4	-	11.4
Exceptional impairment of intangible assets	8.9	-	8.9
Impairment and write down of intangible assets	(0.1)	-	(0.1)
Depreciation of property, plant and equipment	24.3	(3.4)	20.9
Amortisation of intangible assets	25.8	-	25.8
Exceptional profit on disposal of subsidiaries and operations	(0.3)	-	(0.3)
Loss on disposal of property, plant and equipment	0.3	-	0.3
Loss on disposal of intangible assets	0.3	-	0.3
Non cash R&D expenditure offset against intangible assets	(0.7)	-	(0.7)
Decrease in provisions	(56.0)	12.8	(43.2)
Other non cash movements	0.1	-	0.1
Total non cash items	(13.3)	9.7	(3.6)
Operating cash inflow before movements in working capital	16.7	0.8	17.5
Decrease in inventories	3.7	-	3.7
Decrease in receivables	12.6	0.4	13.0
Decrease in payables	(37.2)	(5.7)	(42.9)
Movements in working capital	(20.9)	(5.3)	(26.2)
Cash generated by operations	(4.2)	(4.5)	(8.7)
Tax paid	(11.4)	-	(11.4)
Non cash R&D expenditure	(0.2)	-	(0.2)
Net cash outflow from operating activities	(15.8)	(4.5)	(20.3)

Impact on consolidated balance sheet	As at 31 December 2016 as previously stated £m	Adjustment £m	As at 31 December 2016 as restated £m
Non current assets			
Goodwill	577.9	-	577.9
Other intangible assets	83.6	-	83.6
Property, plant and equipment	69.3	(2.1)	67.2
Interests in joint ventures and associates	14.4	5.7	20.1
Trade and other receivables	44.4	-	44.4
Derivative financial instruments	14.2	-	14.2
Deferred tax assets	50.8	4.5	55.3
Retirement benefit assets	150.4	-	150.4
	1,005.0	8.1	1,013.1
Current assets			
Inventories	22.4	-	22.4
Trade and other receivables	543.5	5.9	549.4
Current tax assets	11.0	-	11.0
Cash and cash equivalents	177.8	-	177.8
Derivative financial instruments	4.9	-	4.9
	759.6	5.9	765.5
Total assets	1,764.6	14.0	1,778.6
Current liabilities			
Trade and other payables	(524.5)	(16.8)	(541.3)
Derivative financial instruments	(0.6)	-	(0.6)
Current tax liabilities	(25.9)	-	(25.9)
Provisions	(172.3)	10.2	(162.1)
Obligations under finance leases	(12.3)	-	(12.3)
Loans	(9.7)	-	(9.7)
	(745.3)	(6.6)	(751.9)
Non current liabilities			
Trade and other payables	(16.8)	(73.8)	(90.6)
Deferred tax liabilities	(30.5)	-	(30.5)
Provisions	(249.4)	32.6	(216.8)
Obligations under finance leases	(15.9)	-	(15.9)
Loans	(290.2)	-	(290.2)
Retirement benefit obligations	(17.7)	-	(17.7)
	(620.5)	(41.2)	(661.7)
Total liabilities	(1,365.8)	(47.8)	(1,413.6)
Net assets	398.8	(33.8)	365.0
Equity			
Share capital	22.0	-	22.0
Share premium account	327.9	-	327.9
Capital redemption reserve	0.1	-	0.1
Retained earnings	83.1	(33.8)	49.3
Retirement benefit obligations reserve	(91.1)	-	(91.1)
Share based payment reserve	82.9	-	82.9
Own shares reserve	(52.1)	-	(52.1)
Hedging and translation reserve	24.6	-	24.6
Equity attributable to owners of the Company	397.4	(33.8)	363.6
Non controlling interest	1.4	-	1.4
Total equity	398.8	(33.8)	365.0

Revenue recognition: Repeat service based contracts

The majority of the Group's contracts are repeat service based contracts, where value and control is transferred to the customer over time as the core services are delivered, and therefore in most cases revenue is recognised on the output basis, with revenue linked to the deliverables provided to the customer.

There are some contracts where a separate performance obligation has been identified for services where the pattern of delivery differs to the core services and are capable of being distinct. In these instances, where the transfer of control is most closely aligned to our efforts in delivering the service, then the input method is used to measure progress, and revenue is recognised in direct proportion to costs incurred. Where deemed appropriate, the Group will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

The transaction price recognised as revenue is determined with reference to the facts and circumstances for specific contracts together with any variations and options which are deemed to be performance obligations of the contract. For variable revenue, an estimate is made at each reporting date and the transaction price adjusted to reflect any changes to the unit price which results from the amended forecast. The total transaction price is reduced as appropriate for discounts, service penalties or customer claims where it is highly probable that the revenue associated with these will reverse.

Specific areas of accounting policy applied by the Group are as follows:

(i) Declining unit prices. Where any price step downs are required in a contract which is accounted for under the output basis and output is not decreasing, revenue requires deferral from initial years to subsequent years in order for revenue to be recognised on a consistent basis. Depending on the nature of the contract, for example where volume increases lead to fall in unit prices, a level of estimation uncertainty may exist, given that future volumes will be required to be forecast.

(ii) Upfront fees. For some contracts, the Group receives non-refundable amounts at the start of the contract to cover initial costs. Unless upfront fees are attributable to a good or a service the customer is in control of, such fees do not constitute a separate performance obligation and instead are allocated to the performance obligations of the contract, therefore being spread over the life of the other services. Upfront payments are analysed to determine whether they constitute a material financing arrangement.

(iii) Transition, transformation and other mobilisation activities. Transition activities which are administrative in nature are not treated as separate performance obligations. Transition and transformation activities which are more than administrative in nature are assessed to determine whether they form a separate performance obligation. Where it can be demonstrated that the transition activities benefit the customer without future activities being provided then the transition phase is accounted for as a separate performance obligation under the contract and revenue recognised accordingly. Where it is concluded that the transformation, transition or mobilisation activity does not form a separate performance obligation under the contract, any payments received from the customer are allocated to the performance obligations of the contract and recognised over the life of the other services.

(iv) Asset maintenance and replacement, including vessel dry docking. In many of the contracts the Group enters into, the provision of maintenance and replacement services are capable of being distinct and therefore these have been accounted for as separate performance obligations. The input method of accounting is used to reflect the pattern of delivery to the customer and the enhancement of customer owned assets. In some instances the output method of accounting is used due to the ongoing repetitive nature and frequency of the services. Where the input method is used, an estimate must be made of the total inputs expected to the end of the performance obligation.

(v) Pass through revenues and procurement arrangements. A pass through arrangement is where goods or services are provided by a third party, but sourced by the Group on behalf of the customer. In this instance, the Group does not recognise revenue for the amount received from the customer as compensation of the cost of the good or service but rather only the margin element (if any) is recorded as revenue. Recognition of such revenues is linked directly to whether the Group has control of the deliverable prior to transfer.

(vi) Consideration payable to a customer. All amounts payable to a customer (including all payments to the customer and all reductions to amounts paid by the customer) are recorded as a reduction in revenue.

(vii) Contract variations. Contract modifications such as change orders, variations, change notices and amendments could be approved in writing, by oral agreement or implied by customary business practices. Contract modifications are changes in the scope or price (or both) of a contract that is approved by the parties to the contract. If the parties to the contract have not approved a contract modification, revenue continues to be recognised in accordance with the existing contractual terms and associated cash payments are deferred until there is evidence of customer agreement in line with the Group's policies.

(viii) Variable revenues requiring estimation. If consideration paid by a customer includes a variable amount requiring judgement, it is only recognised where it is highly probable that a significant reversal will not occur. Service penalties or any claims made by us against the customer which must be recognised in revenue unless it is highly probable that they will not result in future settlement.

(ix) Extension periods granted or other options. Providing the option for a customer to obtain extension periods or other services may lead to a separate performance obligation where a material right exists. If a separate performance obligation exists then there would be an allocation of the transaction price from the original contract in addition to any revenues earned through the option period. A separate performance obligation exists for options under a contract if both of the following conditions are met: First, if the customer is unable to obtain the right to acquire the additional goods or services on the same or similar terms without entering into the original contract (for example they cannot get the option without first entering into the main contract, which would be the case for any extension period). Second, the option does not simply give the customer the right to acquire additional goods or services at a price that reflects the stand alone selling price for those goods or services (for example if the pricing of the option is consistent with what the pricing would have been in any case there is no separate performance obligation, as the customer gains no incremental benefit from the existence of the option).

(x) Significant financing component. Where the timing of payments agreed with the customer provides either party with a significant benefit of financing (either explicitly or implicitly), the associated asset/liability is adjusted for the time value of money and an interest charge or income is recognised and a corresponding offset in revenue. The Group's policy is to consider "significant" to be greater than 5% of the total transaction price of the contractual arrangement and no such arrangements are in place.

(xi) Non cash consideration. If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate the fulfilment of the contract, the Group assesses whether control is obtained for those contributed goods or services. If the Group obtains control of the contributed goods or services, then the estimated fair value of these would be recognised as revenue. Such transactions are rare and immaterial.

(xii) Licence income. Where the Group receives income for software licences and maintenance services provided through ongoing support and operational functionality, this licence revenue is recognised over the period when the maintenance obligation exists. There are currently no material significant licencing arrangements entered into by the Group with its customers.

Revenue recognition: Long-term project-based contracts

The Group has a limited number of long-term contracts for the provision of complex, project-based services. When control of such a deliverable is passed onto the customer at the final stage of a contract, the recognition of revenue is delayed until control has been passed. However, where the customer has control over the life of the deliverable or where the Group has a legally enforceable right to remuneration for the work completed to date, or at milestone periods, revenue will be recognised in line with the associated transfer of control or milestone dates.

Revenue recognition: Other

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the right to receive payment has been established.

Contract costs

Bid costs are capitalised when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.

Contract costs can only be capitalised when the expenditure meets all of the following three criteria and are not within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment:

- The costs relate directly to a contract. These include: direct labour, being the salaries and wages of employees providing the promised services to the customer; direct materials such as supplies used in providing the promised services to a customer; and other costs that are incurred only because an entity entered into the contract, such as payments to subcontractors.

- The costs generate or enhance the resources used in satisfying performance obligations in the future. For initial contract costs capitalised, such costs only fall into one of the following two categories: the mobilisation of contract staff, being the costs of moving existing contract staff to other Group locations; or directly incremental costs incurred in meeting contractual obligations incurred prior to contract delivery, which are required to ensure a proper handover from the previous contractor. Redundancy costs are never capitalised.
- The costs are expected to be recovered, i.e. the contract is expected to be profitable after amortising the capitalised costs.

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in the six months ended 30 June 2018 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.

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 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	136.2	154.1	28.3	20.8	339.4
Justice & Immigration	130.3	-	134.7	-	265.0
Transport	70.5	42.4	9.8	98.3	221.0
Health	102.8	-	44.9	13.7	161.4
Citizen Services	195.2	108.8	45.7	29.7	379.4
	635.0	305.3	263.4	162.5	1,366.2

Six months ended 30 June 2017	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	149.0	171.0	48.2	19.8	388.0
Justice & Immigration	128.9	-	159.5	-	288.4
Transport	75.3	41.4	17.5	103.1	237.3
Health	80.1	-	45.8	17.8	143.7
Citizen Services	223.3	156.6	36.1	33.9	449.9
	656.6	369.0	307.1	174.6	1,507.3

Year ended 31 December 2017	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	291.9	325.7	76.9	41.2	735.7
Justice & Immigration	258.0	-	303.0	-	561.0
Transport	153.0	86.5	32.5	204.9	476.9
Health	180.7	-	91.1	33.7	305.5
Citizen Services	447.9	277.1	74.0	72.8	871.8
	1,331.5	689.3	577.5	352.6	2,950.9

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 10% of Group revenues. The customers' revenues were £528m for the UK Government, £257m for the US Government, £262m for the Australian Government and £109m for the Government of the United Arab Emirates.

Financial performance and position

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
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)	(158.7)	(92.9)	(133.1)	(900.4)
Unallocated liabilities						(347.9)
Consolidated total liabilities						(1,248.3)

* 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.

*** 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.

Six months ended 30 June 2017 (restated***)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	656.6	369.0	307.1	174.6	-	1,507.3
Result						
Trading profit/(loss)*	14.3	22.2	10.3	7.4	(20.2)	34.0
Amortisation and impairment of intangibles arising on acquisition	-	(1.5)	(0.7)	-	-	(2.2)
Operating profit/(loss) before exceptional items	14.3	20.7	9.6	7.4	(20.2)	31.8
Exceptional profit on disposal of subsidiaries and operations	0.1	-	-	-	-	0.1
Other exceptional operating items**	1.0	-	(0.7)	-	(11.8)	(11.5)
Operating profit/(loss)	15.4	20.7	8.9	7.4	(32.0)	20.4
Investment revenue						3.8
Finance costs						(11.2)
Profit before tax						13.0
Tax charge						(16.3)
Tax on exceptional items						(15.9)
Profit for the period						(19.2)
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	14.0	-	0.6	-	-	14.6
Depreciation of plant, property and equipment	(7.0)	(1.6)	(1.6)	(0.4)	(0.7)	(11.3)
Impairment of plant, property and equipment	-	-	-	-	-	-
Total depreciation and impairment of plant, property and equipment	(7.0)	(1.6)	(1.6)	(0.4)	(0.7)	(11.3)
Amortisation of intangible assets arising on acquisition	-	(1.5)	(0.7)	-	-	(2.2)
Amortisation of other intangible assets	(0.6)	(0.8)	(2.3)	(0.1)	(7.4)	(11.2)
Exceptional impairment of other intangible assets	-	-	-	-	(2.8)	(2.8)
Total amortisation and impairment of intangible assets	(0.6)	(2.3)	(3.0)	(0.1)	(10.2)	(16.2)
Segment assets						
Interests in joint ventures and associates	19.2	-	2.1	0.4	-	21.7
Other segment assets****	482.0	412.7	251.0	115.9	100.0	1,361.6
Total segment assets	501.2	412.7	253.1	116.3	100.0	1,383.3
Unallocated assets, including assets held for sale						202.1
Consolidated total assets						1,585.4
Segment liabilities						
Segment liabilities****	(433.8)	(134.7)	(196.9)	(90.7)	(132.2)	(988.3)
Unallocated liabilities, including liabilities held for sale						(359.4)
Consolidated total liabilities						(1,347.7)

* Trading profit/(loss) is defined as operating (loss)/profit 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.
*** Restated to reflect the impact of IFRS15.
**** 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 2017 (restated***)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,331.5	689.3	577.5	352.6	-	2,950.9
Result						
Trading profit/(loss)*	(4.1)	39.8	33.7	17.3	(41.6)	45.1
Amortisation and impairment of intangibles arising on acquisition	-	(3.0)	(1.4)	-	-	(4.4)
Operating profit/(loss) before exceptional items	(4.1)	36.8	32.3	17.3	(41.6)	40.7
Exceptional profit on disposal of subsidiaries and operations	0.3	-	-	-	-	0.3
Other exceptional operating items**	11.9	(0.3)	(7.4)	0.1	(24.2)	(19.9)
Operating profit/(loss)	8.1	36.5	24.9	17.4	(65.8)	21.1
Investment revenue						8.0
Finance costs						(19.2)
Other gains						0.7
Profit before tax						10.6
Tax charge						(13.6)
Tax on exceptional items						(5.0)
Loss for the year						(8.0)
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	26.3	-	0.8	-	(0.1)	27.0
Depreciation of plant, property and equipment	(12.3)	(3.2)	(3.2)	(0.8)	(1.4)	(20.9)
Reversal of impairment of plant, property and equipment	0.1	-	-	-	-	0.1
Total depreciation and impairment of plant, property and equipment	(12.2)	(3.2)	(3.2)	(0.8)	(1.4)	(20.8)
Amortisation of intangible assets arising on acquisition	-	(3.0)	(1.4)	-	-	(4.4)
Exceptional impairment and write down of intangible assets arising on acquisition	-	-	(6.1)	-	-	(6.1)
Amortisation of other intangible assets	(1.1)	(1.5)	(4.8)	(0.2)	(13.8)	(21.4)
Exceptional impairment of other intangible assets	-	-	-	-	(2.8)	(2.8)
Total amortisation and impairment of intangible assets	(1.1)	(4.5)	(12.3)	(0.2)	(16.6)	(34.7)
Segment assets						
Interests in joint ventures and associates	18.9	-	0.4	0.4	-	19.7
Other segment assets****	452.4	387.6	225.2	113.7	133.2	1,312.1
Total segment assets	471.3	387.6	225.6	114.1	133.2	1,331.8
Unallocated assets						192.7
Consolidated total assets						1,524.5
Segment liabilities						
Segment liabilities****	(407.5)	(124.9)	(161.3)	(86.2)	(142.0)	(921.9)
Unallocated liabilities						(337.3)
Consolidated total liabilities						(1,259.2)

* 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.
*** Restated to reflect the impact of IFRS15.
**** 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), Merseyrail Services Holding Company Limited (MSHCL) and Northern Rail Holdings Limited (NRHL) were the only equity accounted entities which were material to the Group during the six months ended 30 June 2018 or comparative periods. Dividends of £11.8m (2017: £9.9m), £4.3m (2017: £3.3m) and £nil (2017: £0.5m) respectively were received from these companies in the period. The Northern Rail franchise ended on 31 March 2016.

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

30 June 2018

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	533.2	80.2	0.1	170.8	21.5	192.3
Operating profit	58.1	7.4	0.1	18.1	0.2	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	0.1	14.8	0.2	15.0
Other comprehensive income	-	2.5	-	1.2	-	1.2
Total comprehensive income	47.9	8.4	0.1	16.0	0.2	16.2
Non current assets	660.0	8.5	-	166.0	2.2	168.2
Current assets	180.8	48.1	5.4	71.1	13.2	84.3
Current liabilities	(162.8)	(30.6)	(2.2)	(56.3)	(11.4)	(67.7)
Non current liabilities	(658.6)	(1.6)	-	(162.2)	(2.7)	(164.9)
Net assets	19.4	24.4	3.2	18.6	1.3	19.9
Proportion of group ownership	24.5%	50.0%	50.0%	-	-	-
Carrying amount of investment	4.8	12.2	1.6	18.6	1.3	19.9
Supplementary information						
Cash and cash equivalents	77.2	33.6	6.0	38.7	2.5	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.

30 June 2017

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	480.2	78.2	0.1	156.8	23.4	180.2
Operating profit	49.5	8.2	1.1	16.7	1.1	17.8
Net investment revenue	0.1	-	-	-	-	-
Income tax charge	(9.8)	(1.6)	-	(3.2)	-	(3.2)
Profit	39.8	6.6	1.1	13.5	1.1	14.6
Other comprehensive income	-	1.8	-	0.9	(0.1)	0.8
Total comprehensive income	39.8	8.4	1.1	14.4	1.0	15.4
Non current assets	1,092.5	11.8	-	273.5	3.3	276.8
Current assets	155.0	39.4	11.3	63.3	17.4	80.7
Current liabilities	(139.9)	(35.6)	(7.7)	(55.9)	(14.8)	(70.7)
Non current liabilities	(1,090.9)	(1.2)	-	(267.8)	(3.0)	(270.8)
Net assets	16.7	14.4	3.6	13.1	2.9	16.0
Proportion of group ownership	24.5%	50.0%	50.0%	-	-	-
Carrying amount of investment	4.1	7.2	1.8	13.1	2.9	16.0
Supplementary information						
Cash and cash equivalents	85.6	31.9	11.3	42.6	4.9	47.5
Current financial liabilities excluding trade and other payables and provisions	(7.8)	(1.6)	0.2	(2.6)	(0.9)	(3.5)
Non current financial liabilities excluding trade and other payables and provisions	-	(0.5)	-	(0.3)	(2.9)	(3.2)
Depreciation and amortisation	-	(1.1)	-	(0.6)	(0.8)	(1.4)
Interest income	0.1	-	-	-	-	-
Interest expense	-	-	-	-	-	-

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

31 December 2017 (restated*)

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) (restated*) £m	NRHL (100% of results) £m	Group portion of material joint ventures and associates** (restated*) £m	Group portion of other joint venture arrangements and associates** £m	Total (restated*) £m
Revenue*	951.8	155.1	0.3	310.9	45.5	356.4
Operating profit*	90.8	17.2	3.8	32.7	1.4	34.1
Net investment revenue/(finance costs)	0.2	(0.2)	-	(0.1)	-	(0.1)
Income tax charge	(18.8)	(3.9)	(0.5)	(6.9)	(0.1)	(7.0)
Profit*	72.2	13.1	3.3	25.7	1.3	27.0
Other comprehensive income	-	2.0	-	1.0	(0.1)	0.9
Total comprehensive income*	72.2	15.1	3.3	26.7	1.2	27.9
Non current assets	665.6	8.7	-	167.5	2.2	169.7
Current assets	197.3	43.5	5.2	72.7	14.5	87.2
Current liabilities*	(179.0)	(26.1)	(2.0)	(58.0)	(13.0)	(71.0)
Non current liabilities	(664.3)	(1.6)	-	(163.5)	(2.7)	(166.2)
Net assets*	19.6	24.5	3.2	18.7	1.0	19.7
Proportion of group ownership	24.5%	50.0%	50.0%	-	-	-
Carrying amount of investment*	4.8	12.3	1.6	18.7	1.0	19.7
Supplementary information						
Cash and cash equivalents	77.2	33.6	6.0	38.7	2.5	41.2
Current financial liabilities excluding trade and other payables and provisions	(8.3)	(1.9)	0.1	(2.9)	(0.6)	(3.5)
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)

* Restated to reflect the impact of IFRS15, no impact in the six months ended 30 June 2017.
** Total results of the entity multiplied by the respective proportion of Group ownership.

6. Acquisitions

On 26 January 2018, the Group acquired 100% of the issued share capital of BTP Systems, LLC (BTP). The acquired business contributed £5.6m of revenue and £0.7m of operating profit before exceptional items to the Group's results during the six months ended 30 June 2018. Had the acquisition taken place on 1 January 2018 Group revenue and operating profit before exceptional items for the period would have increased by £1.1m and approximately £0.1m respectively, taking total Group revenue to £1,367.3m and total Group operating profit before exceptional items to £43.6m.

BTP provides satellite communications (SATCOM), radar modernisation, operations and maintenance and sustainment services that enable customers to extend the lives of existing systems and achieve phased upgrades with new technology to enhance operational capability. BTP specialises in areas including obsolescence engineering, systems engineering services, test equipment and design, and field engineering services, and maintains a near-field and compact antenna test range at their Ludlow, MA headquarters. BTP's expertise spans shipboard and submarine SATCOM antenna systems, Military Strategic & Tactical Relay command post antennas and radar antennas. The acquisition is expected to increase the Group's market share.

	Provisional fair value US $m	Provisional fair value £m
Goodwill	13.6	9.6
Acquisition related intangible assets	4.4	3.1
Property, plant and equipment	0.3	0.2
Inventories	0.4	0.3
Trade and other receivables	2.5	1.7
Cash and cash equivalents	1.7	1.2
Trade and other payables	(1.7)	(1.2)
Provisions	(0.7)	(0.5)
Acquisition date fair value of consideration transferred	20.5	14.4
Satisfied by:		
Cash	20.5	14.4
Total consideration	20.5	14.4

The net cash outflow as a result of the acquisition was £13.2m, being £1.2m cash acquired less £14.4m consideration paid. No acquisition related costs were incurred.

Working closely with the Special Managers and Liquidators of Carillion, together with all other relevant parties, Serco agreed acquisition terms to take responsibility for facilities management services at six major NHS hospital sites: Great Western Hospital in Swindon; Darent Valley Hospital in Dartford; James Cook University Hospital in Middlesbrough; Harplands Hospital in Stoke-on-Trent; The Langlands Unit of Queen Elizabeth University Hospital in Glasgow; and Addenbrooke's Treatment Centre in Cambridge. The first contract, Great Western Hospital in Swindon, transferred in June 2018, with the remainder having completed subsequently. The impact of the initial acquisition was immaterial to these financial statements. The acquisition is expected to increase the Group's market share.

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

	£m
Net cash outflow on acquisition of BTP	(13.2)
Consideration paid in respect of Carillion contract acquisition completed	(1.0)
Consideration paid in respect of Carillion contracts acquisitions not yet completed	(2.0)
Deferred consideration paid in respect of historic acquisition (SSDS)	(0.5)
Net cash outflow arising on acquisitions in the period	(16.7)

7. Disposals

No material disposals took place in the six months ended 30 June 2018. Cash proceeds of £1.8m were received in respect of historic disposals.

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 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Exceptional profit on disposal of subsidiaries and operations	-	0.1	0.3
Other exceptional operating items			
Restructuring costs	(11.3)	(13.3)	(28.6)
Costs associated with UK Government review	(0.3)	(0.4)	(0.4)
Release of UK frontline clinical health contract provisions	-	-	0.4
Settlement of defined benefit pension obligations	-	-	10.3
Impairment of interest in joint venture and related loan balances	-	2.2	4.5
Impairment of AsPac customer lists	-	-	(6.1)
Other exceptional operating items	(11.6)	(11.5)	(19.9)
Exceptional operating items	(11.6)	(11.4)	(19.6)

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 2018 a charge of £11.3m (2017: £13.3m) 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 £4.1m (2017: £7.5m) and were included within operating profit before exceptional items. We expect restructuring costs of approximately £30m will be treated as exceptional in the year ended 31 December 2018.

There were exceptional costs totalling £0.3m (2017: £0.4m) 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 2018.

Exceptional costs of £11.6m only gave rise to a credit of £0.2m, 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 2018 £m	Six months ended 30 June 2017 (restated*) £m	Year ended 31 December 2017 (restated*) £m
Interest receivable on other loans and deposits	1.4	1.4	2.6
Net interest receivable on retirement benefit obligations (note 17)	0.4	1.6	3.8
Interest arising on customer contracts*	0.2	0.2	0.4
Movement in discount on other debtors	0.7	0.6	1.2
	2.7	3.8	8.0

* Restated to reflect the impact of IFRS15.

10. Finance costs

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Interest payable on obligations under finance leases	(0.2)	(0.8)	(1.3)
Interest payable on other loans	(6.5)	(7.2)	(14.0)
Facility fees and other charges	(1.8)	(1.4)	(3.0)
Movement in discount on provisions	(0.3)	(1.7)	(1.3)
	(8.8)	(11.1)	(19.6)
Foreign exchange on financing activities	(0.2)	(0.1)	0.4
	(9.0)	(11.2)	(19.2)

11. Tax

We recognised a tax charge of £11.2m (2017 restated: £16.3m) on pre exceptional profits, which includes £10.6m underlying tax, a £0.4m tax impact of amortisation on intangibles arising on acquisition and a £1.0m charge on non-underlying items. The £1.0m charge 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 30.1% (2017 restated: 66.8%) is higher than the UK standard corporation tax rate of 19%. This is due to the upward 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. This is only partially offset by the downward 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 be higher than 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.

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 2018 millions	Six months ended 30 June 2017 millions	Year ended 31 December 2017 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,096.6	1,091.1	1,089.7
Effect of dilutive potential ordinary shares: Share options	46.5	51.7	44.9
Weighted average number of ordinary shares for the purpose of diluted EPS	1,143.1	1,142.8	1,134.6

At 30 June 2018, options over 139,049 (30 June 2017: 214,632) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the period and they were, therefore, anti-dilutive.

Due to the loss making position in 2017, the dilutive impact has not been separately disclosed for those measures of profitability.

Earnings and EPS	Earnings 30 June 2018 £m	Per share amount 30 June 2018 pence	Earnings 30 June 2017 £m	Per share amount 30 June 2017 pence	Earnings 31 December 2017 £m	Per share amount 31 December 2017 pence
Reported, basic	14.5	1.32	(19.3)	(1.77)	(8.3)	(0.76)
Effect of dilutive potential ordinary shares	-	(0.05)	-	-	-	-
Reported, diluted	14.5	1.27	(19.3)	(1.77)	(8.3)	(0.76)
Earnings and EPS excluding exceptional items						
Reported, basic	14.5	1.32	(19.3)	(1.77)	(8.3)	(0.76)
Add back exceptional items	11.6	1.06	11.4	1.04	19.6	1.80
Add back tax on exceptional items	(0.2)	(0.02)	15.9	1.46	5.0	0.46
Excluding exceptional items, basic	25.9	2.36	8.0	0.73	16.3	1.50
Effect of dilutive potential ordinary shares	-	(0.09)	-	-	-	-
Excluding exceptional items, diluted	25.9	2.27	8.0	0.73	16.3	1.50

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 2017 year end. Headroom has historically been closest for the UK&E Health CGU and the Americas CGU. However, both businesses have performed within expected tolerances in the six months ended 30 June 2018. During the six-month period the Group announced the progress made with regards to the acquisition of selected Carillion UK health facilities management contracts. In addition, the US Department of Health and Human Services awarded the Group a contract to continue to support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges. The contract has a one-year base period and four one-year option periods, with an estimated total value to Serco, subject to workload volumes, of approximately $900m if all option years are exercised. As a result, there is a reduced level of uncertainty over the future expected cash flows of the Americas CGU.

14. Analysis of Net Debt

	As at 1 January 2018 £m	Cash flow £m	Acquisitions* £m	Disposals £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)
Obligations under finance leases	(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 2017 £m	Cash flow £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	As at 30 June 2017 £m
Loans payable	(299.9)	3.8	-	-	14.8	(0.4)	(281.7)
Obligations under finance leases	(28.2)	7.6	-	-	0.1	(1.0)	(21.5)
Liabilities arising from financing activities	(328.1)	11.4	-	-	14.9	(1.4)	(303.2)
Cash and cash equivalents	177.8	(58.7)	-	-	(1.4)	-	117.7
Loan receivables	22.9	-	-	-	-	0.6	23.5
Derivatives relating to Net Debt	18.1	-	-	-	(5.0)	-	13.1
Net Debt	(109.3)	(47.3)	-	-	8.5	(0.8)	(148.9)

	As at 1 January 2017 £m	Cash flow £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	As at 31 December 2017 £m
Loans payable	(299.9)	3.8	-	-	25.4	(0.8)	(271.5)
Obligations under finance leases	(28.2)	12.6	-	-	0.1	(4.7)	(20.2)
Liabilities arising from financing activities	(328.1)	16.4	-	-	25.5	(5.5)	(291.7)
Cash and cash equivalents	177.8	(57.3)	1.5	(7.1)	(2.8)	-	112.1
Loan receivables	22.9	(0.6)	-	-	-	3.4	25.7
Derivatives relating to Net Debt	18.1	-	-	-	(5.3)	-	12.8
Net Debt	(109.3)	(41.5)	1.5	(7.1)	17.4	(2.1)	(141.1)

15. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
As at 1 January 2018 as previously stated	55.7	14.3	168.2	121.8	360.0
Impact of the adoption of IFRS15	-	-	(10.4)	(19.6)	(30.0)
As at 1 January 2018 as restated	55.7	14.3	157.8	102.2	330.0
Arising on acquisition	-	-	-	0.5	0.5
Charged to income statement – exceptional	1.4	-	-	-	1.4
Charged to income statement – other	6.2	0.2	-	3.1	9.5
Released to income statement – other	(0.6)	(0.9)	(0.4)	(10.1)	(12.0)
Utilised during the year	(5.3)	(1.0)	(33.7)	(12.8)	(52.8)
Unwinding of discount	-	-	0.3	-	0.3
Exchange differences	(0.3)	(0.1)	(0.8)	0.7	(0.5)
As at 30 June 2018	57.1	12.5	123.2	83.6	276.4
Analysed as:					
Current	13.6	4.0	67.3	37.5	122.4
Non current	43.5	8.5	55.9	46.1	154.0
	57.1	12.5	123.2	83.6	276.4

Contract provisions relate to onerous contracts which will be utilised over the life of each individual contract, up to a maximum of 6.5 years from the balance sheet date. 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. The 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.

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 2017: £4.3m). The actual commitment outstanding at 30 June 2018 was £4.3m (31 December 2017: £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 2018 was £233.2m (31 December 2017: £227.1m).

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

We are cooperating fully with the Serious Fraud Office's investigation but it is not possible to predict the outcome. However, a description of the range of possible outcomes in the event that the Serious Fraud Office decides to prosecute the individuals and/or the Serco entities involved was disclosed in the Principal Risks and Uncertainties section of the Group's 2017 Annual Report and Accounts.

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

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 this scheme was undertaken as at 5 April 2015 and resulted in an actuarially assessed deficit of £4.0m for funding purposes. Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. The most recent summary valuation was undertaken as at 31 December 2017 when the estimated actuarial deficit of SPLAS was £33.7m based on the actuarial assessment on the funding basis whereas the accounting valuation resulted in an asset of £41.8m. The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions. A revised schedule of contributions for SPLAS was agreed during 2017, with 29% of pensionable salaries due to be paid from 1 November 2017 to 31 October 2018 and 28% from 1 November 2018 to 18 December 2022. An additional shortfall contribution of £1.2m was paid on 30 April 2018 and four further payments of £0.5m are payable at the end of each April from 2019 through to 2022.

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 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Current service cost - employer	2.9	4.3	8.6
Past service cost	-	-	0.3
Curtailment gain recognised	-	-	(2.0)
Administrative expenses and taxes	2.0	3.0	5.3
Recognised in arriving at operating profit	4.9	7.3	12.2
Interest income on scheme assets - employer	(16.9)	(20.6)	(41.8)
Interest on franchise adjustment	-	(0.1)	(0.1)
Interest cost on scheme liabilities - employer	16.5	19.1	38.1
Finance income	(0.4)	(1.6)	(3.8)

Included within the SOCI	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Impact of SPLAS pension buy-in	-	(95.0)	-
Cost of exiting the SPLAS longevity swap	-	(7.5)	-
Actual return on scheme assets	(54.5)	1.1	(39.7)
Less: interest income on scheme assets	(17.0)	(20.7)	(41.8)
	(71.5)	(122.1)	(81.5)
Effect of changes in demographic assumptions	-	-	1.0
Effect of changes in financial assumptions	75.2	(19.2)	(31.6)
Effect of experience adjustments	(8.3)	10.5	5.6
Remeasurements	(4.6)	(130.8)	(106.5)
Change in franchise adjustment	(0.5)	0.1	(0.2)
Change in members' share	(0.4)	(0.1)	(0.4)
Actuarial losses on reimbursable rights	(0.9)	-	(0.6)
Total pension gain recognised in the SOCI	(5.5)	(130.8)	(107.1)

Balance sheet values

The total assets and liabilities of all schemes are:

Scheme assets at fair value	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Equities	58.8	53.5	56.2
Bonds except LDIs	25.0	23.2	23.7
LDIs	668.9	761.5	709.8
Gilts	0.2	-	0.2
Property	2.5	1.3	1.6
Cash and other	10.3	6.3	6.0
Annuity policies	524.9	572.2	587.5
Fair value of scheme assets	1,290.6	1,418.0	1,385.0
Present value of scheme liabilities	(1,275.6)	(1,423.7)	(1,364.7)
Net amount recognised	15.0	(5.7)	20.3
Franchise adjustment*	3.2	3.9	3.6
Members' share of deficit	2.1	2.6	2.4
Net retirement benefit asset	20.3	0.8	26.3
Net pension liability	(11.5)	(17.5)	(15.5)
Net pension asset	31.8	18.3	41.8
Net retirement benefit asset	20.3	0.8	26.3
Deferred tax liabilities	(1.5)	(0.2)	(2.5)
Net retirement benefit asset (after tax)	18.8	0.6	23.8

* 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 93% 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 2018 %	30 June 2017 %	31 December 2017 %
Rate of salary increases	2.6	2.7	2.7
Rate of increase in pensions in payment	2.30 (CPI) and 3.00 (RPI)	2.2 (CPI) and 3.2 (RPI)	2.3 (CPI) and 3. (RPI)
Rate of increase in deferred pensions	2.15 (CPI) and 3.10 (RPI)	2.2 (CPI) and 3.2 (RPI)	2.3 (CPI) and 3. (RPI)
Inflation assumption	2.10 (CPI) and 3.10 (RPI)	2.2 (CPI) and 3.2 (RPI)	2.2 (CPI) and 3.2 (RPI)
Discount rate	2.8	2.6	2.5

Post retirement mortality	30 June 2018 years	30 June 2017 years	31 December 2017 years
Current pensioners at 65 – male	22.6	22.5	22.5
Current pensioners at 65 – female	25.1	25.1	25.1
Future pensioners at 65 – male	24.4	24.3	24.3
Future pensioners at 65 – female	27.0	26.9	26.9

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 2018 where the 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 defined benefit obligation as at 30 June 2018 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 defined benefit obligation.

Pension assumption sensitivities	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Discount rate - 0.5% increase	(99.0)	(113.7)	(107.9)
Discount rate - 0.5% decrease	111.9	128.5	122.0
Inflation - 0.5% increase	77.6	89.6	83.4
Inflation - 0.5% decrease	(75.3)	(86.5)	(78.0)
Rate of salary increase - 0.5% increase	4.1	7.7	3.6
Rate of salary increase - 0.5% decrease	(3.9)	(7.4)	(3.5)
Mortality - one year age rating	37.5	42.7	41.6

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 2018 £m	Current outstanding at 30 June 2018 £m	Non current 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	-

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 2017 £m	Current outstanding at 30 June 2017 £m	Non current outstanding at 30 June 2017 £m
Sale of goods and services			
Joint ventures	0.2	-	-
Associates	3.4	0.7	-
Other			
Dividends received - joint ventures	3.9	-	-
Dividends received - associates	9.9	-	-
Receivable from consortium for tax - joint ventures	1.0	8.7	-
Total	18.4	9.4	-

	Transactions for the year ended 31 December 2017 £m	Current outstanding at 31 December 2017 £m	Non current outstanding at 31 December 2017 £m
Sale of goods and services			
Joint ventures	0.5	0.1	-
Associates	7.1	0.5	-
Other			
Dividends received - joint ventures	11.1	-	-
Dividends received - associates	17.1	-	-
Receivable from consortium for tax - joint ventures	2.4	5.3	-
Total	38.2	5.9	-

19. Notes to the Condensed Consolidated Cash Flow Statement

Six months ended 30 June	2018 Before exceptional items £m	2018 Exceptional items £m	2018 Total £m	2017 (restated*) Before exceptional items £m	2017 Exceptional items £m	2017 (restated*) Total £m
Operating profit for the period*	43.5	(11.6)	31.9	31.8	(11.4)	20.4
Adjustments for:						
Share of profits in joint ventures and associates	(15.0)	-	(15.0)	(14.6)	-	(14.6)
Share based payment expense	6.9	-	6.9	6.9	-	6.9
Exceptional impairment of intangible assets	-	-	-	-	2.8	2.8
Depreciation of property, plant and equipment*	10.7	-	10.7	11.3	-	11.3
Amortisation of intangible assets	11.5	-	11.5	13.4	-	13.4
Exceptional profit on disposal of subsidiaries and operations	-	-	-	-	(0.8)	(0.8)
Loss on disposal of property, plant and equipment	0.3	-	0.3	0.1	-	0.1
Loss on disposal of intangible assets	0.3	-	0.3	-	-	-
Non cash R&D expenditure offset against intangible assets	-	-	-	(0.4)	-	(0.4)
Decrease in provisions*	(42.9)	(11.0)	(53.9)	(40.3)	(0.6)	(40.9)
Other non cash movements	-	-	-	0.2	-	0.2
Total non cash items*	(28.2)	(11.0)	(39.2)	(23.4)	1.4	(22.0)
Operating cash inflow/(outflow) before movements in working capital*	15.3	(22.6)	(7.3)	8.4	(10.0)	(1.6)
(Increase)/decrease in inventories	(3.0)	-	(3.0)	5.6	-	5.6
Increase in receivables*	(60.1)	-	(60.1)	(24.3)	(1.4)	(25.7)
Decrease in payables*	36.0	(1.5)	34.5	1.7	(8.3)	(6.6)
Movements in working capital*	(27.1)	(1.5)	(28.6)	(17.0)	(9.7)	(26.7)
Cash generated by operations*	(11.8)	(24.1)	(35.9)	(8.6)	(19.7)	(28.3)
Tax paid	(4.8)	-	(4.8)	(7.9)	-	(7.9)
Non cash R&D expenditure	-	-	-	-	-	-
Net cash outflow from operating activities*	(16.6)	(24.1)	(40.7)	(16.5)	(19.7)	(36.2)

* While the impact of IFRS15 has had no impact on cash flows, the impact on the certain items in the Group's income statement and balance sheet have resulted in the restatement of the highlighted items above.

Year ended 31 December	2017 (restated*) Before exceptional items £m	2017 Exceptional items £m	2017 (restated*) Total £m
Operating profit for the year*	40.7	(19.6)	21.1
Adjustments for:			
Share of profits in joint ventures and associates*	(27.0)	-	(27.0)
Share based payment expense	11.4	-	11.4
Exceptional impairment of intangible assets	-	8.9	8.9
Reversal of impairment of property, plant and equipment	(0.1)	-	(0.1)
Depreciation of property, plant and equipment*	20.9	-	20.9
Amortisation of intangible assets	25.8	-	25.8
Exceptional profit on disposal of subsidiaries and operations	-	(0.3)	(0.3)
Loss on disposal of property, plant and equipment	(0.3)	-	(0.3)
Loss on disposal of intangible assets	0.3	-	0.3
Non cash R&D expenditure offset against intangible assets	(0.7)	-	(0.7)
Decrease in provisions*	(33.6)	(9.6)	(43.2)
Other non cash movements	0.1	-	0.1
Total non cash items*	(2.6)	(1.0)	(3.6)
Operating cash inflow/(outflow) before movements in working capital*	38.1	(20.6)	17.5
Decrease in inventories	3.7	-	3.7
Decrease in receivables*	8.5	4.5	13.0
Decrease in payables*	(26.5)	(16.4)	(42.9)
Movements in working capital*	(14.3)	(11.9)	(26.2)
Cash generated by operations*	23.8	(32.5)	(8.7)
Tax paid	(11.4)	-	(11.4)
Non cash R&D expenditure	(0.2)	-	(0.2)
Net cash inflow/(outflow) from operating activities*	12.2	(32.5)	(20.3)

* While the impact of IFRS15 has had no impact on cash flows, the impact on the certain items in the Group's income statement and balance sheet have resulted in the restatement of the highlighted items above.

20. Post balance sheet events

As explained in note 6, the Group was in the process of acquiring facilities management businesses which operate at six major NHS hospital sites: Great Western Hospital in Swindon; Darent Valley Hospital in Dartford; James Cook University Hospital in Middlesbrough; Harplands Hospital in Stoke-on-Trent; The Langlands Unit of Queen Elizabeth University Hospital in Glasgow; and Addenbrooke's Treatment Centre in Cambridge. The first business, Great Western Hospital in Swindon, was acquired in June 2018. The five remaining acquisitions took place subsequent to the period end and therefore the financial results and impact of these five contracts have not been recognised in these Condensed Consolidated Financial Statements. The total annual revenue of all six contracts is expected to be around £70m and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and other incremental overheads, will be approximately £4m, the aggregate consideration payable is approximately £18m, which includes finalised adjustments for potential liabilities and indemnities. As there will only be a part-year trading contribution in 2018, after the costs of the transition and integration phase that will be completed over the coming months, this will likely result in a small negative impact on Serco's net profitability for the 2018 financial year; this has been taken into account in our guidance as stated in the Chief Executive's review. The transactions will be immediately accretive to earnings following the completion of the integration phase.