2017 half year results

3 August 2017
Serco Group plc
LEI: 549300PT2CIHYN5GWJ21

Six months ended 30 June	2017[5]	2016[6]
Revenue – continuing and discontinued operations[1]	£1,508.2m	£1,517.9m
Reported Revenue (continuing operations only)[1]	£1,508.2m	£1,493.2m
Underlying Trading Profit (UTP)[2]	£35.3m	£50.6m
Reported Operating Profit/(Loss) (after exceptional items; continuing operations only)[2]	£21.7m	£64.8m
Underlying EPS, basic[3]	1.55p	3.30p
Reported EPS, basic (after exceptional items; continuing and discontinued operations)	(1.68p)	4.27p
Free Cash Flow[4]	(£26.8m)	(£22.5m)
Net Debt (including that for assets and liabilities held for sale)	£148.9m	£99.7m

- Reported Revenue[1] was broadly flat at £1,508m, comprising a 7.6% organic decline from net contract attrition, offset by an 8.2% currency benefit.
- Order intake increased substantially to £2.4bn (2016: £0.9bn), including our largest ever contract at £1.5bn for Grafton prison in Australia. Together with £1.6bn booked in the second half of 2016, order intake over last 12 months of £4bn is the largest since 2012 and represents a book-to-bill ratio of around 130%. Closing order book increased to £10.8bn, up by over £1bn year-on-year.
- As previously explained, H1 2017 profits and earnings have challenging comparators due to H1 2016 profits benefiting from:
  - £11m of non-recurring trading items within UTP[2], such as commercial arrangements negotiated as part of contract closure;
  - £21m of non-underlying items within Trading Profit[2] and Reported Operating Profit[2], predominantly Onerous Contract Provision releases;
  - In addition, Reported EPS reflects a £27m adverse year-on-year movement in non-cash deferred tax adjustments related to pension assets. The largest adjustment arose as a result of the purchase of a bulk annuity for Serco's main defined benefit scheme.
- As a result of these factors, UTP[2] declined against H1 2016 by £15m to £35m, but was slightly ahead of the £32m recorded for H2 2016; Reported Operating Profit[2] declined by £43m; Underlying EPS[3] declined 1.75p to 1.55p, and Reported EPS fell 5.95p to a loss of 1.68p.
- Free Cash Flow[4] of negative £27m includes £8m of unwind of our receivables financing facility; the utilisation is now £nil (2016: £30m). Cash outflow related to exceptional items was £20m.
- Closing Net Debt increased by £40m during the period to £149m. Of the £49m increase in Net Debt during the last twelve months, £30m relates to fully unwinding the receivables financing facility. Net Debt : EBITDA leverage of 1.4x remains well within our medium term target of 1-2x.
- Continued progress reducing burden of loss-making contracts: OCP utilisation of £40m (2016: £47m); closing balance sheet liability now £180m (30 June 2016: £239m).
- Operating costs reduced in proportion to the scale of underlying revenue reduction; we remain on track to achieve savings in our shared services and overheads of around £20m for the year, which would take the total savings achieved over the last three years to around £100m.
- Pipeline of larger new bid opportunities now at £7.9bn, down £0.5bn, with an encouraging £1.5bn of new opportunities being promoted into the pipeline to partially offset the exceptionally strong order intake.
- Guidance for 2017 unchanged – Revenue of £3.1bn and Underlying Trading Profit of between £65m and £70m; the movement in currency since our February statement may, if sustained, have a small negative effect.

Rupert Soames, Serco Group Chief Executive, said: "Notwithstanding the well-flagged decline in profits compared with the first half of 2016, trading in the first half of 2017 keeps us on track to achieve our expectations for the full year, and represents an improvement in Underlying Trading Profit on the second half of 2016.

"The most striking element is the order intake, which for two successive periods has been very strong, totalling some £4bn in the last twelve months, and we have succeeded in maintaining the pipeline at broadly similar levels despite strong order conversion. However, as we said in June, we remain sensibly cautious in the light of the political environment in several of our markets becoming markedly more unpredictable.

"We continue to make good progress implementing the 'Transformation' phase of our strategy, which includes further strengthening our service propositions, driving improvement in our capabilities, infrastructure and processes, as well as eking out further efficiencies from our cost base."

Stock Exchange Announcement

serco

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Presentation:
A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting 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)20 3427 1919 (USA: +1 646 254 3361) with participant pin code 4822723.

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. Revenue including that from discontinued operations (£nil in 2017 and £24.7m in 2016) is shown for consistency with previous disclosures. Reported Revenue excludes revenue from discontinued operations. Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of acquisitions or disposals. Change at constant currency is calculated by translating non-Sterling values for the six months ended 30 June 2017 into Sterling at the average exchange rate for the six months ended 30 June 2016.

(2) Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items; it includes the impact of discontinued operations in 2016. 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 and Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), as well as the beneficial treatment of depreciation and amortisation of assets held for sale during 2016, and other material one-time items such as the pension scheme settlement in the first half of 2016 related to the profit on early exit from a UK local authority contract that occurred in the second half of 2015. A reconciliation of Underlying Trading Profit to Reported Operating Profit is as follows:

Six months ended 30 June £m	**2017**	**2016**
Underlying Trading Profit	**35.3**	**50.6**
Include: non-underlying items		
Onerous contract and Balance Sheet Review adjustments	-	17.0
Benefit from non-depreciation and non-amortisation of assets held for sale	-	0.2
Other one-time items	-	3.5
Trading Profit	**35.3**	**71.3**
Amortisation and impairment of intangibles arising on acquisition	(2.2)	(2.0)
Operating Profit Before Exceptional Items (continuing and discontinued operations)	33.1	69.3
Exclude: Operating Loss/(Profit) Before Exceptional Items from discontinued operations	-	3.2
Reported Operating Profit Before Exceptional Items (continuing operations only)	33.1	72.5
Operating Exceptional Items (continuing operations only)	(11.4)	(7.7)
Reported Operating Profit (after exceptional items; continuing operations only)	**21.7**	**64.8**

(3) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects. For the six months ended 30 June 2016, the underlying tax charge has been restated so that the deferred tax adjustment related to pension asset movements is treated as non-underlying.

(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 Global Services division, representing private sector BPO operations, was classified as a discontinued operation in 2015 and 2016. Disposal of one of the two remaining elements of the offshore business was completed in March 2016 and the final element completed in December 2016. The residual UK onshore private sector BPO operations were sold or exited in 2016 with the exception of one business, consisting of a single contract, which completed in July 2017. Total revenues for the remaining operations were £5.3m and UTP was £0.1m for the six months ended 30 June 2017, and therefore the results have been included in continuing operations in 2017 on the grounds of materiality.

(6) Consistent with the restatement of the results for the year ended 31 December 2015, the results for the six months ended 30 June 2016 have been restated for a change in accounting policy related to foreign exchange movements on investment and financing arrangements. This provides more relevant information about the impact of underlying transactions and, within net debt, now takes account of the currency hedging in place. This is particularly relevant at a time when we have had significant currency volatility, and, helpfully, more closely aligns our reported net debt with our debt covenant definitions. This change in accounting policy has the following effects for the six months ended 30 June 2016: reduces Trading and Operating Profit measures by £0.4m, with an equal and opposite impact recognised within Net Finance Costs; reduces Free Cash Flow (FCF) by £24.0m, with an equal and opposite impact recognised below FCF; and reduces closing net debt at 30 June 2016 by £20.5m, to reflect the hedging effect of derivative financial instruments designed to mitigate the effect of foreign exchange movements on our net debt. Further detail on the restatement is included in the Finance Review on page 14.

Reconciliations and further detail of financial performance are included in the Finance Review on pages 13 to 31. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 34 to 64.

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 was £1,508m (2016: £1,493m); this measure excludes Serco's share of revenue from joint ventures and associates of £180m (2016: £294m); also excluded in the comparable period is revenue of £25m from discontinued operations, which reflected the residual run-off of the private sector BPO division. Net currency movements provided a £122m benefit or an 8.2% increase. At constant currency and adjusting for disposals, the organic revenue decline was £113m or 7.6%; around half of this organic decline relates to no longer recognising as revenue the value of goods purchased on behalf of customers following changes to two health procurement services contracts in the UK; the balance of the decline relates to the ending or transfer of contracts such as those for the UK Defence Science and Technology Laboratory (DSTL), Virginia Department of Transportation (VDOT), US Army transition assistance (SFLTAP) and Western Australia Court Security and Custodial Services (WACSCS). These and the effect of other smaller contract attrition was only partially offset by growth elsewhere including that from the phased start of new services during the period at Barts Health NHS Trust.

Underlying Trading Profit was £35.3m (2016: £50.6m), a decline of £15.3m or, excluding the £6.1m net currency benefit, a decline of £21.4m. The reduction was driven by the first half of last year benefitting from £11m of non-recurring trading items, which included: the higher shareholding and therefore a larger share of the profits in the prior period of the Atomic Weapons Establishment (AWE); the final settlement arrangements on the transfer of the Northern Rail franchise; the conclusion of the VDOT and SFLTAP operations; and the spike in activity in the comparable period on a defence logistics contract in the Middle East. In addition, as a consequence of the rapid growth of the bid pipeline, there has been an increase in bidding costs in the latest period.

Within our performance for the period, we are on track to deliver around £20m of cost savings this year from efficiencies in central support functions and overheads. Cumulatively over three years, this will mean approximately £100m of cost has been removed through our programmes to deliver savings by reducing the number of management layers, implementing better procurement and driving greater efficiency in the operation of shared services. These savings are central to our efforts to reduce the scale of Serco's cost base in proportion to the scale of the revenue reduction incurred through the loss of contracts and the disposals undertaken.

There being no adjustment items between Trading Profit and Underlying Trading Profit, the two measures were the same at £35.3m. In the comparable period there was a difference of £20.7m between the two measures comprising three items which were excluded from Underlying Trading Profit, none of which recurred in the latest period. First, in 2016 there was a £17.0m credit arising from the review of OCPs and other Contract and Balance Sheet Review items; no OCPs have required adjustment in the first half of 2017. Second, there was a £3.5m benefit in the first half of last year of a one-time pension settlement negotiated as part of the early termination of the Thurrock contract. Third, there was the beneficial impact of £0.2m related to depreciation and amortisation treatment of assets still classified as held for sale during the first half of last year. Trading Profit was therefore £71.3m for the first half of 2016.

As with the comparable period, Underlying Trading Profit benefited from the utilisation of OCPs, which have the effect of neutralising losses on previously identified onerous contracts; the £40m utilised in the period was in line with our expectations of around £80m utilisation for the year as a whole, and was lower than the £47m utilised in the comparable period. The closing balance of OCPs now stands at £180m, compared to £239m at 30 June 2016 and the initial charge of £447m taken in the second half of 2014.

Finance, pensions, tax and exceptional costs

Pre-exceptional net finance costs were £7.6m (2016: £6.7m), with the small increase including the effect of the average net debt increasing by £63m versus the comparable period. Cash net interest paid was £9.2m (2016: £10.5m).

Within net finance costs is a net credit of £1.6m (2016: £2.3m) related to the strong funding position of Serco's pension schemes. However, this net credit will be much smaller in the future following 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. Assets of the pension scheme have been transferred to the insurer to purchase the annuity, resulting in a reduction in the IAS19 net balance sheet asset. The gross liability remains recognised on our balance sheet, but there is now an equal and opposite insurance asset reflecting the perfect hedge established by the transaction.

The result after the transaction is that the overall pension scheme net balance sheet asset, before tax, was £1m at 30 June 2017 on a gross asset base of £1,418m. As described below, this transaction resulted in an exceptional tax charge of £16.1m reflecting a non-cash deferred tax adjustment related to the pension asset movements. Further details of Serco's pension funding and the bulk annuity purchase are described more fully in the Finance Review.

Pre-exceptional tax costs were £16.4m (2016: £3.8m). Cash net tax paid was £7.9m (2016: £6.6m).

The underlying effective tax cost was £10.7m (2016: £8.1m); this represents an underlying effective rate of 38.6% (2016: 18.5%) based upon £27.7m (2016: £43.9m) of Underlying Trading Profit less pre-exceptional net finance costs. The rate reflects the tax charges at locally prevailing rates in the international divisions (which tend to be higher than the UK's rate), while in the UK there was no deferred tax credit taken against losses made in the period; the resulting effective rate in the first half of 2017 is lower than the approximate 50% rate that we continue to anticipate for the financial year as a whole, mainly due to a one-off effect of UK tax legislation enactment which will take place in the second half and so can only be taken into account at that time.

Although we expect our cash tax rate to be reasonably predictable in future periods, our underlying effective tax rate is likely to be volatile until we are able to show sufficient profitability in our UK business to be able to recognise on our balance sheet the very significant UK tax asset arising from losses in 2014 and 2015 principally as a result of the Contract and Balance Sheet Review. We expect future years' effective tax rate will be high until UK tax losses can be recognised.

Tax on non-underlying items was a charge of £5.7m (2016: credit of £4.3m); this principally reflects non-cash deferred tax adjustments amounting to £6.3m (2016: credit of £4.4m) related to pension asset movements aside from the £16.1m resulting from the bulk annuity transaction which is treated as exceptional; in comparing the reported performance in the first half of 2017 versus the first half of 2016, the aggregate year-on-year impact of these non-cash deferred tax adjustments was therefore £26.8m.

The Group incurred operating exceptional costs of £11.4m (2016: £7.7m), mainly comprising restructuring costs related to the Transformation stage of our strategy, including redundancy charges, asset impairments and other incremental costs. There was an exceptional tax charge of £16.1m reflecting a non-cash deferred tax adjustment related to the pension asset movements on the bulk annuity purchase; exceptional tax on other items was a credit of £0.2m (2016: charge of £0.1m). Exceptional items related to discontinued operations were £nil (2016: £4.6m). Total net exceptional costs were therefore £27.3m (2016: £12.4m).

Reported result for the period

The reported result for the period, as presented at the bottom of the Group's Consolidated Income Statement on page 34, was a loss of £18.2m (2016: profit of £46.4m). This reflects: Trading Profit of £35.3m (2016: £71.3m); amortisation of intangibles arising on acquisition of £2.2m (2016: £2.0m); pre-exceptional net finance costs of £7.6m (2016: £6.7m); pre-exceptional tax costs of £16.4m (2016: £3.8m); and total net exceptional costs of £27.3m (2016: £12.4m).

Earnings Per Share (EPS)

Underlying EPS, which reflects the Underlying Trading Profit measure after deducting pre-exceptional finance costs and related tax effects, was 1.55p (2016: 3.30p). The reduction reflects the lower Underlying Trading Profit, together with the higher underlying effective tax rate; the weighted average number of shares in issue was broadly unchanged at 1,091.1m (2016: 1,088.8m). Reported EPS, which includes the impact of the £26.8m aggregate non-cash deferred tax adjustments related to pension assets, was a loss per share of 1.68p (2016: profit per share of 4.27p).

Cash Flow and Net Debt

Free Cash Flow was negative £26.8m (2016: negative £22.5m). Cash generated from Underlying Trading Profit was largely offset by the outflows related to loss-making contracts subject to Onerous Contract Provisions. These cash outflows lessened versus the comparable period, as reflected in the lower rate of OCP utilisation. There was a working capital outflow of £15m, which included £8m (2016: £nil) of reduction in the utilisation of the Group's receivables financing facility; at 30 June 2017 there was no utilisation of the £30m facility, whereas the full £30m was utilised at 30 June 2016. Of the £49m increase in Net Debt during the last twelve months, £30m of this outflow relates therefore to the unwinding of the receivables financing facility.

Closing net debt at 30 June 2016 increased to £148.9m, having been £109.3m at the start of the period; the increase includes the Free Cash outflow, together with a £20m cash outflow related to exceptional items. There was a beneficial gross currency translation effect on net debt of £9m, predominantly reflecting the Group's US Private Placement debt, however this was partially offset by a £2m adverse movement on hedging instruments. The closing net debt of £149m compares to a daily average of £178m for the period (2016: £115m) and a peak net debt of £243m (2016: £165m).

At the closing balance sheet date, our leverage for debt covenant purposes was 1.4x EBITDA (2016: 0.8x), 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 2017. 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 2017, we have been mindful of the fact that our forecasts for 2017 anticipate a reduction in earnings, 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.

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 £2.4bn during the period (2016: £0.9bn), which was an exceptionally strong performance. With £1.6bn booked in the second half of 2016, order intake for the 12 months to 30 June 2017 has been £4bn; this is the largest 12-month order intake for Serco since 2012, and represents a book-to-bill ratio of approximately 130%. There were 16 contract awards worth more than £10m each in the period. The large value of new business won resulted in this being approximately 80% of the total value signed, with the balance represented by the value of secured extensions or rebids of existing work; the latter was also an abnormally small balance by virtue of there being a relatively small amount of contracts coming up for rebid or extension during the period.

The largest new contract signed in the period was to operate the New Grafton Correctional Centre (NGCC) in New South Wales, which, when completed, will be the largest correctional facility in Australia; the estimated total contract value to Serco over a 20-year term is approximately AUD2.6bn (equivalent to approximately £1.5bn, based upon the period end exchange rate of 1 GBP = 1.69 AUD). The second largest new contract was with University Hospital Southampton NHS Foundation Trust to transform catering and cleaning, with an estimated value of £125m over the ten-year term. The third largest was in the Americas division to provide three Navy Fleet Readiness Centers with supply chain management services for hazardous materials, valued at a total of $101m for the base period and four one-year option periods. Smaller new bids won included environmental services for Rushmoor Borough Council, facilities management for Abu Dhabi Investment Authority, and numerous US Navy ship and shore defence equipment modernisation task orders.

Of rebids and extensions secured, the largest was for the US Patent & Trademark Office (USPTO) for a further ten years, with others including fleet services for Louisville Gas & Electric Company, air navigation services in Bahrain and Iraq, and support to passenger information services for the Western Australia Public Transport Authority.

Win rates by volume were over 50% for new bids and over 90% for rebids and extensions. Win rates by value saw significant improvement to around 80% for new work given the bias from the sheer scale of the Grafton win and no losses of large bids, and was approximately 90% for securing existing work.

Order book

The Group's order book, now stands at an estimated £10.8bn, up by over £1bn year-on-year. There is now £2.8bn of revenue already delivered or secured in the order book for 2017, equivalent to around 95% visibility of a £3.0bn revenue estimate at current exchange rates. The secured order book is £1.9bn for 2018 and £1.4bn for 2019.

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 £1.5bn in aggregate or around 50% of the Group's 2017 £3.0bn revenue estimate at current exchange rates. This proportion of revenue that requires securing at some point over the next three 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 by the end of 2017 have aggregate annual revenue of around £50m. In 2018, this increases to around £500m, with the greater amount driven in particular by the US Affordable Care Act contract becoming due for full rebid in that year, and with the next largest being Northern Isles Ferries. In 2019, it is around £700m, with Australian immigration services, the Dubai Metro, one of our US Navy installation contracts, COMPASS and PECS also all expected to become due for rebid or potential extension. In 2020, it is around £200m, with no particularly large contracts currently anticipated to become due in that year.

Pipeline
Our pipeline is defined as new bid opportunities 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 TCV of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities. It is therefore 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 'IDIQ' – Indefinite Delivery / Indefinite Quantity – which are essentially framework agreements under which the customer issues task orders one at a time; whilst the ultimate value of such an agreement contract may be very large and run over many years, a value is only recorded in our order book as individual task orders are contracted, and few of them would appear in the pipeline as they tend to be individually less than £10m and contracted on short lead times.

Following several years of decline in the value of the bid pipeline, in 2015 it began to grow again from its nadir of around £5bn, increasing to £6.5bn at the start of 2016, and stood at £8.4bn at the start of 2017. During the year to date, £2.0bn has come out of the pipeline, predominantly due to wins such as Grafton prison (which was capped in the pipeline at £1bn) and Southampton NHS Foundation Trust, and the removal of an immigration services opportunity in the US. A number of new opportunities have now matured to the stage where they meet our pipeline definition, adding in aggregate £1.5bn. As a result, the pipeline currently stands at £7.9bn, which consists of over 30 bids that have an ACV averaging approximately £30m and a contract length averaging around eight years. In the services industry which Serco serves, 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.

Currently, our pipeline has a number of large bids, and a high proportion of them are due to be decided in the next six months, giving an unusually high degree of "front loading". It is therefore unlikely that we will be able to immediately replace the approaching £5bn of bids that are likely to drop out of the pipeline over the next six months and its value will likely be noticeably lower at the end of 2017, and could continue to be so through 2018. Provided we win one or more of these current large opportunities, a lower pipeline is not a matter of undue concern: growing our pipeline should not be expected to be a smooth progression given the effects of the timing and scale of individual awards.

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

Risks associated with Serco's trading environment

We have previously reported on the risks and opportunities presented by Brexit. In terms of our business directly serving European bodies which accounts for around 5% of Serco's revenue, we think that the risks are likely to be small, since our services are typically delivered by EU-domiciled subsidiaries. There is also a possible impact on UK labour costs, and while only 4% of our employees in the UK are Continental EU nationals, there may be a wider impact on labour availability and cost. Third and most importantly, our business with the UK Central Government, which accounts for about a quarter of our revenue, depends on the administration's priorities. Brexit has been described by the Head of the Civil Service as the greatest peacetime challenge ever faced by the Civil Service, and it is clear that their priority is going to be focused in this direction for several years to come. However, in the medium term the repatriation of swathes of regulatory functions may lead to important opportunities, and many of our largest customers – most notably the Ministry of Defence, the Ministry of Justice and the Home Office – still have pressing needs to reduce costs and increase efficiency.

As we said in June, the political environment in three of our major markets has become markedly more unpredictable in recent months, which in turn makes it harder to forecast outcomes for our business. In the US, there is no clear determination of the future of the Affordable Care Act (ACA), and the shape of the budget for Federal Government spending remains unsettled; this is particularly important given the promised increases in Defence expenditure, which would be helpful to our North American business. In the UK, the recent General Election has left the administration weakened and less able to carry out a domestic reform agenda at the pace they might have hoped. And in the Middle East, the dispute between Qatar and neighbouring countries has unsettled the region.

Serco's long-term contracts and our role in providing critical public services should give us some protection from short-term vicissitudes. Importantly, our breadth of operations, and our strong presence in multiple international markets, helps to diversify our risk and give us choices as to where we invest our resources. As we have shown, even in a difficult environment, we have signed £4bn of business over the last 12 months. However, given the current geo-political uncertainties, we remain sensibly cautious.

Guidance and outlook

At the end of June we reiterated our 2017 full year guidance for Revenue of approximately £3.1bn and Underlying Trading Profit of between £65m and £70m, although the movement in currency since our previous statement in February may, if sustained, have a small negative effect. We do, however, repeat that the potential outcomes for the year remain wider than the stated profit range, both to the upside and the downside, due to the sensitivity of our profits to even small percentage changes in either revenues or costs, as well as movements in currency.

Our previous estimate of closing net debt of between £150m and £200m at the end of 2017 is similarly unchanged, and is equivalent to leverage for covenant purposes of between 1.4 and 1.8x EBITDA.

The trading outlook for 2018 remains unchanged from our statement in February, which was that we expect to see some modest improvement in margins. As described above, the pipeline remains very "front-loaded", with around 60% of the £7.9bn expected to be decided in the next six months. It is therefore likely that our pipeline in 2018 will run at lower levels than those seen in the first half of 2017.

Concluding thoughts

Our overarching objective is to secure Serco's position as a world-class international supplier of services to governments in our chosen sectors of Defence, Justice & Immigration, Transport, Health and Citizen Services. Our strategy has been based on the three stages of 'Stabilise - Transform - Grow'. The first stage was completed in 2015, and we are working hard to deliver our planned 'Transformation' phase. Our recent order intake has been very strong, totalling some £4bn in the last twelve months, thus returning the business back to a book-to-bill ratio of over 100% for the first time since 2012. While much still remains to be done to execute the long-term turnaround of Serco, we have established a good track record of delivery against our plans. The environment in several of our markets has become markedly more unpredictable in recent months, and this leads us to be sensibly cautious, but thus far we continue to track to our plan and make good progress against our strategy.

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

Divisional Reviews

Serco's operations are reported as five divisions: UK Central Government (CG); UK & Europe Local & Regional Government (LRG); the Asia Pacific region (AsPac); the Middle East; and the Americas. The Global Services division previously consisted of Serco's private sector BPO operations, which for statutory reporting purposes were classified in 2015 and 2016 as discontinued operations following the previously announced strategic exit from this market and the subsequent disposals. Serco presents alternative measures to include the Revenue and Trading Profit of these discontinued operations in prior periods for consistency with previous disclosures. 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 and Balance Sheet Review adjustments (principally OCP releases or charges), and the benefit in 2015 and 2016 from not depreciating and amortising assets held for sale and other one-time items such as those related to the early exit from the Thurrock contract.

Six months ended 30 June 2017 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Total**
Revenue	**323.3**	**334.8**	**307.4**	**174.2**	**368.5**	**-**	**1,508.2**
Change	*(7%)*	*(11%)*	*+8%*	*+13%*	*+12%*	-	*1%*
Change at constant currency	*(7%)*	*(13%)*	*(8%)*	*(1%)*	*(2%)*	-	*(7%)*
Organic change at constant currency	*(7%)*	*(15%)*	*(8%)*	*(1%)*	*(2%)*	-	*(8%)*
Underlying Trading Profit/(Loss)	**20.9**	**(4.9)**	**10.5**	**6.8**	**22.2**	**(20.2)**	**35.3**
Change	*(37%)*	*n/a*	*+38%*	*(30%)*	*+13%*	*+11%*	*(36%)*
Change at constant currency	*(37%)*	*n/a*	*+14%*	*(39%)*	*(2%)*	*+11%*	*(47%)*
Margin	*6.5%*	*(1.5%)*	*3.4%*	*3.9%*	*6.0%*	*n/a*	*2.3%*
Contract and Balance Sheet Review adjustments	-	-	-	-	-	-	-
Assets held for sale depreciation and amortisation	-	-	-	-	-	-	-
Other one-time items	-	-	-	-	-	-	-
Trading Profit/(Loss)	**20.9**	**(4.9)**	**10.5**	**6.8**	**22.2**	**(20.2)**	**35.3**
Amortisation of intangibles arising on acquisition	-	-	(0.7)	-	(1.5)	-	(2.2)
Operating profit/(loss) before exceptionals	**20.9**	**(4.9)**	**9.8**	**6.8**	**20.7**	**(20.2)**	**33.1**

Six months ended 30 June 2016 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**349.0**	**376.7**	**284.7**	**153.9**	**328.9**	**-**	**1,493.2**	**24.7**	**1,517.9**
Discontinued operations adjustment*	-	-	-	-	-	-	-	(24.7)	(24.7)
Revenue	**349.0**	**376.7**	**284.7**	**153.9**	**328.9**	**-**	**1,493.2**	**-**	**1,493.2**
Underlying Trading Profit/(Loss)	**33.4**	**2.7**	**7.6**	**9.7**	**19.6**	**(18.2)**	**54.8**	**(4.2)**	**50.6**
Margin	*9.6%*	*0.7%*	*2.7%*	*6.3%*	*6.0%*	*n/a*	*3.7%*	*(17.0%)*	*3.3%*
Contract and Balance Sheet Review adjustments	18.6	(1.1)	0.3	1.8	(2.8)	(0.7)	16.1	0.9	17.0
Assets held for sale depreciation and amortisation	-	-	-	-	-	-	-	0.2	0.2
Other one-time items	-	3.5	-	-	-	-	3.5	-	3.5
Trading Profit/(Loss)	**52.0**	**5.1**	**7.9**	**11.5**	**16.8**	**(18.9)**	**74.4**	**(3.1)**	**71.3**
Amortisation of intangibles arising on acquisition	-	-	(0.6)	-	(1.3)	-	(1.9)	(0.1)	(2.0)
Discontinued operations adjustment*	-	-	-	-	-	-	-	3.2	3.2
Operating profit/(loss) before exceptionals	**52.0**	**5.1**	**7.3**	**11.5**	**15.5**	**(18.9)**	**72.5**	**-**	**72.5**

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

Year ended 31 December 2016 £m	CG	LRG	AsPac	Middle East	Americas	Corporate costs	**Sub-total continuing**	Global Services	**Total**
Revenue including discontinued operations	**678.6**	**696.5**	**619.7**	**324.8**	**691.4**	**-**	**3,011.0**	**36.8**	**3,047.8**
Discontinued operations adjustment*	-	-	-	-	-	-	-	(36.8)	(36.8)
Revenue	**678.6**	**696.5**	**619.7**	**324.8**	**691.4**	**-**	**3,011.0**	**-**	**3,011.0**
Underlying Trading Profit/(Loss)	**52.2**	**(6.5)**	**24.9**	**16.6**	**43.0**	**(43.5)**	**86.7**	**(4.6)**	**82.1**
Margin	*7.7%*	*(0.9%)*	*4.0%*	*5.1%*	*6.2%*	*n/a*	*2.9%*	*(12.5%)*	*2.7%*
Contract and Balance Sheet Review adjustments	42.7	(7.4)	9.3	2.2	(36.6)	3.2	13.4	0.8	14.2
Assets held for sale depreciation and amortisation	-	-	-	-	-	-	-	0.5	0.5
Other one-time items	-	3.5	-	-	-	-	3.5	-	3.5
Trading Profit/(Loss)	**94.9**	**(10.4)**	**34.2**	**18.8**	**6.4**	**(40.3)**	**103.6**	**(3.3)**	**100.3**
Amortisation of intangibles arising on acquisition	(0.3)	-	(2.0)	-	(2.8)	-	(5.1)	-	(5.1)
Discontinued operations adjustment*	-	-	-	-	-	-	-	3.3	3.3
Operating profit/(loss) before exceptionals	**94.6**	**(10.4)**	**32.2**	**18.8**	**3.6**	**(40.3)**	**98.5**	**-**	**98.5**

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

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 13 to 31. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 34 to 64.

UK Central Government

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

Revenue for the first half of 2017 was £323.3m (2016: £349.0m), a decline of 7%; reported revenue excludes that from our joint venture and associate holdings at AWE, Merseyrail and previously Northern Rail, with these representing the vast majority of the Group's activity in joint ventures and associates. The principal driver of the revenue reduction was last year's phased transfer back of services that Serco had previously been providing to the Defence Science and Technology Laboratory (DSTL), together with the Defence Business Services arrangement which also ended in 2016. There was limited new growth to offset this attrition.

Underlying Trading Profit was £20.9m (2016: £33.4m), representing an implied margin of 6.5% (2016: 9.6%). Trading Profit includes the profit contribution (from which tax and interest have already been deducted) of joint ventures and associates; if the £157m proportional share of revenue from joint ventures and associates was also included and if the £3.2m share of interest and tax cost was excluded, the overall divisional margin would have been 5.0% (2016: 5.9%). The joint venture and associate profit contribution of £13.6m (2016: £17.1m) was £3.5m lower, reflecting the end of the Northern Rail franchise in March 2016 and the lower shareholding of AWE from the second half of last year. The reduction in Underlying Trading Profit included the impact of other contract attrition, some increase in bidding costs, as well as the lower contribution from joint ventures and associates. Within Underlying Trading Profit there was £22m of OCP utilisation (2016: £18m), which served to offset the Division's loss-making contracts principally COMPASS, FPMS, Caledonian Sleeper and PECS.

UK Central Government represented around £0.1bn of the Group's aggregate total value of signed contracts during the period, comprising a number of smaller rebids and extensions predominantly for various defence support services. There were no larger rebids or major new bid pipeline decisions in the period. However, we expect the next six months to be much busier in terms of bid determinations, with tenders for immigration escorting for the Home Office and the Defence Fire & Risk Management Organisation both likely to be decided by the end of 2017; other opportunities include programmes to provide various support services to the Ministry of Defence, prisoner escorting services in Scotland and the operation of an immigration removal centre. Over the longer term, we await greater clarity on public service reform by the UK Government to assess what further opportunities may arise in the Justice & Immigration, Transport and Defence sectors.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are 11 contracts with annual revenue of over £5m within the UK Central Government division; in aggregate, these represent approximately 40% of the current level of annual revenue for the division. The largest of these are the Northern Isles Ferries operations that would become due for potential extension or rebid in 2018, PECS which is assumed to be rebid in 2019 if further extension options are not exercised by the customer, and COMPASS also in 2019.

The comparison between the first half of 2016 and 2017 is particularly ugly in Central Government, as 2016 benefited from a number of advantageous commercial settlements. Looking forward, we expect that revenues and margins in the second half will stabilise on a comparative and sequential basis, reflecting the Division getting itself onto firmer ground.

UK & Europe Local & Regional Government

The UK & Europe Local & Regional Government division (LRG) includes our UK Health and UK and European Citizen Services sectors. The Health business provides primarily non-clinical support services to hospitals; the Citizen Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to Local Authorities, and IT services to European institutions.

Revenue for the first half of 2017 was £334.8m (2016: £376.7m), a decline of 11%. At constant currency, the organic decline was 15%. Over £50m of decline reflected no longer recognising as revenue the value of goods purchased on our customers' behalf following changes to two procurement services contracts in our Health business. We also saw reducing volumes in our Child Maintenance Group operations; and the ending or reduced scale of various other BPO and IT support services contracts. These revenue reductions were only partially offset from growth elsewhere, namely the start of hospital facility management services for Barts Health NHS Trust, as well as some growth in our European agency operations and from the new Skills Support for the Workforce (SSW) contracts.

There was an Underlying Trading Loss of £4.9m (2016: profit of £2.7m), representing a margin of -1.5% (2016: +0.7%). There was an impact from contract attrition as well as other in-contract reductions. Within Underlying Trading Profit there was £8m of OCP utilisation (2016: £13m), with the reduction principally reflecting lower losses on the Lincolnshire County Council operations as costs reduced from the levels seen in 2016 with the implementation of a new ERP system.

LRG represented around £0.2bn of the Group's aggregate total value of signed contracts during the period. The largest award was a new contract to transform catering and cleaning for University Hospital Southampton NHS Foundation Trust, with an estimated value of £125m over the ten-year term. Smaller awards included a new contract for environmental services to Rushmoor Borough Council, and several rebids and extensions for citizen services support to customers including Invest Northern Ireland, the Department of Health and the Skills Funding Agency. There were no other larger rebids or major new bid pipeline decisions made in the period.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are 17 contracts with annual revenue of over £5m within the LRG division; in aggregate, these represent approximately 30% of the current level of annual revenue for the division; this excludes Glasgow ACCESS which, as previously noted, is assumed to expire in March 2018. The largest of these are back office support services to Hertfordshire County Council and a European agency contract both potentially due in 2019, and for the Anglia Support Partnership healthcare shared services operations in 2020.

Our success in the last 12 months winning Barts and Southampton NHS Trusts, has left our pipeline of major new bid opportunities due for decision within the next 24 months largely denuded, though we expect to 'reload' with some further tenders for hospital facilities management and environmental services during the second half of the year. We continue to evaluate developments and the potential for further public service reform in the other sectors of operation within LRG, including other Citizen Services work and our European business providing various operational support to government agencies.

For 2017 as a whole, we expect the rate of revenue decline to significantly moderate as the effect of the health procurement contracts annualises and the growth contribution from the Barts and Southampton hospital facilities management contracts increases; we also expect the level of Underlying Trading Loss to improve and we are hopeful that the Division will be modestly profitable in the second half of the year.

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 20% of total Revenue for the Group.

Revenue for the first half of 2017 was £307.4m (2016: £284.7m), an increase of 8%. In Australian dollars, the main currency for operations of the division, revenue for the period was equivalent to approximately A$516m (2016: A$560m). The movements in local currencies against Sterling increased revenue by £45m or 16%; the organic change at constant currency was therefore a decline of 8%. This reduction was driven by the end of the Western Australia Court Security and Custodial Services (WACSCS), Armidale Class Patrol Boat (ACPB) and Mount Eden contracts, together with some smaller reductions from other contracts ending or reducing in scope, with little growth to offset this attrition.

Underlying Trading Profit was £10.5m (2016: £7.6m), representing a margin of 3.4% (2016: 2.7%). The improvement in profitability included a favourable currency movement of £1.8m, with the net of other movements reflecting attrition and other margin pressures offset by progress on cost efficiencies. Within Underlying Trading Profit there was £7m of OCP utilisation (2016: £8m).

AsPac represented around £1.7bn of the Group's aggregate total value of signed contracts during the period. By far the largest element of this was approximately £1.5bn for the 20-year contract valued at A$2.6bn for the operation of New Grafton Correctional Centre (NGCC) which is expected to commence in 2020; NGCC will be the largest correctional centre in Australia, consisting of a total of 1,700 beds in three individual security categories, and draws upon Serco's experience of managing correctional facilities in the UK, New Zealand and elsewhere in Australia, which includes Australia's current largest facility, Acacia Prison. Other extensions and rebids awarded in the period included passenger and integrated transport information services for transport authorities in Western Australia and New South Wales. There were no other larger rebids or major new bid pipeline decisions made in the period.

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 50% 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.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes some further (but far smaller than Grafton) Justice & Immigration opportunities, as well as others in Citizen Services, Defence and Transport support services, with potential opportunities in non-clinical health services also being explored.

For 2017 as a whole, we expect the rate of organic revenue decline to increase as there will be a greater effect from the end of the WACSCS, ACPB and Mount Eden contracts over the balance of the year, though these should not unduly impact progress on Underlying Trading Profit given ACPB and Mount Eden were onerous contracts.

Middle East

Operations in the Middle East division include Transport, Defence, Health and Citizen Services.

Revenue for the first half of 2017 was £174.2m (2016: £153.9m), an increase of 13%. The strengthening of local currencies against Sterling provided growth of £23m or 14%; the organic change at constant currency was therefore a decline of 1%. There was some growth from new contracts for facilities management at Dubai Airport and for Abu Dhabi Investment Authority, though these were offset by reductions related to the Dubai Air Navigation Services and the Staff College training for the Qatar Armed Forces contracts, as well as a small number of other operations reducing in scope or volume including the Middle East Logistics and Base Support (MELABS) contract that supports the Australian Defence Force in the region.

Underlying Trading Profit was £6.8m (2016: £9.7m), representing a margin of 3.9% (2016: 6.3%). While there was a £0.9m favourable currency movement, there was an overall reduction in profitability due in large part to the heavy costs of bidding three large rail opportunities simultaneously, as well as the non-repeat of the higher defence logistics volumes experienced in the comparable period, together with the impact of other contract scope reductions and attrition. There are no OCP contracts in the division and therefore no OCP utilisation within Underlying Trading Profit.

The Middle East represented around £0.1bn of the Group's aggregate total value of signed contracts during the period. Amongst smaller contract awards were wins to provide facilities management for Abu Dhabi Investment Authority and defence training support in Qatar, whilst extensions to existing work included air navigation services and training in Bahrain and in Iraq. There were no larger rebids or major new bid pipeline decisions due in the period.

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. There is a high proportion of work to secure in 2019, when the Dubai Metro, MELABS and Cleveland Clinic Abu Dhabi contracts each require extending or rebidding.

Our pipeline of major new bid opportunities due for decision within the next 24 months includes three major light rail and tram operations in the region; in aggregate, these represent approximately 30% of the value of the Group's pipeline. There are also other smaller opportunities in defence support services and in non-clinical health facilities management in the current pipeline.

For 2017 as a whole, the organic revenue profile is expected to improve modestly as the pressures from the small amount of attrition and scope changes ease in the second half and as there will also be an increased contribution from the smaller new wins secured in recent months. Profitability in the second half will however be shaped to a greater extent by the cost to progress, and the outcomes of, the major rail opportunities in the region.

Americas

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

Revenue for the first half of 2017 was £368.5m (2016: £328.9m), an increase of 12%. In US dollars, the main currency for operations of the division, revenue for the year was equivalent to approximately US$465m (2016: US$470m). The strengthening of local currencies against Sterling increased revenue by £47m or 14%; the organic change at constant currency was therefore a decline of 2%. The decline was driven by the end of the contracts for the Virginia Department of Transportation (VDOT) and for US Army transition assistance (SFLTAP). These and other smaller reductions were largely offset by growth from the start of the US Air Force High Altitude Electromagnetic Pulse (HEMP) Protection of Ballistic Missile Early Warnings Systems radar facility contract that started in the second half of last year and some increases elsewhere in the volume of workload or task orders.

Underlying Trading Profit was £22.2m (2016: £19.6m), representing a margin of 6.0% (2016: 6.0%). The increase includes a £2.9m favourable currency movement; the impact from the benefit in the first half of last year from the longer running of the VDOT and SFLTAP contracts was only partially offset by other growth and cost efficiencies. Within Underlying Trading Profit there was £3m (2016: £5m) of OCP utilisation, which reflects the offset of losses on the Ontario Driver Examination Services contract.

Americas represented around £0.3bn of the Group’s aggregate total value of signed contracts during the period. The largest new award was to provide supply chain management services for hazardous materials at three US Navy Fleet Readiness Centers, valued at a total of $101m for the base period and four one-year options. Smaller new awards included numerous US Navy ship and shore defence equipment modernisation task orders. Of rebids and extensions secured, the largest was for the US Patent & Trademark Office (USPTO) for a further ten years, albeit the new contract is for a reduced volume of work, with others secured including fleet services for Louisville Gas & Electric Company, parking meter management in San Francisco and support services for the US Government Accountability Office. There were no other larger rebids or major new pipeline decisions during the period.

Of existing work where an extension or rebid will be required at some point before the end of 2020, there are ten contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent around 50% of the current level of annual revenue for the division; this high proportion reflects that our contract supporting the US Affordable Care Act (ACA), which currently accounts for around 30% of divisional revenue, requires rebidding from 30 June 2018; the Global Installation Contract covering areas of our defence ship modernisation work also requires securing in 2019, 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 important opportunities to provide various support functions to the US Navy, one of which is due for adjudication before the end of this year and two others due in 2018. A further defence opportunity to support US Air Force radar systems has recently been added, as has a further tender for transport operational support. Opportunities for immigration services have been removed from our pipeline due to delays in tender processes.

For 2017 as a whole, the organic revenue profile is expected to improve modestly as the pressure from contract attrition eases in the second half and as there will also be an increased contribution from the new wins secured in recent months. Profitability in the second half will however be shaped to a greater extent by the cost to progress, and the outcomes of, the major new bid opportunities in the region, as well as the scale of operation of the ACA contract and its absorption of overhead costs. Our current view is that structural changes to the ACA will be implemented over a matter of years rather than months, and we expect the customer to launch in the near future a tender to provide services beyond the expiry of the current contract in June 2018.

Serco was pleased to announce in June that David J. Dacquino would become Chief Executive Officer of the Americas division, with Dan Allen having informed the business back in February of his intention to retire. Dave Dacquino joined Serco in 2015 to lead the Americas’ Defence business, bringing deep knowledge and experience from across the defence, aeronautics, logistics and technical services industries.

Corporate Costs

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

Corporate costs for the first half of 2017 were £20.2m (2016: £18.2m). The increase versus the first half of last year largely reflects the phasing of various costs, which is expected to reverse in the second half of the year, therefore still resulting in an overall lower cost in 2017 than 2016.

Finance Review

For the six months ended 30 June 2017	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Less discontinued pre exceptional* £m	Statutory pre exceptional £m	Continuing and discontinued exceptional items £m	Less discontinued exceptional items* £m	Statutory £m
Revenue	1,508.2	-	1,508.2	-	-	1,508.2	-	-	1,508.2
Cost of sales	(1,374.8)	-	(1,374.8)	-	-	(1,374.8)	-	-	(1,374.8)
Gross profit	133.4	-	133.4	-	-	133.4	-	-	133.4
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	35.3	-	35.3	(2.2)	-	33.1	(11.4)	-	21.7
Margin	*2.3%*		*2.3%*			*2.2%*			*1.4%*
Net finance costs	(7.6)	-	(7.6)	-	-	(7.6)	-	-	(7.6)
Profit before tax	27.7	-	27.7	(2.2)	-	25.5	(11.4)	-	14.1
Tax charge	(10.7)	(6.3)	(17.0)	0.6	-	(16.4)	(15.9)	-	(32.3)
Effective tax rate	*(38.6%)*		*(61.4%)*			*(64.3%)*			*(229.1%)*
Profit / (loss) for the period	17.0	(6.3)	10.7	(1.6)	-	9.1	(27.3)	-	(18.2)
Minority interest	0.1	-	0.1	-	-	0.1	-	-	0.1
Earnings / (loss) per share (pence)	*1.55*		*0.97*			*0.82*			*(1.68)*

* No amounts are recorded as discontinued operations for the six months ended 30 June 2017.

For the six months ended 30 June 2016 (restated* ** ***)	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Less discontinued pre exceptional £m	Statutory pre exceptional £m	Continuing and discontinued exceptional items £m	Less discontinued exceptional items £m	Statutory £m
Revenue	1,517.9	-	1,517.9	-	(24.7)	1,493.2	-	-	1,493.2
Cost of sales*	(1,378.2)	20.7	(1,357.5)	-	24.5	(1,333.0)	-	-	(1,333.0)
Gross profit*	139.7	20.7	160.4	-	(0.2)	160.2	-	-	160.2
Administrative expenses* **	(106.8)	-	(106.8)	(2.0)	3.4	(105.4)	(11.9)	4.2	(113.1)
Share of profits in joint ventures and associates, net of interest and tax	17.7	-	17.7	-	-	17.7	-	-	17.7
Profit before interest and tax**	50.6	20.7	71.3	(2.0)	3.2	72.5	(11.9)	4.2	64.8
Margin	*3.3%*		*4.7%*			*4.9%*			*4.3%*
Net finance costs**	(6.7)	-	(6.7)	-	-	(6.7)	(0.4)	0.4	(6.7)
Profit before tax	43.9	20.7	64.6	(2.0)	3.2	65.8	(12.3)	4.6	58.1
Tax (charge) / credit***	(8.1)	3.7	(4.4)	0.6	0.1	(3.7)	(0.1)	-	(3.8)
*Effective tax rate****	*18.5%*		*6.8%*			*5.6%*			*6.5%*
Profit for the period from continuing operations***	35.8	24.4	60.2	(1.4)	3.3	62.1	(12.4)	4.6	54.3
Loss for the period from discontinued operations	-	-	-	-	(3.3)	(3.3)	-	(4.6)	(7.9)
Profit for the period***	35.8	24.4	60.2	(1.4)	-	58.8	(12.4)	-	46.4
Minority interest	(0.1)	-	(0.1)	-	-	(0.1)	-	-	(0.1)
*Earnings per share (pence)****	*3.30*		*5.54*			*5.40*			*4.27*

* Costs included within costs of sales and general and administrative expenses have been reallocated, resulting in a restatement. See note 1 to the Consolidated Financial Statements.
** Administrative expenses and net finance costs have been restated following the change in accounting policy in H2 2016 regarding foreign exchange movements on investment and financing arrangements. See note 1 to the Consolidated Financial Statements.
***The underlying tax charge has been restated to reflect the deferred tax impact of the movements in the defined benefit pension scheme valuations, as explained in the tax section of this Finance Review. This has resulted in the restatement of the post tax underlying profit for the period, the underlying effective tax rate and Underlying EPS.

For the year ended 31 December 2016 (restated*)	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Less discontinued pre exceptional £m	Statutory pre exceptional £m	Continuing and discontinued exceptional items £m	Less discontinued exceptional items £m	Statutory £m
Revenue	3,047.8	-	3,047.8	-	(36.8)	3,011.0	-	-	3,011.0
Cost of sales*	(2,782.9)	18.2	(2,764.7)	-	40.1	(2,724.6)	-	-	(2,724.6)
Gross profit*	264.9	18.2	283.1	-	3.3	286.4	-	-	286.4
Administrative expenses*	(216.2)	-	(216.2)	(5.1)	-	(221.3)	(70.5)	14.2	(277.6)
Share of profits in joint ventures and associates, net of interest and tax	33.4	-	33.4	-	-	33.4	-	-	33.4
Profit before interest and tax	82.1	18.2	100.3	(5.1)	3.3	98.5	(70.5)	14.2	42.2
Margin	*2.7%*		*3.3%*			*3.3%*			*1.4%*
Net finance costs	(12.6)	-	(12.6)	-	-	(12.6)	(0.4)	0.4	(12.6)
Profit before tax	69.5	18.2	87.7	(5.1)	3.3	85.9	(70.9)	14.6	29.6
Tax charge	(24.4)	6.7	(17.7)	1.8	0.1	(15.8)	3.1	-	(12.7)
Effective tax rate	*35.2%*		*20.2%*			*18.4%*			*42.9%*
Profit for the year from continuing operations	45.1	24.9	70.0	3.3	3.4	70.1	(67.8)	14.6	16.9
Loss for the year from discontinued operations	-	-	-	-	(3.4)	(3.4)	-	(14.6)	(18.0)
Profit / (loss) for the year	45.1	24.9	70.0	3.3	-	66.7	(67.8)	-	(1.1)
Minority interest	0.1	-	0.1	-	-	0.1	-	-	0.1
Earnings / (loss) per share (pence)	*4.13*		*6.42*			*6.12*			*(0.11)*

* Costs included within costs of sales and general and administrative expenses have been reallocated, resulting in a restatement. See note 1 to the Consolidated Financial Statements.

Change in accounting policy for foreign exchange movements on investment and financing activities

In order to provide more relevant information about the impact of the underlying transactions of trading operations, the accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements was changed in the second half of 2016. These movements are excluded from Trading Profit and included instead within net finance costs. As a result of this change in accounting policy, the income statement and cash flow statement for the six months ended 30 June 2016 have been restated, together with the definition of Net Debt which now includes derivatives relating to Net Debt components. The impact of this change has been to increase Trading Profit in the six months ended 30 June 2017 by £0.1m (six months ended 30 June 2016: decrease by £0.4m), with an equal and opposite impact recognised within net finance costs, increase Free Cash Flow by £1.6m (six months ended 30 June 2016: decrease by £24.0m), with an equal and opposite impact recognised below Free Cash Flow, and decrease Net Debt by £13.1m (six months ended 30 June 2016: decrease by £20.5m).

Change in accounting policy regarding the classification of cost items within cost of sales and administrative expenses

The Group has undergone a programme of work on its financial data structures to appropriately allocate and charge costs to the relevant divisions and between cost of sales and administration expenses. As a result of the activities performed in this area, the Group's accounting policy for the classification of cost items in the income statement has changed. The prior periods' results have been restated to reflect the current year accounting policy, in addition to a reclassification for the full year results in 2016, where no reallocation of costs was made. The change in policy has no impact on operating profit, any other item below this on the income statement, or any of the Group's performance measures.

Cost of sales are considered to be the direct costs of operating ongoing contracts. This includes the unavoidable costs of servicing contracts and all costs that a contract would incur purely on its own without a parent company, regardless of how those services are delivered within the wider Group, such as IT or Human Resource management services provided centrally.

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. As a result, APMs allow investors and other readers to review different kinds of revenue, profits and costs and should not be used in isolation. Other commentary within this announcement, including the other sections of this Finance Review, as well as the Condensed Consolidated Financial Statements and their accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

The methodology applied to calculating the APMs has not changed during the period for any measure, but the APMs do reflect the impact of the prior period restatement.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 34, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous periods' results, reported revenue is recalculated by translating non-Sterling values for each of the six months to 30 June 2017 into Sterling at the average exchange rate for the six months ended 30 June 2016.

	Six months ended 30 June 2017 £m
Reported revenue at constant currency (continuing activities only)	1,385.7
Foreign exchange differences	122.5
Reported revenue at reported currency (continuing activities only)	1,508.2

Organic Revenue at constant currency

Reported revenue may include revenue generated by businesses acquired during a particular period and/or by businesses sold during a particular period up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals, Organic Revenue at constant currency is recalculated by excluding the impact of any acquisitions or disposals. For the six months ended 30 June 2017, the only adjustment required was for a UK private sector BPO business, consisting of a single contract, sold on 3 July 2017. This business was previously reported within discontinued operations but included as continuing in 2017 as it does not have a material impact on the Group's results, and is considered to be a disposal within these calculations due to the proximity to the period end of the transaction closing. No adjustments were required for the six months ended 30 June 2016 nor the year ended 31 December 2016 as no disposed businesses were included within continuing operations and no acquisitions generated third party revenues.

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

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Organic Revenue at constant currency	1,380.4	N/A
Foreign exchange differences	122.5	N/A
Organic Revenue at reported currency	1,502.9	1,493.2
Impact of any acquisitions or disposals or discontinued operations on reported revenue at reported currency	5.3	-
Reported revenue at reported currency (continuing activities only)	1,508.2	1,493.2

Revenue from continuing and discontinued operations

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 34, reflects only that from continuing operations, with the post tax result of discontinued operations consolidated as a single line at the bottom of the Condensed Consolidated Income Statement. The alternative measure includes discontinued operations for the benefit of consistency with previously reported results and to reflect the overall change in scale of the Group's operations. The alternative measure allows the performance of the discontinued operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post tax result. No operations were classified as discontinued in 2017 as there was a single remaining business as at 1 January 2017 which generated insignificant revenue and profit in the period. Discontinued operations in prior periods reflect the former Global Services division which consisted of our private sector BPO operations.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Revenue from continuing and discontinued operations	1,508.2	1,517.9	3,047.8
Exclude revenue from discontinued operations	-	(24.7)	(36.8)
Reported revenue (continuing activities only)	1,508.2	1,493.2	3,011.0

Revenue from continuing operations, including share of joint ventures and associates

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 34, 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 operating profit as a single line further down the Condensed Consolidated Income Statement. The alternative measure includes the share of revenues from 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 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Revenue from continuing operations, including share of joint ventures and associates	1,688.4	1,786.8	3,491.8
Exclude share of revenue from joint ventures and associates	(180.2)	(293.6)	(480.8)
Reported revenue (continuing activities only)	1,508.2	1,493.2	3,011.0

Alternative profit measures

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Underlying Trading Profit*	35.3	50.6	82.1
Non-underlying items:			
Include OCP charges and releases	-	13.4	9.6
Include other Contract and Balance Sheet Review adjustments	-	3.6	4.6
Include benefit from non-depreciation and amortisation of assets held for sale	-	0.2	0.5
Include other one-time items	-	3.5	3.5
	-	20.7	18.2
Trading Profit*	35.3	71.3	100.3
Include operating exceptional items (continuing operations only)	(11.4)	(7.7)	(56.3)
Include amortisation and impairment of intangibles arising on acquisition from continuing and discontinued operations	(2.2)	(2.0)	(5.1)
Exclude operating loss from discontinued operations	-	3.2	3.3
Operating profit (continuing activities only)*	21.7	64.8	42.2

* Profit measures down to operating profit have been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements, including them instead in net finance costs.

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 34, by making three adjustments. Trading Profit is a metric used to determine the performance and remuneration of the Executive Directors.

Firstly, Trading Profit excludes exceptional items, being those considered material, non-recurring and outside of the normal operating practice of the Company. These require separate presentation and detailed explanation.

Secondly, amortisation and impairment of intangible assets 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.

Thirdly, the Trading Profit of discontinued operations is included, since as with our alternative measure of revenue, this benefits from consistency with previously reported results, reflects the overall change in scale of the Group's operations and takes account of the performance of the discontinued operations themselves. This allows their impact on the Group as a whole to be evaluated on measures other than just the post tax result.

Underlying Trading Profit (UTP)

The Group uses a further alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur within Trading Profit and to remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current period. For 2016 and 2015 there were four items excluded from UTP, none of which required adjustment in the six months ended 30 June 2017.

Releases and charges on all Onerous Contract Provisions (OCPs) are excluded in the current and prior periods. OCP charges and releases reflect the future multiple year cost of delivering onerous contracts and do not reflect therefore just 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 £40.4m in the six months ended 2017 and £47.3m in the six months ended 30 June 2016) which neutralises the losses on previously identified onerous contracts, therefore it is only the initial or subsequent charges or releases of OCPs that are adjusted for.

In addition, revisions to accounting estimates and judgements which arose during the 2014 Contract and Balance Sheet Review were excluded in 2015 and 2016.

Both OCP adjustments and other Contract and Balance Sheet Review adjustments are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items. As expected, Contract and Balance Sheet Review adjustments were insignificant for the first six months of 2017, and will no longer be separately reported unless they are individually material.

The benefit of depreciation and amortisation charges not being taken in the Group accounts in relation to assets held for sale were excluded in prior periods. Such charges were being taken in the subsidiary accounts to reflect the reduction in value of the underlying assets, and we consider it relevant to show the effect this would have on the Group performance measure. No assets are included as held for sale in 2017 and therefore no adjustment is required for the six months ended 30 June 2017.

Finally, any other significant items that have a one-time financial impact are excluded, which for the periods under review are the benefit of a profit on early exit of a UK local authority contract in 2015 and the associated one-time pension settlement in 2016. These one-time items are distinct from exceptional items in that they have arisen from normal contract exit conditions. No such one-time items exist in the six months ended 30 June 2017.

Underling trading margin is calculated as UTP divided by revenue from continuing and discontinued operations.

The non-underlying column in the summary income statement on page 13 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.

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 each of the six months to 30 June 2017 into Sterling at the average exchange rate for the six months ended 30 June 2016.

	Six months ended 30 June 2017 £m
Underlying Trading Profit at constant currency	29.2
Foreign exchange differences	6.1
Underlying Trading Profit at reported currency	35.3

Alternative Earnings or Loss Per Share (EPS) measures

	Six months ended 30 June 2017 pence	Six months ended 30 June 2016 (restated*) pence	Year ended 31 December 2016 pence
Underlying EPS from continuing and discontinued operations, basic*	1.55	3.30	4.13
Impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition*	(0.73)	2.10	1.99
EPS from continuing and discontinued operations before exceptional items	0.82	5.40	6.12
Impact of exceptional items	(2.50)	(1.13)	(6.23)
Reported EPS from continuing and discontinued operations, basic	(1.68)	4.27	(0.11)

* As explained in the tax charge section of this Finance Review, the underlying tax charge for the six months ended 30 June 2016 has been restated to reflect the deferred tax impact of movements in the defined benefit pension scheme valuations, resulting in a restatement of Underlying EPS.

EPS from continuing and discontinued operations before exceptional items

EPS from continuing and discontinued operations, as shown on the Group's Condensed Consolidated Income Statement on page 34, includes exceptional items charged or credited to the income statement in the period. EPS before exceptional items aids consistency with historical results and is a metric used in assessing the performance and remuneration of the Executive Directors.

Underlying EPS from continuing and discontinued operations

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 from continuing and discontinued operations is provided in the summary income statements on page 13.

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 38, but adjusting this IFRS measure 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.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Free Cash Flow*	(26.8)	(22.5)	(33.0)
Exclude dividends from joint ventures and associates	(13.8)	(19.7)	(40.0)
Exclude net interest paid	9.2	10.2	18.7
Exclude capitalised finance costs paid	-	0.3	0.3
Exclude purchase of intangible and tangible assets net of proceeds from disposal	18.1	14.4	31.6
Cash flow from operating activities before exceptional items*	(13.3)	(17.3)	(22.4)
Exceptional operating cash flows	(19.7)	(32.1)	(39.9)
Cash flow from operating activities*	(33.0)	(49.4)	(62.3)

* Free Cash Flow has been restated following the change in accounting policy to exclude foreign exchange movements on investment and financing arrangements.

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 the 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 is currently an outflow, a conversion percentage of UTP is not shown.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Free Cash Flow*	(26.8)	(22.5)	(33.0)
Add back:			
Tax paid	7.9	6.6	5.6
Non-cash R&D expenditure	-	0.1	0.4
Net interest paid	9.2	10.2	18.7
Capitalised finance costs paid	-	0.3	0.3
Trading Cash Flow*	(9.7)	(5.3)	(8.0)
Underlying Trading Profit*	35.3	50.6	82.1
Underlying Trading Profit cash conversion*	N/A	N/A	N/A

* As explained above, FCF and UTP have been restated, resulting in a restatement of Trading Cash Flow and the Underlying Trading Profit cash conversion.

Net Debt including assets held for sale

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 37 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.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Cash and cash equivalents	117.7	166.2	177.8
Loans receivable	23.5	20.4	22.9
Loans payable	(281.7)	(273.5)	(299.9)
Obligations under finance leases	(21.5)	(35.7)	(28.2)
Derivatives relating to Net Debt*	13.1	20.5	18.1
Net Debt (excluding assets and liabilities held for sale)*	(148.9)	(102.1)	(109.3)
Net Debt balances within assets held for sale**	-	2.4	-
Net Debt (including that for assets and liabilities held for sale)*	(148.9)	(99.7)	(109.3)

* Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt.

** There were no assets or liabilities held for sale on the balance sheet as at 30 June 2017 or 31 December 2016.

Pre-tax Return on Invested Capital (ROIC)

ROIC is a measure used to assess the efficiency of the resources used by the Group and to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UTP and Trading Profit using the Income Statement for the twelve months to the closing balance sheet date and a two point average of the closing balance sheet and the balance sheet twelve months ago. The composition of Invested Capital and calculation of ROIC are summarised in the table below.

	30 June 2017 £m	30 June 2016 (restated*) £m	31 December 2016 £m
Non-current assets			
Goodwill	564.4	545.2	577.9
Other intangible assets	75.5	88.5	83.6
Property, plant and equipment	66.6	70.7	69.3
Interest in joint ventures and associates	16.0	12.6	14.4
Trade and other receivables	51.1	46.9	44.4
Current assets			
Inventory	16.6	27.6	22.4
Trade and other receivables	563.0	561.2	543.5
Assets classified as held for sale	-	19.7	-
Total invested capital assets	1,353.2	1,372.4	1,355.5
Current liabilities			
Trade and other payables	(512.4)	(550.5)	(524.5)
Liabilities classified as held for sale	-	(5.6)	-
Non-current liabilities			
Trade and other payables	(26.0)	(18.7)	(16.8)
Total invested capital liabilities	(538.4)	(574.8)	(541.3)
Invested capital	814.8	797.6	814.2
Two point average of opening and closing invested capital	806.2	897.9	768.7
Trading Profit for the prior twelve months*	64.3	147.3	100.3
ROIC%*	8.0%	16.4%	13.0%
Underlying Trading Profit for the prior twelve months*	66.8	100.8	82.1
Underlying ROIC%*	8.3%	11.2%	10.7%

* Profit measures have been restated following the change in accounting policy to include foreign exchange movements on investment and financing arrangements in net finance costs. As a result, Trading Profit, ROIC, UTP and Underlying ROIC have been restated.

Overview of financial performance for the six months ended 30 June 2017

Revenue

Reported revenue increased by 1% in the six month period to £1,508.2m (2016: £1,493.2m), a 7% reduction in constant currency.

No revenue arose in the six month period from operations classified as discontinued, with total revenues in the six month period ended 30 June 2016 from continuing and discontinued operations being £1,517.9m.

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 month period was £35.3m (2016 restated: £71.3m), a 50% reduction when compared with the same period in the prior year. Trading Profit in the six month ended 30 June 2016 included a loss arising on discontinued operations of £3.1m.

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 £35.3m (2016 restated: £50.6m), down 30%. At constant currency UTP was £21.4m lower than 2016 at £29.2m, with a movement of £4.2m relating to the results of discontinued operations in 2016.

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

Trading Profit and UTP were the same in the six months ended 30 June 2017, compared with £20.7m of profit included in Trading Profit and excluded from UTP in the same period in 2016. In 2017 there have been no charges or releases to OCPs, compared with net releases of £13.4m in the period same period in 2016. Excluded from UTP in 2016 were net releases of £3.6m relating to other provisions and accruals for items identified during the 2014 Contract and Balance Sheet Review. Such items are expected to reduce in scale as these provisions and accruals are utilised and we will only disclose any profit impact separately if any items are individually material. UTP also excluded the benefit arising from the non-depreciation of assets classified as held for sale in 2016 of £0.2m; there were no such assets in 2017. Other one-time items of £3.5m excluded from UTP in 2016 related to a pension scheme settlement arising from the early exit of a UK Local Authority contract in 2015; there were no adjustments necessary for one-time items in 2017.

The tax impact of items in UTP and other non underlying tax items are discussed in the tax section of this Finance Review.

Discontinued operations

The Global Services division, representing private sector BPO operations, was classified as a discontinued operation in 2015 and 2016. The most significant part of this business was disposed in 2015, and the disposal of one of the two remaining elements of the offshore business was completed in March 2016 and the final element completed in December 2016. The residual UK onshore private sector BPO operations were sold or exited in 2016 with the exception of one business for which the disposal completed in July 2017. Total revenues for the remaining operations were £5.3m and UTP was £0.1m for the six months ended 30 June 2017, and therefore the results have been included in continuing operations in 2017 on the grounds of immateriality.

The amounts reported as discontinued operations were as follows:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Revenue	-	24.7	36.8
Underlying Trading Loss	-	(4.2)	(4.6)
Onerous contract and Balance Sheet Review adjustments	-	0.9	0.8
Benefit from non-depreciation and non-amortisation of assets held for sale	-	0.2	0.5
Trading Loss	-	(3.1)	(3.3)
Amortisation and impairment of intangibles arising on acquisition	-	(0.1)	-
Operating loss before exceptional items	-	(3.2)	(3.3)
Exceptional loss on disposal of subsidiaries and operations	-	(0.3)	(2.8)
Other exceptional operating items	-	(3.9)	(11.4)
Exceptional operating items	-	(4.2)	(14.2)
Operating loss	-	(7.4)	(17.5)
Exceptional finance costs	-	(0.4)	(0.4)
Loss before tax	-	(7.8)	(17.9)
Tax charge	-	(0.1)	(0.1)
Net loss on discontinued operations (attributable to equity owners of the Company) as presented in the income statement	-	(7.9)	(18.0)

Joint ventures and associates – share of results for the six months ended 30 June 2017

In 2017 the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited and Merseyrail Services Holding Company Limited, with dividends received of £9.9m (2016: £12.2m) and £3.3m (2016: £7.2m) respectively. Total revenues generated by these businesses were £480.2m (2016: £508.9m) and £78.2m (2016: £75.6m) respectively. From September 2016 there was a change in the AWE Management Limited shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% by way of a return of shares.

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

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Revenue	180.2	293.6	480.8
Operating profit	17.8	21.4	40.7
Net investment finance costs	-	(0.3)	(0.6)
Income tax expense	(3.2)	(3.4)	(6.7)
Profit after tax	14.6	17.7	33.4
Dividends received from joint ventures and associates	13.8	19.7	40.0

Exceptional items for the six months ended 30 June 2017

Exceptional items are non-recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of 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.

Exceptional items arose on both the continuing and discontinued operations of the Group in 2016. Exceptional items arising on discontinued operations are disclosed on the face of the Condensed Consolidated Income Statement within the profit or loss attributable to discontinued operations. There were no discontinued operations in 2017.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Exceptional items arising on continuing operations			
Exceptional profit / (loss) on disposal of subsidiaries and operations	0.1	(0.9)	2.9
Other exceptional operating items on continuing operations			
Impairment of goodwill	-	-	(17.8)
Restructuring costs	(13.3)	(6.2)	(17.2)
Aborted transaction costs	-	0.3	(0.1)
Costs associated with UK Government review	(0.4)	(0.9)	(0.1)
Release of UK frontline clinical health contract provisions	-	-	0.6
Settlement of defined benefit pension obligations	-	-	(10.7)
Impairment of interest in joint venture and related loan balances	2.2	-	(13.9)
Other exceptional operating items	(11.5)	(6.8)	(59.2)
Exceptional operating items arising on continuing operations	(11.4)	(7.7)	(56.3)
Exceptional items arising on discontinued operations			
Exceptional loss on disposal of subsidiaries and operations	-	(0.3)	(2.8)
Other exceptional operating items on discontinued operations			
Restructuring costs	-	(0.4)	(1.1)
Movements in indemnities provided on business disposals	-	(7.8)	(13.7)
Movement in the fair value of assets transferred to held for sale	-	4.3	3.4
Other exceptional operating items	-	(3.9)	(11.4)
Exceptional operating items arising on discontinued operations	-	(4.2)	(14.2)
Exceptional operating items arising on continuing and discontinued operations	-	(11.9)	(70.5)
Exceptional finance costs – discontinued	-	(0.4)	(0.4)
Exceptional tax – continuing	(15.9)	(0.1)	3.1
Total operating and financing exceptional items in continuing and discontinued operations	(27.3)	(12.4)	(67.8)

Exceptional profit / (loss) on disposals of continuing operations

There were no material disposals of continuing operations in the six months ended 30 June 2017 or the six months ended 30 June 2016.

Other exceptional operating items arising on continuing operations

In the six months ended 30 June 2017, a charge of £13.3m (2016: £6.2m) arose in relation to the restructuring programme resulting from the Strategy Review, as discussed in the Chief Executive's Review in the Group's 2016 Annual Report and Accounts. This included redundancy charges, asset impairments and other incremental costs. Due to the nature and scale of the impact of the transformation stage of our Strategy Review, the incremental costs associated with this programme were considered to be exceptional in the prior year and have been treated consistently in 2017.

There were exceptional costs totalling £0.4m (2016: £0.9m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs were treated as exceptional when the matter first arose and consistent treatment is applied in 2017.

In the second half of 2016 the equity investment of a joint venture and the related loan balances with this business were impaired. In the six months ended 30 June 2017 a payment of £2.2m was received against the impaired loan.

Exceptional tax

Exceptional tax items resulted in a tax charge of £15.9m (2016: charge of £0.1m on continuing operations), including a £0.2m credit on exceptional items within operating profit and a £16.1m charge in respect of other exceptional tax items.

The other exceptional tax items relate to the tax impact of the pension buy-in disclosed in note 15 to the Consolidated Financial Statements, which led to a £95.0m reduction in the IFRS valuation of the Group's defined benefit pension schemes and consequently to a deferred tax charge to the income statement of £16.1m. Further detail of the impact of movements in the valuation of defined benefit pension schemes is discussed in the tax section of this Finance Review.

Pre exceptional finance costs and investment revenue for the six months ended 30 June 2017

Investment revenue of £3.6m (2016: £4.7m) includes interest accruing on net retirement benefit assets of £1.6m (2016: £2.3m), interest earned on deposits and other receivables of £1.4m (2016: £1.9m) and the movement in discounting of other receivables of £0.6m (2016: £0.5m).

Finance costs of £11.2m (2016 restated: £11.4m) includes loan interest incurred on the USPP loans of £7.2m (2016: £7.9m), facility fees and other charges of £1.4m (2016: £2.0m), interest payable on finance leases of £0.8m (2016: £1.0m), the movement in discount on provisions of £1.7m (2016: £0.9m) and a charge for foreign exchange on financing activities of £0.1m (2016: credit of £0.4m). The last of these items was previously included in operating profit for the six months ended 30 June 2016 and therefore represents a restatement on the previously reported results.

Tax charge for the six months ended 30 June 2017

	Six months ended 30 June 2017 £m		Six months ended 30 June 2016 (restated*) £m		Year ended 31 December 2016 £m	
	Profit before tax	Tax charge	Profit before tax	Tax charge	Profit before tax	Tax charge
Underlying profit before tax*	27.7	(10.7)	43.9	(8.1)	69.5	(24.4)
*Effective tax rate**		*38.6%*		*18.5%*		*35.2%*
Non underlying items	-	-	20.7	(0.7)	18.2	6.7
Impact of pension deferred tax movement on tax charge* **	-	(6.3)	-	4.4	-	-
Amortisation and impairment of intangibles arising on acquisition	(2.2)	0.6	(2.0)	0.6	(5.1)	1.8
Discontinued pre exceptional	-	-	3.2	0.1	3.3	0.1
Profit before tax, pre exceptional items	25.5	(16.4)	65.8	(3.7)	85.9	(15.8)
Effective tax rate		*64.3%*		*5.6%*		*18.4%*
Exceptional items**	(11.4)	(15.9)	(12.3)	(0.1)	(70.9)	3.1
Discontinued exceptional items	-	-	4.6	-	14.6	-
Statutory (continuing operations only)	14.1	(32.3)	58.1	(3.8)	29.6	(12.7)

* As explained in more detail below, the underlying tax charge for the six months ended 30 June 2016 has been restated to reflect the deferred tax impact of movements in the defined benefit pension scheme valuations.

** The total impact of pension deferred tax movements in the six months ended 30 June 2017 was a charge of £22.4m, £16.1m of which relates to the pension buy-in disclosed in note 15 to the Consolidated Financial Statements, which is included in the exceptional tax charge for the period.

The tax charge on an underlying basis, reflecting UTP of £35.3m (2016 restated: £50.6m) net of finance costs of £7.6m (2016: £6.7m), was £10.7m (2016 restated: £8.1m), representing an underlying effective tax rate of 38.6% (2016 restated: 18.5%). The increase in rate is primarily due to differences in the proportions of profits and losses made in the various geographic 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.

In the six months ended 30 June 2017, a total tax charge of £32.3m (2016: £3.9m) was recognised, being £32.3m (2016: £3.8m) on continuing operations profit of £14.1m (2016: £58.1m) and £nil (2016: £0.1m) on discontinued operations losses of £nil (2016: £7.8m).

In respect of the results of our continuing operations, the profit before interest, exceptional items and tax of £33.1m (2016: £72.5m) less pre-exceptional finance costs of £7.6m (2016 : £6.7m) is £25.5m (2016: £65.8m), which incurs a tax charge of £16.4m (2016: £3.7m), giving a tax rate of 64.3% (2016: 5.6%).

The principal reasons why the tax rate on profit before exceptional items and tax from continuing operations at 64.3% is higher than the UK standard corporation tax rate of 19.25% is due to the pension movement commented on below. In addition, higher rates of tax on profits arise on our international operations, and there is an absence of a deferred tax credit for losses incurred in the UK, because a deferred tax asset cannot be recognised against these losses until we can confidently forecast these losses being utilised against future profits (which includes the result of UK divisions and the majority of corporate costs). These factors are partially offset by the impact of our joint ventures whose post-tax results are included in our pre-tax profit.

Our tax charge continues 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 as we will not be able to recognise the associated tax benefits arising. 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.

Movements in the valuation of the Group’s defined benefit pension schemes and the associated deferred tax impact are reported in the Statement of Comprehensive Income (SOCI) and do not flow through the income statement, therefore do not impact profit before tax or the tax charge. However, the net amount of deferred tax recognised in the balance sheet relates to both the pension accounting and other timing differences, such as recoverable losses. As the net deferred tax balance sheet position is capped at the level supported by future profit forecasts, the decrease in the deferred tax liability associated with the pension changes (with the benefit reported in the SOCI) leads to a corresponding decrease in the deferred tax asset to match the future profit forecasts. Such a reduction in the deferred tax asset therefore leads to a charge to tax in the income statement. Where deferred tax charges or releases are the result of movements in the pension scheme valuations rather than trading activity, these are excluded from the calculation of tax on underlying profit in the six months ended 30 June 2017, and the underlying effective tax rate for the six months ended 30 June 2016 has been restated to be presented on a comparable basis. Although the net impact of the restatement is zero for the full year 2016 results, for the six months ended 30 June 2017, the total impact of such movements on the statutory tax charge was £22.4m, £16.1m of which arose as a result of the pension buy-in disclosed in note 15 to the Consolidated Financial Statements and has been treated as an exceptional tax item, and £6.3m relates to other pension movements and is treated as an adjustment to the underlying tax charge.

Deferred tax assets as at 30 June 2017

As at 30 June 2017 there is a net deferred tax asset of £20.0m, this consists of a deferred tax asset of £54.1m and deferred tax liability of £34.1m.

A £10.0m UK deferred tax asset has been recognised at 30 June 2017 (2016: £10.5m) on the basis of forecast utilisation against future taxable profits. An expected change in the UK loss utilisation laws in the second half of 2017 is estimated to reduce the value of this deferred tax asset by £3.7m; this will be reported in the second half of the year once the change in legislation has been passed.

Taxes paid in the six months ended 30 June 2017

Net corporate income tax of £7.9m was paid during the six months ended 30 June 2017, relating primarily to our operations in AsPac (£3.6m), Europe (£1.3m), Middle East (£0.9m) and Americas (£2.0m).

The amount of tax paid (£7.9m) differs from the tax charge in the period (£10.7m) 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 2017. 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 2017, we have been mindful of the fact that our forecasts for 2017 anticipate a reduction in earnings, 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.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,091.1m at 30 June 2017 compared to 1,088.8m at 30 June 2016. EPS before exceptional items from both continuing and discontinued operations was 0.82p per share (2016: 5.40p); including the impact of exceptional items EPS was a loss of 1.68p (2016: profit of 4.27p). Underlying EPS was 1.55p per share (2016 restated: 3.28p).

Cash flows

UTP of £35.3m for the six months ended 30 June 2017 (2016 restated: £50.6m) converts into a trading cash outflow of £9.7m (2016 restated: outflow of £5.3m). The negative conversion is primarily due to the cash outflows arising on the utilisation of contract provisions of £40.4m (2016: £44.8m).

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the six months ended 30 June 2017 was an outflow of £26.8m (2016 restated: £22.5m). Commentary on the FCF performance of the Group is provided in the Chief Executive's Review. It should be noted that during the half year 2017, within the working capital movement of £15.1m, we unwound £7.7m of the receivables financing facility, which has a zero balance at 30 June 2017.

The movement in Net Debt since 31 December 2016 is an increase of £39.6m in 2017, primarily relating to £26.8m of FCF outflow and £19.7m of exceptional items, together with foreign exchange gains on items included in Net Debt of £8.5m.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Operating profit on continuing operations*	21.7	64.8	42.2
Operating loss on discontinued operations	-	(7.4)	(17.5)
Remove exceptional items	11.4	11.9	70.5
Operating profit before exceptional items on continuing and discontinued	33.1	69.3	95.2
Less: profit from joint ventures and associates	(14.6)	(17.7)	(33.4)
Movement in provisions	(42.1)	(77.8)	(118.4)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	26.5	24.3	52.4
Other non-cash movements*	6.8	5.5	11.5
Operating cash inflow before movements in working capital, exceptional items and tax*	9.7	3.6	7.3
Working capital movements	(15.1)	(14.2)	(23.7)
Tax paid	(7.9)	(6.6)	(5.6)
Non-cash R&D expenditure	-	(0.1)	(0.4)
Cash flow from operating activities before exceptional items*	(13.3)	(17.3)	(22.4)
Dividends from joint ventures and associates	13.8	19.7	40.0
Interest received	0.3	0.9	1.4
Interest paid	(9.5)	(11.1)	(20.1)
Capitalised finance costs paid	-	(0.3)	(0.3)
Purchase of intangible and tangible assets net of proceeds from disposals	(18.1)	(14.4)	(31.6)
Free Cash Flow*	(26.8)	(22.5)	(33.0)
Net cash inflow on acquisition and disposal of subsidiaries	0.8	11.1	19.2
Purchase of own shares net of share option proceeds	-	0.1	-
Other movements on investment balances	-	0.2	0.7
Capitalisation and amortisation of loan costs	(0.4)	(0.2)	(0.7)
Unwind of discounting and capitalisation of interest on loans receivable	0.6	0.4	2.9
New, acquired and disposed finance leases	(1.0)	-	(0.5)
Exceptional items	(19.7)	(32.4)	(40.2)
Cash movements on hedging instruments*	(1.6)	24.0	47.0
Foreign exchange loss on Net Debt*	8.5	(17.5)	(41.8)
Movement in Net Debt including assets and liabilities held for sale*	(39.6)	(36.8)	(46.4)
Assets held for sale movement in Net Debt	-	2.3	4.7
Net Debt at 1 January*	(109.3)	(67.6)	(67.6)
Net Debt at end of period*	(148.9)	(102.1)	(109.3)
Net Debt at 1 January including assets and liabilities held for sale*	(109.3)	(62.9)	(62.9)
Net Debt at end of period including assets and liabilities held for sale*	(148.9)	(99.7)	(109.3)

* Operating profit, other non-cash movements, cash movements on hedging instruments, foreign exchange loss on Net Debt and Net Debt have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements and the change in definition of Net Debt to include derivative financial instruments that relate to other components of Net Debt. The sub totals including Free Cash Flow have changed as a result.

Net Debt

	Including assets and liabilities held for sale as at 30 June 2017 £m	Including assets and liabilities held for sale as at 30 June 2016 (restated*) £m	Including assets and liabilities held for sale as at 31 December 2016 £m
Cash and cash equivalents	117.7	168.9	177.8
Loans receivable	23.5	20.4	22.9
Other loans	(281.7)	(273.5)	(299.9)
Obligations under finance leases	(21.5)	(36.0)	(28.2)
Derivatives relating to Net Debt components*	13.1	20.5	18.1
Net Debt*	(148.9)	(99.7)	(109.3)

* As explained above, Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt.

Average Net Debt as calculated on a daily basis for the six months ended 30 June 2017 was £178.2m (2016 restated: £115.4m), compared with the opening and closing positions of £109.3m and £148.9m respectively. Peak Net Debt was £242.7m (2016 restated: £165.2m).

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, 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 2017, the Group had committed funding of £751m (31 December 2016: £770m), comprising £271m of private placement notes and a £480m revolving credit facility with a syndicate of banks which was undrawn. In addition, the Group had a receivables financing facility of £30.0m, which was fully utilised as at 30 June 2016 but was unutilised as at 30 June 2017 (31 December 2016: £7.7m utilised).

Following the further small disposal relating to the private sector BPO business, the Group was required to offer two thirds of the net disposal proceeds to the debt holders in prepayment. As a result of this process, £3.7m ($4.9m) of private placement notes were repaid at par on 29 June 2017.

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 policies require 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 2017, more than 100% of the Group's Net Debt was at fixed rates. Interest on the revolving credit facility is at floating rate, however it was undrawn.

Foreign exchange risk

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

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.

	Twelve months ended 30 June 2017 £m	Twelve months ended 30 June 2016 (restated*) £m	Year ended 31 December 2016 £m
Operating profit before exceptional items on continuing and discontinued operations*	59.0	143.3	95.2
Remove: Amortisation and impairment of intangibles arising on acquisition	5.3	4.0	5.1
Trading Profit*	64.3	147.3	100.3
Exclude: Share of joint venture post-tax profits	(30.3)	(40.8)	(33.4)
Include: Dividends from joint ventures	34.1	36.4	40.0
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non acquisition intangible assets	49.3	64.9	47.3
Add back: Foreign exchange on investing and financing arrangements*	0.7	(0.7)	1.2
Add back: Share based payment expense	11.7	10.6	9.7
Covenant EBITDA	129.8	217.7	165.1
Net finance costs on continuing and discontinued operations*	13.5	21.2	12.6
Exclude: Net interest receivable on retirement benefit obligations	4.0	4.7	4.7
Exclude: Movement in discount on other debtors	1.1	0.6	1.0
Exclude: Foreign exchange on investing and financing arrangements*	0.7	(0.7)	1.2
Add back: Movement in discount on provisions	(3.2)	(3.6)	(2.4)
Covenant net finance costs	16.1	22.2	17.1
Recourse net debt (including assets and liabilities held for sale)*	148.9	99.7	109.3
Less: Disposal vendor loan note, encumbered cash and other adjustments	27.5	36.0	28.5
Covenant adjustment for average FX rates	3.7	(20.1)	(23.0)
CTNB	180.1	115.6	114.8
CTNB / covenant EBITDA (not to exceed 3.5x)	1.4x	0.5x	0.7x
Covenant EBITDA / Covenant net finance costs (at least 3.0x)	8.1x	9.8x	9.7x

* As explained above, operating profit, Trading Profit and net finance costs have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. These adjustments have been reversed in order to maintain the definition of EBITDA and net finance costs per the covenant. CTNB is consistent with the new definition of Net Debt and is unaffected by the change in accounting policy.

Net assets summary

	30 June 2017 £m As reported*	30 June 2016 £m Including assets held for sale	30 June 2016 £m Adjustment for assets held for sale	30 June 2016 £m As reported	31 December 2016 £m As reported*
Non-current assets					
Goodwill	564.4	547.6	(2.4)	545.2	577.9
Other intangible assets	75.5	88.5	-	88.5	83.6
Property, plant and equipment	66.6	70.7	-	70.7	69.3
Other non-current assets	71.6	70.2	-	70.2	73.0
Deferred tax assets	54.1	42.5	-	42.5	50.8
Retirement benefit assets	18.3	153.9	-	153.9	150.4
	850.5	973.4	(2.4)	971.0	1,005.0
Current assets					
Inventories	16.6	27.6	-	27.6	22.4
Trade and other current assets	574.6	585.9	(9.9)	576.0	548.4
Current tax	14.1	12.9	(4.7)	8.2	11.0
Cash and cash equivalents	117.7	168.9	(2.7)	166.2	177.8
	723.0	795.3	(17.3)	778.0	759.6
Assets classified as held for sale	-	-	19.7	19.7	-
Total current assets	723.0	795.3	2.4	797.7	759.6
Total assets	1,573.5	1,768.7	-	1,768.7	1,764.6
Current liabilities					
Trade and other current liabilities	(515.4)	(557.9)	3.2	(554.7)	(525.1)
Current tax liabilities	(28.2)	(11.5)	0.1	(11.4)	(25.9)
Provisions	(156.4)	(153.9)	1.1	(152.8)	(172.3)
Obligations under finance leases	(9.6)	(15.6)	0.3	(15.3)	(12.3)
Loans	(33.1)	(9.7)	-	(9.7)	(9.7)
	(742.7)	(748.6)	4.7	(743.9)	(745.3)
Amounts classified as held for sale	-	-	(5.6)	(5.6)	-
Total current liabilities	(742.7)	(748.6)	(0.9)	(749.5)	(745.3)
Non-current liabilities					
Other non-current liabilities	(26.0)	(18.7)	-	(18.7)	(16.8)
Deferred tax liabilities	(34.1)	(28.6)	-	(28.6)	(30.5)
Provisions	(220.2)	(274.6)	0.9	(273.7)	(249.4)
Obligations under finance leases	(11.9)	(20.4)	-	(20.4)	(15.9)
Loans	(248.6)	(263.8)	-	(263.8)	(290.2)
Retirement benefit obligations	(17.5)	(13.6)	-	(13.6)	(17.7)
	(558.3)	(619.7)	0.9	(618.8)	(620.5)
Total liabilities	(1,301.0)	(1,368.3)	-	(1,368.3)	(1,365.8)
Net assets	272.5	400.4	-	400.4	398.8

* No amounts were included in held for sale as at 30 June 2017 or as at 31 December 2016.

The breakdown of the Group's net assets is summarised above, showing the impact of the assets and liabilities held for sale for each line item for 30 June 2016.

At 30 June 2017 the balance sheet had net assets of £272.5m, a movement of £126.3m from the closing net asset position of £398.8m as at 31 December 2016. The decrease in net assets is mainly due to the following movements:

- A decrease in the retirement benefit assets of Group funded defined benefit pension schemes of £131.9m. In June 2017, the Trustees of the Group's primary defined benefit pension scheme entered into a bulk annuity purchase whereby an insurer will fund future benefit payments to the relevant members. The liability to pay the members remains with the pension scheme, which therefore continues to include the relevant

pension liabilities, but an insurance asset is held which is an equal and opposite amount to the liability. This removes the risk of longevity and investment movements for this portion of the scheme on a funding basis, and also removes the accounting risk of movements in underlying assumptions on the liabilities. The transaction resulted in a significant reduction in the surplus of the pension scheme under IFRS accounting convention, but resulted in a reduction in the deficit that is actuarially assessed for funding purposes of approximately £12m.

- A decrease in provisions of £45.1m. Further details on the provision balance is provided below.
- Trade and other current assets and liabilities increased by £35.9m, and Net Debt increased by £39.6m. Further details of these movements are provided in the cash flow and Net Debt sections above.
- A decrease in goodwill by £13.5m caused by movements in foreign exchange rates.

Provisions

The total of current and non-current provisions has decreased by £45.1m since 31 December 2016. The movement is primarily due to a decrease in contract provisions of £39.9m as set out below:

	Onerous Contract Provisions £m
At 1 January 2017	(220.2)
Utilised during the period	40.4
Unwinding of discount	(1.7)
FX	1.2
At 30 June 2017	(180.3)

In the first half of the year we have analysed the performance of the contracts with OCPs to assess whether there have been any triggering events that would require the provisions to be re-calculated. Our assessment is that there have been no triggering events in the first half of the year. However, we are aware that there are a number of material milestones in the second half of the year, including negotiations with customers, closing out contracts that end in the period, the implementation of new technology and the impact on operating performance. The outcomes of these material milestones could result in the provisions being re-assessed. At this point in time, our assessment is that any potential risks and opportunities associated with these outcomes are balanced across our contract portfolio.

Angus Cockburn
Group Chief Financial Officer
3 August 2017

Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 16 to 23 of the 2016 Annual Report and Accounts and the key headline risks for the remainder of 2017 are restated below. This summary is not intended, and should not be used, as a substitute for reading the appropriate pages of the 2016 Annual Report and Accounts which include further commentary on the risks and the Group's management of them.

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

3 August 2017

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 2017 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 2017 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.

Stephen Wardell
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
3 August 2017

Financial Statements

Condensed consolidated income statement

Continuing operations	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (restated* **) (unaudited) £m	Year ended 31 December 2016 (restated* **) (audited) £m
Revenue	1,508.2	1,493.2	3,011.0
Cost of sales**	(1,374.8)	(1,333.0)	(2,724.6)
Gross profit**	133.4	160.2	286.4
Administrative expenses			
General and administrative expenses* **	(112.7)	(103.5)	(216.2)
Exceptional profit / (loss) on disposal of subsidiaries and operations	0.1	(0.9)	2.9
Other exceptional operating items	(11.5)	(6.8)	(59.2)
Other expenses – amortisation and impairment of intangibles arising on acquisition	(2.2)	(1.9)	(5.1)
Total administrative expenses* **	(126.3)	(113.1)	(277.6)
Share of profits in joint ventures and associates, net of interest and tax	14.6	17.7	33.4
Operating profit*	21.7	64.8	42.2
Operating profit before exceptional items*	33.1	72.5	98.5
Investment revenue	3.6	4.7	9.3
Finance costs*	(11.2)	(11.4)	(21.9)
Total net finance costs*	(7.6)	(6.7)	(12.6)
Profit before tax	14.1	58.1	29.6
Tax on profit before exceptional items	(16.4)	(3.7)	(15.8)
Exceptional tax	(15.9)	(0.1)	3.1
Tax charge	(32.3)	(3.8)	(12.7)
(Loss) / profit for the period from continuing operations	(18.2)	54.3	16.9
Loss for the period from discontinued operations	-	(7.9)	(18.0)
(Loss) / profit for the period	(18.2)	46.4	(1.1)
Attributable to:			
Equity owners of the Company	(18.3)	46.5	(1.2)
Non controlling interests	0.1	(0.1)	0.1
(Loss) / Earnings Per share (EPS)			
Basic EPS from continuing operations	(1.68p)	5.00p	1.55p
Diluted EPS from continuing operations	(1.68p)	4.82p	1.50p
Basic EPS from discontinued operations	-	(0.73p)	(1.66p)
Diluted EPS from discontinued operations	-	(0.70p)	(1.66p)
Basic EPS from continuing and discontinued operations	(1.68p)	4.27p	(0.11p)
Diluted EPS from continuing and discontinued operations	(1.68p)	4.12p	(0.11p)

* General and administrative expenses and net finance costs have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. See note 1.

** Costs included within costs of sales and general and administrative expenses have been reallocated, resulting in a restatement. See note 1.

Condensed consolidated statement of comprehensive income

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m	Year ended 31 December 2016 (audited) £m
(Loss) / profit for the period	(18.2)	46.4	(1.1)
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial (loss) / gain on defined benefit pension schemes*	(130.8)	21.7	9.0
Actuarial gain on reimbursable rights*	-	0.8	2.9
Tax relating to items not reclassified*	22.4	(4.4)	(1.7)
Share of other comprehensive income in joint ventures and associates	0.8	0.2	14.8
Items that may be reclassified subsequently to profit or loss:			
Net exchange (loss) / gain on translation of foreign operations**	(7.2)	44.0	80.3
Fair value (loss) / gain on cash flow hedges during the period**	(0.3)	4.2	2.3
Tax relating to items that may be reclassified**	0.1	(0.1)	-
Share of other comprehensive income in joint ventures and associates	-	0.6	1.0
Total other comprehensive (expense) / income for the period	(115.0)	67.0	108.6
Total comprehensive (loss) / income for the period	(133.2)	113.4	107.5
Attributable to:			
Equity owners of the Company	(133.2)	113.4	107.1
Non controlling interest	-	-	0.4

* Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

** Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non controlling interest £m
At 1 January 2016	22.0	327.9	0.1	68.5	(101.3)	80.9	(59.8)	(57.7)	280.6	1.5
Total comprehensive income for the period	-	-	-	47.3	18.1	-	-	48.0	113.4	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.3)	0.3	-	-	-
Expense in relation to share based payments	-	-	-	-	-	4.9	-	-	4.9	-
At 30 June 2016 (unaudited)	22.0	327.9	0.1	115.8	(83.2)	85.5	(59.5)	(9.7)	398.9	1.5
Total comprehensive income for the period	-	-	-	(32.7)	(7.9)	-	-	34.3	(6.3)	0.4
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(7.4)	7.4	-	-	-
Expense in relation to share based payments	-	-	-	-	-	4.8	-	-	4.8	-
Change in non controlling interest	-	-	-	-	-	-	-	-	-	(0.5)
At 31 December 2016 (audited)	22.0	327.9	0.1	83.1	(91.1)	82.9	(52.1)	24.6	397.4	1.4
Total comprehensive income for the period	-	-	-	(17.3)	(108.4)	-	-	(7.5)	(133.2)	-
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 (unaudited)	22.0	327.9	0.1	65.8	(199.5)	88.7	(51.0)	17.1	271.1	1.4

Condensed consolidated balance sheet

	At 30 June 2017 (unaudited) £m	At 30 June 2016 (unaudited) £m	At 31 December 2016 (audited) £m
Non-current assets			
Goodwill	564.4	545.2	577.9
Other intangible assets	75.5	88.5	83.6
Property, plant and equipment	66.6	70.7	69.3
Interests in joint ventures and associates	16.0	12.6	14.4
Trade and other receivables	51.1	46.9	44.4
Derivative financial instruments	4.5	10.7	14.2
Deferred tax assets	54.1	42.5	50.8
Retirement benefit assets	18.3	153.9	150.4
	850.5	971.0	1,005.0
Current assets			
Inventories	16.6	27.6	22.4
Trade and other receivables	563.0	561.2	543.5
Current tax assets	14.1	8.2	11.0
Cash and cash equivalents	117.7	166.2	177.8
Derivative financial instruments	11.6	14.8	4.9
	723.0	778.0	759.6
Assets classified as held for sale	-	19.7	-
	723.0	797.7	759.6
Total assets	1,573.5	1,768.7	1,764.6
Current liabilities			
Trade and other payables	(512.4)	(550.5)	(524.5)
Derivative financial instruments	(3.0)	(4.2)	(0.6)
Current tax liabilities	(28.2)	(11.4)	(25.9)
Provisions	(156.4)	(152.8)	(172.3)
Obligations under finance leases	(9.6)	(15.3)	(12.3)
Loans	(33.1)	(9.7)	(9.7)
	(742.7)	(743.9)	(745.3)
Liabilities directly associated with assets classified as held for sale	-	(5.6)	-
	(742.7)	(749.5)	(745.3)
Non-current liabilities			
Trade and other payables	(26.0)	(18.7)	(16.8)
Deferred tax liabilities	(34.1)	(28.6)	(30.5)
Provisions	(220.2)	(273.7)	(249.4)
Obligations under finance leases	(11.9)	(20.4)	(15.9)
Loans	(248.6)	(263.8)	(290.2)
Retirement benefit obligations	(17.5)	(13.6)	(17.7)
	(558.3)	(618.8)	(620.5)
Total liabilities	(1,301.0)	(1,368.3)	(1,365.8)
Net assets	272.5	400.4	398.8
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	65.8	115.8	83.1
Retirement benefit obligations reserve	(199.5)	(83.2)	(91.1)
Share based payment reserve	88.7	85.5	82.9
Own shares reserve	(51.0)	(59.5)	(52.1)
Hedging and translation reserve	17.1	(9.7)	24.6
Equity attributable to owners of the Company	271.1	398.9	397.4
Non-controlling interest	1.4	1.5	1.4
Total equity	272.5	400.4	398.8

Condensed consolidated cash flow statement

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (restated*) (unaudited) £m	Year ended 31 December 2016 (audited) £m
Net cash outflow from operating activities before exceptional items*	(13.3)	(17.3)	(22.4)
Exceptional items	(19.7)	(32.1)	(39.9)
Net cash outflow from operating activities*	(33.0)	(49.4)	(62.3)
Investing activities			
Interest received	0.3	0.9	1.4
Decrease in security deposits	-	-	(0.4)
Dividends received from joint ventures and associates	13.8	19.7	40.0
Proceeds from disposal of property, plant and equipment	0.3	0.1	0.6
Proceeds from disposal of intangible assets	0.1	0.1	0.1
Proceeds on disposal of subsidiaries and operations	0.8	11.2	19.4
Acquisition of subsidiaries, net of cash acquired	-	(0.1)	(0.2)
Purchase of other intangible assets	(8.3)	(6.8)	(15.1)
Purchase of property, plant and equipment	(10.2)	(7.8)	(17.2)
Net cash (outflow) / inflow from investing activities	(3.2)	17.3	28.6
Financing activities			
Interest paid	(9.5)	(10.7)	(20.1)
Exceptional finance costs paid	-	(0.3)	(0.3)
Capitalised finance costs paid	-	(0.3)	(0.3)
Repayment of loans	(3.8)	(135.8)	(135.5)
Decrease in loans to joint ventures and associates	-	0.2	1.1
Capital element of finance lease repayments	(7.6)	(8.6)	(17.0)
Cash (loss) / gains from hedging instruments*	(1.6)	24.0	47.0
Proceeds from issue of other share capital and exercise of share options	-	0.1	-
Net cash outflow from financing activities*	(22.5)	(131.4)	(125.1)
Net decrease in cash and cash equivalents	(58.7)	(163.5)	(158.8)
Cash and cash equivalents at beginning of period	177.8	323.6	323.6
Net exchange (loss) / gain	(1.4)	3.6	7.8
Cash reclassified to assets held for sale	-	2.5	5.2
Cash and cash equivalents at end of period	117.7	166.2	177.8

* Net cash outflow from operating activities and net cash (outflow) / inflow from financing activities have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. See note 1.

Notes to the Consolidated Financial Statements

1. General information, going concern and accounting policies

The basis of preparation in this preliminary announcement is set out below.

The information contained herein for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006 and did not draw attention to any matters by way of emphasis of matter.

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

In the six months ended 30 June 2017, there have been no significant changes to accounting under IFRS which have impacted the Group's consolidated financial statements. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements except for as noted below. 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 2016.

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.

IFRS15 *Revenue from contracts with customers*

IFRS15 has been endorsed by the EU and will be effective from 1 January 2018.

This new standard supersedes: IAS11 *Construction contracts*; IAS18 *Revenue*; IFRIC13 *Customer loyalty programmes*; IFRIC15 *Agreements for the construction of real estate*; IFRIC18 *Transfers of assets from customers*; and SIC-31 *Revenue – Barter transactions involving advertising services*.

The new standard is intended to bring greater transparency and comparability to financial reporting.

Some areas of accounting in the outsourcing sector could be significantly impacted by IFRS15. However, due to the composition of our contract base and the impact of our Contract and Balance Sheet Review in 2014 and our current accounting policies, the impact for Serco from the adoption of IFRS15 is not expected to fundamentally change the presentation of our income statement or the level of profit recognised in the periods disclosed. In addition, some of the Group's most complex contracts which could be impacted by IFRS15 have OCPs and therefore any adjustment to profits under IFRS15 does not impact the profitability of the Group since 2014. Contracts with OCPs by their very nature are reported at a break even position, such that any increase or decrease in profitability as a result of IFRS15 would impact only the initial OCP calculations determined in 2014, unless the adjustments are so significant to have turned a loss making contract into a profitable one. This level of adjustment is not expected for the Group's contracts.

IFRS15 could result in a delay of revenues and profits over those previously recognised, in particular with respect of percentage to completion accounting, which is not a significant area of accounting for the Group, or where elements of revenues associated with transition activities (also referred to as 'phase in') have been recognised in the early stages of contracts. Such transition payments, or payments made to compensate for expenditure on bid activity may be made by customers to match with a company's up-front investment, but under IFRS15 such cash flows are less likely to result in revenue being recognised than under historic accounting. IFRS15 is of more relevance to the Group in relation to the accounting for new contracts rather than those which were in place at the time of adoption of the new standard.

A project to assess the full impact of the new standard is well advanced and will be completed in the second half of the year and subject to audit by the Group's external auditors.

Under the transition rules IFRS15 will be 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 will not be restated;
- for contracts that have variable consideration and which have completed prior to 1 January 2018, the revenues recognised will reflect 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.

The cumulative effect of initially applying the standard will be shown as an adjustment to brought forward retained earnings as at 1 January 2017.

Prior period restatements

Change in accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements

In order to provide more relevant information about the impact of the underlying transactions of trading operations, the accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements was changed in the second half of 2016. The new policy is to include foreign exchange movements on investment and financing arrangements within investment revenue or finance costs as appropriate. Such transactions include foreign exchange movements on non Sterling cash and financing arrangements, related derivative financial instruments and any income or costs associated with such balances. As a result of this change in accounting policy, the prior period income statement and cash flow statement have been restated, together with the Net Debt definition which has been changed to include derivative financial instruments that relate to other components of Net Debt. No restatement was required to the balance sheet as a result of the change in policy.

The impact on the relevant line items in the consolidated financial statements and Net Debt for the six months ended 30 June 2016 is as follows:

Consolidated income statement	Six months ended 30 June 2016 as previously stated £m	Adjustment £m	Six months ended 30 June 2016 as restated £m
General and administrative expenses*	(109.4)	(0.4)	(109.8)
Finance costs	(11.8)	0.4	(11.4)

* General and administrative expenses are further restated by £6.3m to £103.5m as noted in the change in accounting policy regarding the classification of cost items within cost of sales and administrative expenses below.

Consolidated cash flow statement	Six months ended 30 June 2016 as previously stated £m	Adjustment £m	Six months ended 2016 30 June as restated £m
Net cash outflow from operating activities	(25.4)	(24.0)	(49.4)
Net cash outflow from financing activities	(155.4)	24.0	(131.4)

Analysis of Net Debt	At 30 June 2016 as previously stated £m	Adjustment £m	At 30 June 2016 as restated £m
Cash and cash equivalents	166.2	-	166.2
Loan receivables	20.4	-	20.4
Loans payable	(273.5)	-	(273.5)
Obligations under finance leases	(35.7)	-	(35.7)
Derivatives relating to Net Debt	-	20.5	20.5
	(122.6)	20.5	(102.1)

Change in accounting policy regarding the classification of cost items within cost of sales and administrative expenses

The Group has undergone a programme of work on its financial data structures to appropriately allocate and charge costs to the relevant divisions and between cost of sales and administration expenses. As a result of the activities performed in this area, the Group's accounting policy for the classification of cost items in the income statement has changed. The prior periods' results have been restated to reflect the current year accounting policy, in addition to a reclassification for the full year results in 2016, where no reallocation of costs was made.

Cost of sales are considered to be the direct costs of operating ongoing contracts. This includes the unavoidable costs of servicing contracts and all costs that a contract would incur purely on its own without a parent company, regardless of how those services are delivered within the wider Group, such as IT or Human Resource management services provided centrally.

The impact on the relevant line items in the consolidated income statement for the six months ended 30 June 2016 and the year ended 31 December 2016 is as follows:

Consolidated income statement	Six months ended 30 June 2016 as previously stated £m	Adjustment £m	Six months ended 30 June 2016 as restated £m
Cost of sales	(1,326.7)	(6.3)	(1,333.0)
Gross profit	166.5	(6.3)	160.2
General and administrative expenses*	(109.8)	6.3	(103.5)

* Restated from the reported actual of £109.4m as covered above in the change in accounting policy regarding the classification of foreign exchange movements on investment and financing arrangements above.

Consolidated income statement	Year ended 31 December 2016 as previously stated £m	Adjustment £m	Year ended 31 December 2016 as restated £m
Cost of sales	(2,767.6)	43.0	(2,724.6)
Gross profit	243.4	43.0	286.4
General and administrative expenses	(173.2)	(43.0)	(216.2)

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 2017, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures. The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts. 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. The Group's current principal debt facilities at the period end comprised a £480m revolving credit facility, and £271m of US private placement notes. As at 30 June 2017, the Group had £751m of committed credit facilities and committed headroom of £593m.

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 2018.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, 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.

Prior period restatement: Change in accounting policies
The accounting policy regarding the classification of foreign exchange movements in relation to investment and financing arrangements was changed in the second half of the prior year. The accounting policy regarding the classification of cost items within cost of sales and administrative expenses was changed in the six months ended 30 June 2017. Judgement was applied in reaching the conclusion that these changes provide more relevant financial information to the users of these financial statements.

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, non-recurring and outside of the normal operating practice of the Company to be suitable for separate presentation and explanation.

The segmental analysis of continuing operations in note 3 includes the additional performance measure of Trading Profit on continuing operations which is reconciled to operating profit in that note. The Group uses Trading Profit as an alternative measure to operating profit by making the following two adjustments. Firstly, Trading Profit excludes exceptional items, as described above. 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. The Chief Operating Decision Maker (CODM) reviews the segmental analysis for continuing operations together with discontinued operations.

Provisions for onerous contracts
Determining whether provisions are required for loss making contracts requires significant judgements to be made regarding the ability of the company to maintain or improve operational performance. Judgements can also be made regarding the outcome of matters dependent on the behaviour of the customer in question or other parties involved in delivering the contract.

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.

In the six months ended 30 June 2017, no revisions have been made to contract provisions.

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 individual provisions are discounted where the impact is assessed to be material. 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 0.17% and 3.30%.

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 six months ended 30 June 2017.

Deferred tax

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

Current tax

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

These liabilities can be built up over a long period of time but the ultimate resolution of tax exposures usually occurs at a point in time, and given the inherent uncertainties in assessing the outcomes of these exposures, these estimates are prone to change in future periods. It is not currently possible to estimate the timing of potential cash outflows, 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 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.

2. Discontinued operations

The Global Services division, representing private sector BPO operations, was classified as a discontinued operation in 2015 and 2016. The most significant part of this business was disposed in 2015, and the disposal of one of the two remaining elements of the offshore business was completed in March 2016 and the final element completed in December 2016. The residual UK onshore private sector BPO operations were sold or exited in 2016 with the exception of one business consisting of a single contract, where disposal was completed in July 2017. Total

revenues for the remaining operations were £5.3m and UTP was £0.1m for the six months ended 30 June 2017, and therefore the results have been included in continuing operations in 2017 due to their relative immateriality.

The results of the discontinued operations in prior periods were as follows:

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m	Year ended 31 December 2016 (audited) £m
Revenue	-	24.7	36.8
Expenses	-	(27.9)	(40.1)
Operating loss before exceptional items	-	(3.2)	(3.3)
Exceptional loss on disposal of subsidiaries and operations	-	(0.3)	(2.8)
Other exceptional operating items	-	(3.9)	(11.4)
Operating loss	-	(7.4)	(17.5)
Investment revenue	-	-	-
Finance costs	-	-	-
Exceptional finance costs	-	(0.4)	(0.4)
Loss before tax	-	(7.8)	(17.9)
Tax charge on loss before exceptional items	-	(0.1)	(0.1)
Tax credit on exceptional items	-	-	-
Net loss attributable to discontinued operations presented in the income statement	-	(7.9)	(18.0)
Attributable to:			
Equity owners of the Company	-	(7.9)	(18.1)
Non controlling interests	-	-	0.1

Included above were items classified as exceptional as they were considered to be material, non recurring and outside of the normal course of business. These were summarised as follows:

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m	Year ended 31 December 2016 (audited) £m
Exceptional items arising on discontinued operations			
Exceptional loss on disposal	-	(0.3)	(2.8)
Other exceptional operating items			
Restructuring costs	-	(0.4)	(1.1)
Movements in indemnities provided on business disposals	-	(7.8)	(13.7)
Movement in the fair value of assets transferred to held for sale	-	4.3	3.4
Other exceptional operating items	-	(3.9)	(11.4)
Exceptional operating items arising on discontinued operations	-	(4.2)	(14.2)

3. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2017 under IFRS 8 *Operating segments* are as set out below.

Reportable segments	Operating segments
UK Central Government	Services for sectors including Defence, Justice & Immigration and Transport delivered to the UK Government and devolved authorities;
UK & Europe Local & Regional Government	Services for sectors including Health and Citizen Services delivered to UK and European public sector customers;
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;
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; 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 financial statements. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Geographic information

	Six months ended 30 June 2017 (unaudited)		Six months ended 30 June 2016 (unaudited)		Year ended 31 December 2016 (audited)	
	Revenue £m	Non current assets* £m	Revenue £m	Non current assets* £m	Revenue £m	Non current assets* £m
United Kingdom	583.1	308.9	665.5	448.5	1,244.9	444.7
United States	335.3	286.4	300.3	283.2	632.9	309.1
Australia	296.0	155.2	271.6	139.2	593.1	146.0
Middle East	173.9	20.0	153.8	21.0	324.8	19.7
Other countries	119.9	21.5	102.0	18.5	215.3	20.4
	1,508.2	792.0	1,493.2	910.4	3,011.0	939.9

* Non current assets exclude financial instruments, deferred tax assets and loans to joint ventures and associates.

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 three major governmental customers which each represent more than 10% of Group revenues. The customers' revenues were £574.7m for the UK Government across the UK Central Government and UK & Europe Local & Regional Government segments, £304.6m for the US Government within the Americas segment, and £294.7m for the Australian Government within the AsPac and Middle East segments.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Six months ended 30 June 2017 (unaudited)	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	323.3	334.8	307.4	174.2	368.5	-	1,508.2
Result							
Trading profit / (loss) from continuing operations*	20.9	(4.9)	10.5	6.8	22.2	(20.2)	35.3
Amortisation and impairment of intangibles arising on acquisition	-	-	(0.7)	-	(1.5)	-	(2.2)
Operating profit / (loss) before exceptional items	20.9	(4.9)	9.8	6.8	20.7	(20.2)	33.1
Exceptional profit / (loss) 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)	21.0	(3.9)	9.1	6.8	20.7	(32.0)	21.7
Investment revenue							3.6
Finance costs							(11.2)
Loss before tax							14.1
Tax charge							(32.3)
Tax on exceptional items							-
Loss for the period from continuing operations							(18.2)

* 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.

Supplementary information	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Share of profits in joint ventures and associates, net of interest and tax	13.6	0.4	0.6	-	-	-	14.6
Depreciation of plant, property and equipment	(1.2)	(6.6)	(2.6)	(0.4)	(1.6)	(0.7)	(13.1)
Impairment of plant, property and equipment	-	-	-	-	-	-	-
Total depreciation and impairment of plant, property and equipment	(1.2)	(6.6)	(2.6)	(0.4)	(1.6)	(0.7)	(13.1)
Amortisation of intangible assets arising on acquisition	-	-	(0.7)	-	(1.5)	-	(2.2)
Amortisation of other intangible assets	(0.1)	(0.5)	(2.3)	(0.1)	(0.8)	(7.4)	(11.2)
Impairment and write down of other intangible assets	-	-	-	-	-	(2.8)	(2.8)
Total amortisation and impairment of intangible assets	(0.1)	(0.5)	(3.0)	(0.1)	(2.3)	(10.2)	(16.2)
Segment assets							
Interests in joint ventures and associates	13.5	-	2.1	0.4	-	-	16.0
Other segment assets***	162.1	313.2	249.1	113.8	417.2	100.0	1,355.4
Total segment assets	175.6	313.2	251.2	114.2	417.2	100.0	1,371.4
Unallocated assets							202.1
Consolidated total assets							1,573.5
Segment liabilities							
Segment liabilities***	(239.4)	(162.0)	(184.6)	(84.2)	(139.2)	(132.2)	(941.6)
Unallocated liabilities							(359.4)
Consolidated total liabilities							(1,301.0)

*** 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 2016 (restated*) (unaudited)	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	349.0	376.7	284.7	153.9	328.9	-	1,493.2
Result							
Trading profit / (loss) from continuing operations* **	52.0	5.1	7.9	11.5	16.8	(18.9)	74.4
Amortisation and impairment of intangibles arising on acquisition	-	-	(0.6)	-	(1.3)	-	(1.9)
Operating profit / (loss) before exceptional items*	52.0	5.1	7.3	11.5	15.5	(18.9)	72.5
Exceptional profit / (loss) on disposal of subsidiaries and operations	-	0.6	0.4	-	-	(1.9)	(0.9)
Other exceptional operating items***	-	(0.1)	-	(0.1)	-	(6.6)	(6.8)
Operating profit / (loss)*	52.0	5.6	7.7	11.4	15.5	(27.4)	64.8
Investment revenue							4.7
Finance costs*							(11.4)
Profit before tax							58.1
Tax charge							(3.7)
Tax on exceptional items							(0.1)
Profit for the period from continuing operations							54.3

* Administrative expenses included within Trading Profit and operating profit has been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements which has also resulted in a restatement of finance costs. See note 1.

** 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.

Supplementary information	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Share of profits in joint ventures and associates, net of interest and tax	17.0	0.3	0.4	-	-	-	17.7
Depreciation of plant, property and equipment	(1.0)	(6.5)	(1.9)	(0.4)	(1.5)	(0.6)	(11.9)
Impairment of plant, property and equipment	(0.1)	-	(0.2)	-	-	-	(0.3)
Total depreciation and impairment of plant, property and equipment	(1.1)	(6.5)	(2.1)	(0.4)	(1.5)	(0.6)	(12.2)
Amortisation of intangible assets arising on acquisition	-	-	(0.6)	-	(1.3)	-	(1.9)
Amortisation of other intangible assets	(0.1)	(0.2)	(0.8)	(0.3)	(0.7)	(7.6)	(9.7)
Impairment and write down of other intangible assets	-	-	-	-	-	-	-
Total amortisation and impairment of intangible assets	(0.1)	(0.2)	(1.4)	(0.3)	(2.0)	(7.6)	(11.6)
Segment assets							
Interests in joint ventures and associates	2.7	6.7	2.8	0.4	-	-	12.6
Other segment assets****	200.6	306.6	247.7	105.0	406.3	220.0	1,486.2
Total segment assets	203.3	313.3	250.5	105.4	406.3	220.0	1,498.8
Unallocated assets, including assets held for sale							269.9
Consolidated total assets							1,768.7
Segment liabilities							
Segment liabilities****	(315.4)	(165.7)	(199.0)	(81.3)	(109.6)	(138.3)	(1,009.3)
Unallocated liabilities, including liabilities held for sale							(359.0)
Consolidated total liabilities							(1,368.3)

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

Year ended 31 December 2016 (audited)	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Revenue	678.6	696.5	619.7	324.8	691.4	-	3,011.0
Result							
Trading profit / (loss) from continuing operations*	94.9	(10.4)	34.2	18.8	6.4	(40.3)	103.6
Amortisation and impairment of intangibles arising on acquisition	(0.3)	-	(2.0)	-	(2.8)	-	(5.1)
Operating profit / (loss) before exceptional items	94.6	(10.4)	32.2	18.8	3.6	(40.3)	98.5
Exceptional profit / (loss) on disposal of subsidiaries and operations	(0.1)	4.5	0.4	-	-	(1.9)	2.9
Other exceptional operating items**	(11.1)	(14.8)	(0.9)	-	-	(32.4)	(59.2)
Operating profit / (loss)	83.4	(20.7)	31.7	18.8	3.6	(74.6)	42.2
Investment revenue							9.3
Finance costs							(21.9)
Profit before tax							29.6
Tax charge							(15.8)
Tax on exceptional items							3.1
Profit for the year from continuing operations							16.9

* 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.

Supplementary information	CG £m	LRG £m	AsPac £m	Middle East £m	Americas £m	Corporate £m	Total £m
Share of profits in joint ventures and associates, net of interest and tax	31.3	-	2.0	-	-	0.1	33.4
Depreciation of plant, property and equipment	(2.1)	(12.9)	(4.5)	(0.9)	(3.1)	(1.3)	(24.8)
Impairment of plant, property and equipment	(0.3)	-	(0.4)	-	-	-	(0.7)
Total depreciation and impairment of plant, property and equipment	(2.4)	(12.9)	(4.9)	(0.9)	(3.1)	(1.3)	(25.5)
Amortisation of intangible assets arising on acquisition	(0.3)	-	(1.3)	-	(2.8)	-	(4.4)
Impairment and write down of intangible assets arising on acquisition	-	-	(0.7)	-	-	-	(0.7)
Amortisation of other intangible assets	(0.1)	(0.5)	(3.3)	(0.7)	(1.5)	(15.7)	(21.8)
Total amortisation and impairment of intangible assets	(0.4)	(0.5)	(5.3)	(0.7)	(4.3)	(15.7)	(26.9)
Segment assets							
Interests in joint ventures and associates	12.3	-	1.7	0.4	-	-	14.4
Other segment assets***	168.7	298.3	252.1	108.7	428.8	228.6	1,485.2
Total segment assets	181.0	298.3	253.8	109.1	428.8	228.6	1,499.6
Unallocated assets							265.0
Consolidated total assets							1,764.6
Segment liabilities							
Segment liabilities***	(279.1)	(163.8)	(182.8)	(79.3)	(140.7)	(139.7)	(985.4)
Unallocated liabilities							(380.4)
Consolidated total liabilities							(1,365.8)

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

4. 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 2017 and 30 June 2016. Dividends of £9.9m (2016: £12.2m), £3.3m (2016: £3.3m) and £0.5m (2016: £4.0m) respectively were received from these companies in the period. The NRHL franchise ended on 31 March 2016.

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

30 June 2017 (unaudited)

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 from continuing operations	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	62.8	17.4	80.2
Current liabilities	(139.9)	(35.6)	(7.7)	(55.4)	(14.8)	(70.2)
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

	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
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 joint ventures and associates multiplied by the respective proportion of Group ownership.

30 June 2016 (unaudited)

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	508.9	75.6	131.5	273.0	20.6	293.6
Operating profit	37.8	7.4	8.4	20.5	0.9	21.4
Net investment revenue / (finance costs)	0.2	(0.6)	-	(0.2)	(0.1)	(0.3)
Income tax charge	(3.3)	(1.7)	(2.5)	(3.2)	(0.2)	(3.4)
Profit from continuing operations	34.7	5.1	5.9	17.1	0.6	17.7
Other comprehensive income	-	-	1.2	0.6	0.2	0.8
Total comprehensive income	34.7	5.1	7.1	17.7	0.8	18.5
Non-current assets	464.5	13.3	-	161.3	12.0	173.3
Current assets	168.3	31.1	33.9	88.5	17.5	106.0
Current liabilities	(154.0)	(33.1)	(22.5)	(79.1)	(13.9)	(93.0)
Non-current liabilities	(462.0)	(33.8)	-	(170.7)	(3.0)	(173.7)
Net assets / (liabilities)	16.8	(22.5)	11.4	-	12.6	12.6
Proportion of Group ownership	33.3%	50.0%	50.0%	-	-	-
Carrying amount of investment	5.6	(11.3)	5.7	-	12.6	12.6

	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
Cash and cash equivalents	0.2	1.8	27.2	14.6	28.5	43.1
Current financial liabilities excluding trade and other payables and provisions	-	(0.2)	(1.2)	(0.7)	(3.4)	(4.1)
Non current financial liabilities excluding trade and other payables and provisions	-	(0.1)	-	-	(3.1)	(3.1)
Depreciation and amortisation	-	(1.0)	(1.7)	(1.4)	(0.6)	(2.0)
Interest income	0.2	(0.6)	-	(0.2)	0.4	0.2
Interest expense	-	-	-	-	(0.5)	(0.5)

* Total results of the joint ventures and associates multiplied by the respective proportion of Group ownership.

31 December 2016 (audited)

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	968.1	150.3	132.7	437.5	43.3	480.8
Operating profit	72.9	18.9	13.2	37.4	3.3	40.7
Net investment revenue / (finance costs)	0.2	(1.3)	0.1	(0.5)	(0.1)	(0.6)
Income tax (charge) / credit	(11.3)	(3.7)	(3.4)	(6.8)	0.1	(6.7)
Profit from continuing operations	61.8	13.9	9.9	30.1	3.3	33.4
Other comprehensive income	-	34.0	0.8	17.4	(1.6)	15.8
Total comprehensive income	61.8	47.9	10.7	47.5	1.7	49.2
Non-current assets	1,097.0	12.5	-	275.1	3.2	278.3
Current assets	149.3	32.8	14.2	60.1	16.0	76.1
Current liabilities	(133.9)	(31.9)	(10.7)	(54.2)	(14.0)	(68.2)
Non-current liabilities	(1,095.2)	(0.9)	-	(268.7)	(3.1)	(271.8)
Net assets	17.2	12.5	3.5	12.3	2.1	14.4
Proportion of group ownership	33.3% / 24.5%	50.0%	50.0%	-	-	-
Carrying amount of investment	4.2	6.3	1.8	12.3	2.1	14.4

	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
Cash and cash equivalents	72.4	21.1	14.5	35.4	4.7	40.1
Current financial liabilities excluding trade and other payables and provisions	(7.0)	(2.3)	(0.5)	(3.1)	(0.9)	(4.0)
Non current financial liabilities excluding trade and other payables and provisions	-	(0.6)	-	(0.3)	(3.0)	(3.3)
Depreciation and amortisation	-	(2.3)	(1.7)	(2.1)	(1.0)	(3.1)
Interest income	0.2	-	0.1	0.2	-	0.2
Interest expense	-	(1.3)	-	(0.6)	(0.1)	(0.7)

* Total results of the joint ventures and associates multiplied by the respective proportion of Group ownership.

5. Acquisitions

There were no acquisitions in the six months ended 30 June 2017.

6. Exceptional items

Exceptional items are non recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of 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 underlying performance of the Group.

Exceptional profit / (loss) on disposal of subsidiaries and operations

There were no material disposals of continuing operations in the six months ended 30 June 2017 or the six months ended 30 June 2016.

Other exceptional operating items arising on continuing operations

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m	Year ended 31 December 2016 (audited) £m
Impairment of goodwill	-	-	(17.8)
Restructuring costs	(13.3)	(6.2)	(17.2)
Costs associated with UK Government review	(0.4)	(0.9)	(0.1)
Aborted transaction costs	-	0.3	(0.1)
Release of UK frontline clinical health contract provisions	-	-	0.6
Settlement of defined benefit pension obligations	-	-	(10.7)
Impairment of interest in joint venture and related loan balances	2.2	-	(13.9)
Other exceptional operating items	(11.5)	(6.8)	(59.2)

In the six months ended 30 June 2017, a charge of £13.3m (2016: £6.2m) arose in relation to the restructuring programme resulting from the Strategy Review, as discussed in the Chief Executive's Review in the Group's 2016 Annual Report and Accounts. This included redundancy charges, asset impairments and other incremental costs. Due to the nature and scale of the impact of the transformation stage of our Strategy Review, the incremental costs associated with this programme were considered to be exceptional in the prior year and have been treated consistently in 2017.

There were exceptional costs totalling £0.4m (2016: £0.9m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs were treated as exceptional when the matter first arose and consistent treatment is applied in the 2017.

In the second half of 2016 the equity investment of a joint venture and the related loan balances with this business were impaired. In the six months ended 30 June 2017 a payment of £2.2m was received against the impaired loan.

Exceptional tax items in the six months ended 30 June 2017 resulted in a tax charge of £15.9m (2016: charge of £0.1m on continuing operations), including a £0.2m credit on exceptional items within operating profit and a £16.1m charge in respect of other exceptional tax items. The other exceptional tax item relates to the tax impact of the pension buy-in disclosed in note 15, which led to a £95.0m movement in the valuation of the Group's defined benefit pension schemes and consequently to a deferred tax charge to the income statement of £16.1m. Further detail of the reason for the impact of movements in the valuation of defined benefit pension schemes is discussed in the tax section of this Finance Review.

7. Investment revenue

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m	Year ended 31 December 2016 (audited) £m
Interest receivable on other loans and deposits	1.4	1.9	3.6
Net interest receivable on retirement benefit obligations	1.6	2.3	4.7
Movement in discount on other debtors	0.6	0.5	1.0
	3.6	4.7	9.3

8. Finance costs

	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (restated*) (unaudited) £m	Year ended 31 December 2016 (audited) £m
Interest payable on obligations under finance leases	0.8	1.0	1.6
Interest payable on other loans	7.2	7.9	15.6
Facility fees and other charges	1.4	2.0	3.5
Movement in discount on provisions	1.7	0.9	2.4
	11.1	11.8	23.1
Foreign exchange on financing activities*	0.1	(0.4)	(1.2)
	11.2	11.4	21.9

* Finance costs have been restated as a result of the change in treatment of foreign exchange items on investing and financing items as explained in note 1.

9. Tax

In the six months ended 30 June 2017, a total tax charge of £32.3m (2016: £3.9m) was recognised, being £32.3m (2016: £3.8m) on continuing operations profit of £14.1m (2016: £58.1m) and £nil (2016: £0.1m) on discontinued operations losses of £nil (2016: £7.8m).

In respect of the results of our continuing operations, the profit before interest, exceptional items and tax of £33.1m (2016: £72.5m) less pre-exceptional finance costs of £7.6m (2016 : £7.1m) is £25.5m (2016: £65.8m), which incurs a tax charge of £16.4m (2016: £3.7m), giving a tax rate of 64.3% (2016: 5.6%).

The principal reasons why the tax rate on profit before exceptional items and tax from continuing operations at 64.3% is higher than the UK standard corporation tax rate of 19.25% is due to the pension movement commented on below. In addition, higher rates of tax on profits arise on our international operations, and there is an absence of a deferred tax credit for losses incurred in the UK, because a deferred tax asset cannot be recognised against these losses until we can confidently forecast these losses being utilised against future profits (which includes the result of UK divisions and the majority of corporate costs). These factors are partially offset by the impact of our joint ventures whose post-tax results are included in our pre-tax profit.

Our tax charge continues 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 as we will not be able to recognise the associated tax benefits arising. 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.

Movements in the valuation of the Group's defined benefit pension schemes and the associated deferred tax impact are reported in the Consolidated Statement of Comprehensive Income (SOCI) and do not flow through the income statement, and therefore do not impact profit before tax or the tax charge. However, the net amount of deferred tax recognised in the balance sheet relates to both the pension accounting and other timing differences, such as recoverable losses. As the net deferred tax balance sheet position is capped at the level supported by future profit forecasts, the decrease in the deferred tax liability associated with the pension changes (with the benefit reported in the SOCI) leads to a corresponding decrease in the deferred tax asset to match the future profit forecasts. Such a reduction in the deferred tax asset therefore leads to a charge to tax in the income statement. For the six months ended 30 June 2017, the total impact of such movements on the statutory tax charge was £22.4m, £16.1m of which arose as a result of the pension buy-in disclosed in note 15. As this £16.1m adjustment is the consequence of a material one off transaction in the period, it is therefore considered to be exceptional.

As at 30 June 2017 there is a net deferred tax asset of £20.0m, this consists of a deferred tax asset of £54.1m and deferred tax liability of £34.1m.

A £10.0m UK deferred tax asset has been recognised at 30 June 2017 (2016: £10.5m) on the basis of forecast utilisation against future taxable profits. An expected change in the UK loss utilisation laws in the second half of 2017 is estimated to reduce the value of this deferred tax asset by £3.7m during the second half of the year.

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10. Earnings per share

Basic and diluted EPS has 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 2017 (unaudited) millions	Six months ended 30 June 2016 (unaudited) millions	Year ended 31 December 2016 (audited) millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,091.1	1,088.8	1,088.3
Effect of dilutive potential ordinary shares: Share options	-	40.2	37.3
Weighted average number of ordinary shares for the purpose of diluted EPS	1,091.1	1,129.0	1,125.6

At 30 June 2017, options over 214,632 (30 June 2016: 310,493) 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.

The impact of dilutive shares has only been applied where a profit has been made.

Earnings per share continuing and discontinued

Basic EPS	Earnings 30 June 2017 (unaudited) £m	Per share amount 30 June 2017 (unaudited) pence	Earnings 30 June 2016 (unaudited) £m	Per share amount 30 June 2016 (unaudited) pence	Earnings 31 December 2016 (audited) £m	Per share amount 31 December 2016 (audited) pence
Earnings for the purpose of basic EPS	(18.3)	(1.68)	46.5	4.27	(1.2)	(0.11)
Effect of dilutive potential ordinary shares	-	-	-	(0.15)	-	-
Diluted EPS	(18.3)	(1.68)	46.5	4.12	(1.2)	(0.11)
Basic EPS excluding exceptional items						
Earnings for the purpose of basic EPS	(18.3)	(1.68)	46.5	4.27	(1.2)	(0.11)
Add back exceptional items	11.4	1.04	12.3	1.13	70.9	6.51
Add back tax on exceptional items	15.9	1.46	-	-	(3.1)	(0.28)
Earnings excluding exceptional operating items for the purpose of basic EPS	9.0	0.82	58.8	5.40	66.6	6.12

Earnings per share continuing

Basic EPS	Earnings 30 June 2017 (unaudited) £m	Per share amount 30 June 2017 (unaudited) pence	Earnings 30 June 2016 (unaudited) £m	Per share amount 30 June 2016 (unaudited) pence	Earnings 31 December 2016 (audited) £m	Per share amount 31 December 2016 (audited) pence
Earnings for the purpose of basic EPS	(18.3)	(1.68)	54.4	5.00	16.9	1.55
Effect of dilutive potential ordinary shares	-	-	-	(0.18)	-	(0.05)
Diluted EPS	(18.3)	(1.68)	54.4	4.82	16.9	1.50
Basic EPS excluding exceptional items						
Earnings for the purpose of basic EPS	(18.3)	(1.68)	54.4	5.00	16.9	1.55
Add back exceptional items	11.4	1.04	7.7	0.71	56.3	5.17
Add back tax on exceptional items	15.9	1.46	0.1	-	(3.1)	(0.28)
Earnings excluding exceptional operating items for the purpose of basic EPS	9.0	0.82	62.2	5.71	70.1	6.44

Earnings per share discontinued

Basic EPS	Earnings 30 June 2017 (unaudited) £m	Per share amount 30 June 2017 (unaudited) pence	Earnings 30 June 2016 (unaudited) £m	Per share amount 30 June 2016 (unaudited) pence	Earnings 31 December 2016 £m	Per share amount 31 December 2016 pence
Earnings for the purpose of basic EPS	-	-	(7.9)	(0.73)	(18.1)	(1.66)
Effect of dilutive potential ordinary shares	-	-	-	0.03	-	-
Diluted EPS	-	-	(7.9)	(0.70)	(18.1)	(1.66)
Basic EPS excluding exceptional items						
Earnings for the purpose of basic EPS	-	-	(7.9)	(0.73)	(18.1)	(1.66)
Add back exceptional items	-	-	4.6	0.43	14.6	1.34
Add back tax on exceptional items	-	-	-	-	-	-
Earnings excluding exceptional operating items for the purpose of basic EPS	-	-	(3.3)	(0.30)	(3.5)	(0.32)

11. 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.

The political environment in the USA, UK and the Middle East has become more unpredictable in recent months, which in turn makes it harder to forecast outcomes for our business. However, there have been no indicators of impairment since the full impairment test undertaken for 2016 year end.

In the USA, there is no clear determination of the future of the Affordable Care Act (ACA), and the shape of the budget for Federal Government spending remains unsettled. The Group’s position is that structural changes to the ACA will be implemented over a matter of years rather than months, and it is expected that the customer will launch in the near future a tender to provide services beyond the expiry of the current contract in June 2018.

12. Analysis of Net Debt

	At 1 January 2017 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 30 June 2017 £m
Cash and cash equivalents	177.8	(58.7)	-	-	-	(1.4)	-	117.7
Loan receivables	22.9	-	-	-	-	-	0.6	23.5
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)
Derivatives relating to Net Debt	18.1	-	-	-	-	(5.0)	-	13.1
	(109.3)	(47.3)	-	-	-	8.5	(0.8)	(148.9)

	At 1 January 2016 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 30 June 2016 (restated*) £m
Cash and cash equivalents	323.6	(160.8)	-	-	-	3.4	-	166.2
Loan receivables	19.9	-	-	-	-	0.1	0.4	20.4
Loans payable	(381.9)	135.8	-	-	-	(26.8)	(0.6)	(273.5)
Obligations under finance leases	(43.8)	8.4	-	-	-	(0.3)	-	(35.7)
Derivatives relating to Net Debt*	14.6	-	-	-	-	5.9	-	20.5
	(67.6)	(16.6)	-	-	-	(17.7)	(0.2)	(102.1)

* Net Debt has been restated to include derivative financial instruments that relate to other components of Net Debt. See note 1.

	At 1 January 2016 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2016 £m
Cash and cash equivalents	323.6	(153.7)	-	0.1	-	7.8	-	177.8
Loan receivables	19.9	-	-	-	-	0.1	2.9	22.9
Loans payable	(381.9)	135.8	-	-	-	(52.8)	(1.0)	(299.9)
Obligations under finance leases	(43.8)	16.7	(0.2)	-	-	(0.4)	(0.5)	(28.2)
Derivatives relating to Net Debt	14.6	-	-	-	-	3.5	-	18.1
	(67.6)	(1.2)	(0.2)	0.1	-	(41.8)	1.4	(109.3)

13. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2016	36.4	18.3	302.1	124.9	481.7
Reclassified to trade and other payables	-	-	(13.1)	-	(13.1)
Charged to income statement – exceptional	-	-	-	7.9	7.9
Charged to income statement – other	6.9	1.5	4.4	4.5	17.3
Released to income statement	(2.3)	(0.1)	(17.7)	(4.8)	(24.9)
Utilised during the period	(5.6)	(3.0)	(44.8)	(3.6)	(57.0)
Reclassification	-	(3.0)	0.7	2.3	-
Unwinding of discount	-	-	0.8	-	0.8
Exchange differences	2.9	0.8	6.9	3.2	13.8
At 30 June 2016 (unaudited)	38.3	14.5	239.3	134.4	426.5
Acquisitions	-	0.6	14.0	-	14.6
Reclassified to trade and other payables	-	-	1.6	(8.3)	(6.7)
Charged to income statement – exceptional	0.4	-	-	14.8	15.2
Charged to income statement – other	18.7	2.9	52.2	19.2	93.0
Released to income statement – exceptional	(0.2)	-	(0.6)	-	(0.8)
Released to income statement – other	(3.0)	(0.2)	(47.2)	(12.4)	(62.8)
Utilised during the period	(11.9)	(3.2)	(37.2)	(14.1)	(66.4)
Reclassification	-	0.1	(8.0)	2.6	(5.3)
Transfer from assets held for sale	-	-	-	3.3	3.3
Eliminated on disposal of subsidiary	-	-	-	(1.7)	(1.7)
Unwinding of discount	-	0.1	1.6	-	1.7
Exchange differences	2.8	0.4	4.5	3.4	11.1
At 31 December 2016 (audited)	45.1	15.2	220.2	141.2	421.7
Charged to income statement – exceptional	2.4	-	-	-	2.4
Charged to income statement – other	8.8	0.7	-	2.4	11.9
Released to income statement – exceptional	(0.3)	-	-	-	(0.3)
Released to income statement – other	(3.1)	(0.4)	-	(3.8)	(7.3)
Utilised during the period	(4.8)	(1.6)	(40.4)	(2.7)	(49.5)
Unwinding of discount	-	-	1.7	-	1.7
Exchange differences	(0.9)	(0.1)	(1.2)	(1.8)	(4.0)
At 30 June 2017 (unaudited)	47.2	13.8	180.3	135.3	376.6
Analysed as:					
Current	11.9	3.5	70.9	70.1	156.4
Non current	35.3	10.3	109.4	65.2	220.2

Contract provisions are onerous contract provisions which will be utilised over the life of each individual contract, the longest remaining life which runs until 2024. The present value of the estimated future cash outflows 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 material. 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 0.17% to 3.30%. A full analysis is performed at least annually of the future profitability of all contracts with marginal performances and of the balance sheet items directly linked to these contracts. Due to the significant size of the balance and the inherent level of uncertainty over the amount and timing of the related cash flows upon which onerous contract provisions are based, if the expected operational performance varies from the best estimates made at the previous balance sheet date, a material change in estimate may be required. The key drivers behind operational performance is the level of activity required to be serviced, which is often directed by the actions of the UK Government, and the efficiency of Group employees and resources.

Employee related provisions are for long-term service awards and terminal gratuities liabilities, which are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the future. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due, with the longest running lease ending in April 2039.

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period, in respect of past events. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances, with the majority expecting to be settled by 31 December 2021.

14. Contingent liabilities

At 30 June 2017 the Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures and associates up to a maximum value of £4.8m (31 December 2016: £20.4m). The actual commitment outstanding at 30 June 2017 was £4.8m (31 December 2016: £17.9m).

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 2017 was £247.9m (31 December 2016: £252.1m).

As we have disclosed before, we are under investigation by the UK's 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 at this time.

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

15. Defined benefit schemes

The costs related to defined benefit pension schemes included within operating profit in the six months ended 30 June 2017 amount to £7.3m (2016: £7.0m). Included in investment income and finance costs is a credit of £1.6m (2016: £2.3m) relating to the net interest income on our consolidated pension schemes. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The 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.

In June 2017 the Trustees of SPLAS entered into a bulk annuity purchase whereby an insurer will fund future benefit payments to the relevant members, commonly referred to as a "buy-in". The liability to pay the members remains with SPLAS and therefore the pension scheme will continue to include the relevant pension liabilities, but an insurance asset is held at fair value, which is an equal and opposite amount to the liability. This removes the risk of longevity and investment movements for this portion of the scheme on a funding basis, and also removes the accounting risk of movements in underlying assumptions on the liabilities. Of the total remeasurements recognised in the statement of other comprehensive income in the six months ended 30 June 2017 of £130.8m, £95.0m related to the revaluation of the assets and liabilities as a result of this transaction. Whilst the impact substantially reduced the asset on an IAS19 valuation basis, on an actuarial basis the transaction decreased the deficit of the scheme by approximately £12m. As a result of the transaction, the scheme also exited a longevity swap arrangement early, at a cost borne by the scheme of £7.5m. A summary of the amounts recognised in the statement of other comprehensive income respect of the Group's total defined benefit pension scheme position is set out below.

Included within the SOCI	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (restated*) (unaudited) £m	Year ended 31 December 2016 (audited) £m
Impact of SPLAS pension buy-in	(95.0)	-	-
Cost of exiting the SPLAS longevity swap	(7.5)	-	-
Actual return on scheme assets	1.1	199.5	286.1
Less: interest income on scheme assets	(20.7)	(24.5)	(49.2)
	(122.1)	175.0	236.9
Effect of changes in demographic assumptions	-	-	26.2
Effect of changes in financial assumptions	(19.2)	(153.3)	(282.8)
Effect of experience adjustments	10.5	-	28.7
Remeasurements recognised in the SOCI	(130.8)	21.7	9.0
Change in franchise adjustment	0.1	0.5	1.7
Change in members' share	(0.1)	0.3	1.2
Actuarial gains on reimbursable rights	-	0.8	2.9
Total pension (loss) / gain recognised in the SOCI	(130.8)	22.5	11.9

The assets and liabilities of the schemes are:

Scheme assets at fair value (unaudited)	Contract specific 30 June 2017 £m	Non contract specific 30 June 2017 £m	Total 30 June 2017 £m
Equities	8.7	44.8	53.5
Bonds except LDI	2.8	20.4	23.2
Liability driven investments (LDI)	-	761.5	761.5
Gilts	-	-	-
Property	1.3	-	1.3
Cash and other	3.0	3.3	6.3
Annuity policies	-	572.2	572.2
Fair value of scheme assets	15.8	1,402.2	1,418.0
Present value of scheme liabilities	(22.9)	(1,400.8)	(1,423.7)
Net amount recognised	(7.1)	1.4	(5.7)
Franchise adjustment*	3.9	-	3.9
Members' share of deficit	2.6	-	2.6
Net retirement benefit asset	(0.6)	1.4	0.8
Net pension liability	(0.6)	(16.9)	(17.5)
Net pension asset	-	18.3	18.3
Deferred tax liabilities	-	(0.2)	(0.2)
Net retirement benefit asset (after tax)	(0.6)	1.2	0.6

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

Scheme assets at fair value (unaudited)	Contract specific 30 June 2016 £m	Non contract specific 30 June 2016 £m	Total 30 June 2016 £m
Equities	3.0	47.6	50.6
Bonds except LDI	0.6	19.8	20.4
Liability driven investments (LDI)	-	1,308.7	1,308.7
Gilts	-	70.3	70.3
Property	0.6	1.3	1.9
Cash and other	1.0	16.7	17.7
Annuity policies	-	23.2	23.2
Fair value of scheme assets	5.2	1,487.6	1,492.8
Present value of scheme liabilities	(9.2)	(1,347.3)	(1,356.5)
Net amount recognised	(4.0)	140.3	136.3
Franchise adjustment*	2.4	-	2.4
Members' share of deficit	1.6	-	1.6
Net retirement benefit asset	-	140.3	140.3
Net pension liability	-	(13.6)	(13.6)
Net pension asset	-	153.9	153.9
Deferred tax liabilities	-	(25.2)	(25.2)
Net retirement benefit asset (after tax)	-	115.1	115.1

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

Scheme assets at fair value (audited)	Contract specific 31 December 2016 £m	Non contract specific 31 December 2016 £m	Total 31 December 2016 £m
Equities	3.3	43.3	46.6
Bonds except LDI	0.7	20.2	20.9
Liability driven investments (LDI)	-	1,390.6	1,390.6
Gilts	-	72.4	72.4
Property	0.6	-	0.6
Cash and other	1.2	4.2	5.4
Annuity policies	-	20.0	20.0
Fair value of scheme assets	5.8	1,550.7	1,556.5
Present value of scheme liabilities	(12.0)	(1,418.0)	(1,430.0)
Net amount recognised	(6.2)	132.7	126.5
Franchise adjustment*	3.7	-	3.7
Members' share of deficit	2.5	-	2.5
Net retirement benefit asset	-	132.7	132.7
Net pension liability	-	(17.7)	(17.7)
Net pension asset	-	150.4	150.4
Deferred tax liabilities	-	(17.6)	(17.6)
Net retirement benefit asset (after tax)	-	115.1	115.1

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

Key pension assumptions:

Main assumptions	30 June 2017 (unaudited) %	30 June 2016 (unaudited) %	31 December 2016 (audited) %
Rate of salary increases	2.7	2.3	2.8
Rate of increase in pensions in payment	2.2 (CPI) and 3.2 (RPI)	1.7 (CPI) and 2.7 (RPI)	2.3 (CPI) and 3.3 (RPI)
Rate of increase in deferred pensions	2.2 (CPI) and 3.2 (RPI)	1.8 (CPI) and 2.8 (RPI)	2.3 (CPI) and 3.3 (RPI)
Inflation assumption	2.2 (CPI) and 3.2 (RPI)	1.8 (CPI) and 2.8 (RPI)	2.3 (CPI) and 3.3 (RPI)
Discount rate	2.6	2.9	2.7

Post retirement mortality	30 June 2017 (unaudited) years	30 June 2016 (unaudited) years	31 December 2016 (audited) years
Current pensioners at 65 – male	22.5	22.6	22.5
Current pensioners at 65 – female	25.1	25.2	25.0
Future pensioners at 65 – male	24.3	24.5	24.2
Future pensioners at 65 – female	26.9	27.1	26.9

The defined benefit obligation is calculated on the actuarial assumptions agreed as at that date. The sensitivities set out below 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 2017 (unaudited) £m	30 June 2016 (unaudited) £m	31 December 2016 (audited) £m
Discount rate - 0.5% increase	(113.7)	(110.7)	(116.5)
Discount rate - 0.5% decrease	128.5	125.2	132.5
Inflation - 0.5% increase	89.6	110.0	106.1
Inflation - 0.5% decrease	(86.5)	(99.6)	(87.6)
Rate of salary increase - 0.5% increase	7.7	10.8	7.8
Rate of salary increase - 0.5% decrease	(7.4)	(10.2)	(7.4)
Mortality - one year age rating	42.7	32.8	44.2

16. Notes to the consolidated cash flow statement

	30 June 2017 Before exceptional items £m	30 June 2017 Exceptional items £m	30 June 2017 Total £m	30 June 2016 Before exceptional items (restated) £m	30 June 2016 Exceptional items £m	30 June 2016 Total (restated) £m
Operating profit / (loss) for the period – continuing operations*	33.1	(11.4)	21.7	72.5	(7.7)	64.8
Operating loss for the period – discontinued operations	-	-	-	(3.2)	(4.2)	(7.4)
Operating profit / (loss) for the period*	33.1	(11.4)	21.7	69.3	(11.9)	57.4
Adjustments for:						
Share of profits in joint ventures and associates	(14.6)	-	(14.6)	(17.7)	-	(17.7)
Share based payment expense	6.9	-	6.9	4.9	-	4.9
Exceptional impairment of property, plant and equipment	-	-	-	-	(0.3)	(0.3)
Impairment of property, plant and equipment	-	-	-	0.3	-	0.3
Exceptional impairment of intangible assets	-	2.8	2.8	-	0.3	0.3
Depreciation of property, plant and equipment	13.1	-	13.1	12.2	-	12.2
Amortisation of intangible assets	13.4	-	13.4	11.8	-	11.8
Exceptional profit on disposal of subsidiaries and operations	-	(0.8)	(0.8)	-	1.2	1.2
Loss on disposal of property, plant and equipment	0.1	-	0.1	0.4	-	0.4
Loss on disposal of intangible assets	-	-	-	-	-	-
Non cash R&D expenditure offset against intangible assets	(0.4)	-	(0.4)	0.1	-	0.1
Decrease in provisions	(42.1)	(0.6)	(42.7)	(77.8)	(14.5)	(92.3)
Other non-cash movements*	0.2	-	0.2	0.1	-	0.1
Total non-cash items*	(23.4)	1.4	(22.0)	(65.7)	(13.3)	(79.0)
Operating cash inflow / (outflow) before movements in working capital	9.7	(10.0)	(0.3)	3.6	(25.2)	(21.6)
Decrease in inventories	5.6	-	5.6	0.3	-	0.3
(Increase) / decrease in receivables	(24.4)	(1.4)	(25.8)	4.5	-	4.5
Increase / (decrease) in payables	3.7	(8.3)	(4.6)	(19.0)	(6.9)	(25.9)
Movements in working capital	(15.1)	(9.7)	(24.8)	(14.2)	(6.9)	(21.1)
Cash generated by operations*	(5.4)	(19.7)	(25.1)	(10.6)	(32.1)	(42.7)
Tax paid	(7.9)	-	(7.9)	(6.6)	-	(6.6)
Non cash R&D expenditure	-	-	-	(0.1)	-	(0.1)
Net cash outflow from operating activities*	(13.3)	(19.7)	(33.0)	(17.3)	(32.1)	(49.4)

* Operating profit and other non-cash items have been restated following the change in accounting policy to include foreign exchange movements on investment and financing arrangements in net finance costs and to reflect the associated cash flows and non-cash movements in a consistent manner.

	31 December 2016 Before exceptional items £m	31 December 2016 Exceptional items £m	31 December 2016 Total £m
Operating profit / (loss) for the year – continuing operations	98.5	(56.3)	42.2
Operating loss for the year – discontinued operations	(3.3)	(14.2)	(17.5)
Operating profit / (loss) for the year	95.2	(70.5)	24.7
Adjustments for:			
Share of profits in joint ventures and associates	(33.4)	-	(33.4)
Share based payment expense	9.7	-	9.7
Exceptional impairment of goodwill	-	17.8	17.8
Exceptional impairment of property, plant and equipment	-	(0.8)	(0.8)
Impairment of property, plant and equipment	0.7	-	0.7
Exceptional impairment of intangible assets	-	0.3	0.3
Impairment of intangible assets	0.7	-	0.7
Depreciation of property, plant and equipment	24.8	-	24.8
Amortisation of intangible assets	26.2	-	26.2
Exceptional profit on disposal of subsidiaries and operations	-	(0.1)	(0.1)
Loss on disposal of property, plant and equipment	0.4	-	0.4
Loss on disposal of intangible assets	0.8	-	0.8
Non cash R&D expenditure offset against intangible assets	0.2	-	0.2
Decrease in provisions	(118.4)	(1.1)	(119.5)
Other non-cash movements	0.4	-	0.4
Total non-cash items	(54.5)	16.1	(38.4)
Operating cash inflow / (outflow) before movements in working capital	7.3	(54.4)	(47.1)
Decrease in inventories	1.3	-	1.3
Decrease in receivables	59.0	13.9	72.9
(Decrease) / increase in payables	(84.0)	0.6	(83.4)
Movements in working capital	(23.7)	14.5	(9.2)
Cash generated by operations	(16.4)	(39.9)	(56.3)
Tax paid	(5.6)	-	(5.6)
Non cash R&D expenditure	(0.4)	-	(0.4)
Net cash outflow from operating activities	(22.4)	(39.9)	(62.3)

17. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings and associates are disclosed below. There have been no related party transactions other than as disclosed.

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

	Transactions for the six months ended 30 June 2017 (unaudited) £m	Current outstanding at 30 June 2017 (unaudited) £m	Non current outstanding at 30 June 2017 (unaudited) £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	-
	18.4	9.4	-

AWEML was formerly a joint venture but from September 2016 there was a change in the entity's shareholding structure, with the Group's shareholding reducing from 33.3% to 24.5% by way of a return of shares and Lockheed Martin taking a majority holding. Subsequent to the change in share ownership, AWEML has been accounted for as an associate as we continue to have significant influence. In the first half of the prior year, the AWEML transactions and outstanding balances were disclosed within joint ventures below.

	Transactions for the six months ended 30 June 2016 (unaudited) £m	Current outstanding at 30 June 2016 (unaudited) £m	Non current outstanding at 30 June 2016 (unaudited) £m
Sale of goods and services			
Joint ventures	3.3	0.6	-
Other			
Dividends received – joint ventures	19.7	-	-
Receivable from consortium for tax – joint ventures	1.2	10.5	-
	24.2	11.1	-

	Transactions for the 31 December 2016 (audited) £m	Current outstanding at 31 December 2016 (audited) £m	Non current outstanding at 31 December 2016 (audited) £m
Sale of goods and services			
Joint ventures	0.5	0.1	-
Associates	6.2	0.5	-
Other			
Dividends received – joint ventures	20.4	-	-
Dividends received – associates	19.6	-	-
Receivable from consortium for tax – joint ventures	3.2	7.7	-
	49.9	8.3	-

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.