

Stock Exchange Announcement

12 August 2014

First half in line with revised expectations; net debt substantially reduced; management team strengthened

Serco Group plc – 2014 half year results

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£2,433m	£2,549m	(5%)	+1%
Reported Revenue	£2,018m	£2,113m	(5%)	+2%
Adjusted Operating Profit	£50.7m	£146.3m	(65%)	(59%)
Reported Operating Profit	£9.9m	£125.1m	(92%)	(86%)
Adjusted Profit Before Tax	£33.3m	£127.1m	(74%)	(66%)
Reported (Loss)/Profit Before Tax	(£7.3m)	£106.1m	(107%)	(99%)
Adjusted Earnings Per Share (basic)	4.96p	19.69p	(75%)	(68%)
Reported Earnings Per Share (basic)	(1.27p)	17.18p	(107%)	(101%)
Dividend Per Share	3.10p	3.10p	0.0%	n/a
Free Cash Flow	£51.6m	£29.0m	+£22.6m	n/a
Recurse Net Debt at end of period	£559.3m	£731.5m	(£172.2m)	n/a

Adjusted measures include Serco's proportional share of joint ventures and are before a pre-tax net exceptional charge of £29.4m and management's estimate of one-off costs incurred in relation to the UK Government reviews and related activities of £2.7m. Notes and definitions are provided on page 2, reconciliations and descriptions of costs are included in the Finance Review on pages 12 to 25 and the income statement is presented on page 28.

- Adjusted Operating Profit of £50.7m, equivalent to £59.9m at constant currency, and after charging a loss of £14m in relation to the COMPASS contract
- Recurse net debt down £166m in the period, following successful share placing and improved Free Cash Flow; down £172m on twelve months earlier
- Net debt : EBITDA leverage ratio of 2.41x at 30 June 2014
- 2014 full year guidance maintained
- Good progress strengthening the management team, with four new senior appointments including Angus Cockburn joining as CFO from end of October
- Corporate Renewal Programme and Strategy Review proceeding to plan

Rupert Soames, Serco Group Chief Executive Officer, said: "As expected, trading was poor in the first half. Profits were in line with our revised expectations, and cash flow and net debt were better. We are making good progress with our Strategy Review, and in rebuilding trust and confidence with the UK Government. Many challenges remain, and we have a lot of work to do, but I am confident that, in time, we can restore the Company's fortunes."

"Good progress has been made strengthening the organisation structure and leadership. I am delighted that Angus Cockburn, currently Interim Group CEO at Aggreko, will be joining us as CFO in October; Kevin Craven, CEO of Balfour Beatty Services, will join in September as CEO of our UK Central Government division; Liz Benison, previously VP and General Manager of Computer Science Corporation's UK business, will be joining as CEO of our UK & Europe Local & Regional Government division also in September; and David Eveleigh, General Counsel of BT Global Services, will join as Group General Counsel and Company Secretary in November. These are strong appointments, and we have also moved to simplify and rationalise our Group structure in the AMEAA region."

Revenue broadly level at constant currency, though profitability significantly reduced

- Adjusted Revenue on an organic basis grew 2%, reflecting principally new contracts starting in the second half of last year, particularly in the US, and growth in the AMEAA region
- Adjusted Operating Profit was significantly reduced, driven in particular by: reductions in Australian Immigration Services; reductions on other contracts which had attracted higher-than-average margins; and additional costs to improve operational performance on some contracts
- Reported Operating Profit and other reported measures include the impact of a net exceptional charge of £29.4m; earnings measures include the impact of dilution from the equity placing
- £2.5bn of contract awards in the period; order book level at £17.1bn, giving 2014 revenue visibility of 96%

Whilst many challenges and uncertainties remain, guidance maintained for the full year

- 2014 guidance maintained: at constant currency, Adjusted Revenue of at least £4.8bn and Adjusted Operating Profit of not less than £170m; at estimated reported currency £4.6bn and £155m respectively
- Phasing of profitability will, as expected, be skewed towards the second half, split approximately one-third/two-thirds across the half-year periods; second half improvement includes seasonality, greater cost saving delivery and non-repeat of certain charges
- As previously stated in early July, the Strategy Review involves a detailed analysis of our contracts. This process is expected to be completed in time for our full-year results, and to the extent that there are financial consequences of this review, these may impact our currently stated expectations for the year

For further information please contact Serco:

Stuart Ford, Head of Investor Relations **T +44 (0) 1256 386 227**

Marcus De Ville, Head of Media Relations **T +44 (0) 1256 386 226**

Presentation

A presentation for institutional investors and analysts will be held at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP at 9.30am today. 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 1909 (USA: +1646 254 3366) with participant pin code 1359965.

Notes and definitions:

Adjusted measures include Serco's proportional share of joint ventures. Adjusted Operating Profit and Adjusted Profit Before Tax are before amortisation of intangibles arising on acquisitions, transaction-related costs and exceptional items, as shown on the face of the Group's consolidated income statement and the accompanying notes. They are also before management's estimate of one-off costs incurred in relation to the UK Government reviews and related activities. The Adjusted Earnings Per Share measure also takes account of the tax effect of these adjusting items. Reconciliations to GAAP measures, together with descriptions of each adjusting item, are included in the Finance Review on pages 12 to 25 and the income statement is presented on page 28.

Change at constant currency has been calculated by translating non-Sterling revenue and earnings for the six months to 30 June 2014 into Sterling at the average exchange rates for the same period in 2013.

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

Free Cash Flow is from subsidiaries and dividends received from joint ventures, and is reconciled to recourse net debt in Section 6 of the Finance Review, and to the movement in cash and cash equivalents in Section 3 of the Finance Review.

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

The pipeline of new bid decisions over the next two years is the aggregate value of potential new contracts that are anticipated to be bid in the near term, where annual revenue for each is estimated to be in excess of £10m and where the estimated total contract value of each is capped at £1bn.

Chief Executive's review

The financial results for the first half of 2014 were in line with our revised expectations. Revenue at constant currency was broadly level, though profitability significantly reduced. The challenges have been numerous: costs increased particularly to improve performance on operationally-challenged contracts; previously higher-than-average margin work reduced in volume or was lost on re-bid; and we have won less new work. The expected reduction in earnings was likely to impact our leverage ratios, leading to our decision to strengthen the balance sheet through an equity placing, enabling us to conduct a thorough Strategy Review untroubled by balance sheet constraints. The successful placing, together with improved free cash flow generation, has substantially reduced the Group's net debt.

We are maintaining our guidance for the 2014 full year, although it is clear that many challenges and uncertainties remain. To meet this guidance we anticipate benefitting in the second half from cost savings as well as corrective action on underperforming contracts.

The Strategy Review is running to plan, and we have now largely completed the first phase of fact-gathering and establishing a clear picture of our current markets. We are now moving on to assessing market attractiveness and value propositions. At the same time we are at the early stages of a review of contracts, focusing on those which have low or negative margins. Our Corporate Renewal Programme is also running to plan, with the few remaining actions scheduled to be completed by the end of August.

As a service company, Serco's success is entirely dependent on the motivation and skill of its people. The events of last year relating to our Prisoner Escorting and Electronic Monitoring contracts resulted in a number of senior managers leaving the UK business, and the sheer weight of adverse publicity and scrutiny had an understandable impact on morale. Serco has always emphasised its values-based approach to management, and most employees of Serco were proud that they worked for a company they believed always operated to the highest ethical standards. To discover that this had not always been the case came as a profound shock, and it was no consolation that the misbehaviour discovered was limited to 2 out of more than 700 contracts.

It will take time to heal these wounds and restore self-confidence, and as always, actions will speak louder than words; the extensive work we have undertaken as part of the Corporate Renewal Programme agreed with Government to address the issues has helped to restore faith in our determination to uphold the highest corporate values. It is also more than normally important that we show colleagues and customers that we can attract high-quality people to the business. I am, therefore, very pleased to say that we have succeeded in making some really strong appointments. I am naturally delighted that Angus Cockburn, with whom I worked for 11 years at Aggreko, will be joining Serco as Chief Financial Officer. He was instrumental in the success of Aggreko, is a highly experienced CFO, and he and I have complementary skills. We have also made good progress strengthening our UK management team, with the appointment of Kevin Craven to run the Central Government division, and Liz Benison to run the Local & Regional Government division; both of them will start in September. David Eveleigh will join as General Counsel and Company Secretary in November. I would also like to pay tribute to the dedication of Bob McGuinness and Andrew White, who stepped into the breach to run the UK divisions whilst we were looking for new people; and of course I am grateful to Andrew Jenner who has continued to guide the Finance function under circumstances which were far from easy.

Summary of financial performance

Adjusted Revenue in the first half was £2,433m. At constant currency this would have been £2,577m, growth of 1% on the comparable period. Adjusting for the impact of the various non-core disposals, organic growth was 2%.

Adjusted Operating Profit was £50.7m, or £59.9m at constant currency and therefore a decline of 59% on the comparable period. The margin reduced to 2.1% compared to 5.7%.

The principal drivers of the significant decline in profitability included: changes in contract volumes (e.g. Australia Immigration Services); contract losses (e.g. Electronic Monitoring); new contracts at lower margins (e.g. support to the US Affordable Care Act); lower recovery on bid investment costs given fewer new contract wins achieved; contract re-pricing (e.g. AWE and Northern Rail); and incremental costs on contracts to address operational under-performance (e.g. COMPASS and PECS). As COMPASS required an onerous contract provision which is currently estimated at £6m, the total loss incurred in this period was £14m. In addition, the Corporate Renewal Programme, along with the separation of our UK&E business into two new divisions, has led to increased costs.

Adjusted Revenue and Adjusted Operating Profit performance are further described in the Divisional Reviews on pages 6 to 11.

Completion of the equity placing helped to reduce Adjusted Net Finance Costs by 9% to £17.4m, but increased the weighted average number of shares for basic EPS purposes by 3% to 503.6m. The Group's Adjusted Effective Tax Rate increased from 24% to 25%. After these effects, Adjusted Profit Before Tax was £33.3m and Adjusted Earnings Per Share were 4.96p, declining by 66% and 68% respectively at constant currency.

The Group incurred a £29.4m net exceptional charge and a £2.7m management estimate of other one-off impacts that totalled £32.1m in the period. As anticipated, this included a restructuring charge of £14.5m, one-off costs of Corporate Renewal and related activities of £8.4m, exceptional clinical health contract provisions of a further £3.9m and a net exceptional credit of £2.2m in relation to disposals. In addition, a £7.5m provision has been taken as an estimate of the potential outcome regarding a dispute involving the funding of a shortfall on the DLR pension scheme.

Group Free Cash Flow improved to £51.6m compared to £29.0m in the equivalent period. The reduced underlying level of profitability was more than offset by a lower level of working capital.

Earnings, cash flow, financing and related matters are described further in the Finance Review on pages 12 to 25.

Financing position strengthened and interim dividend held

At the end of 2013, the Group's leverage ratio, as measured for our financial covenant, was 2.25x. In April, the material reduction in profitability outlook for the 2014 financial year indicated that we might have limited financial headroom against the covenant of 3.5x, and accordingly we moved to strengthen the balance sheet via an equity placing of 49.9m shares, or just under 10% of the preceding share capital. The successful placing raised gross proceeds of £160m, which, together with the improvement in Free Cash Flow, has supported a reduction in Group Recourse Net Debt to £559m and has resulted in a leverage ratio of 2.41x as at 30 June 2014.

Our Strategy Review will include an assessment of the future shape of the Group's balance sheet and appropriate levels of leverage. The future dividend policy will be a further output of the review; in the meantime, given a strengthened balance sheet, the Board has decided to maintain the interim dividend at 3.10p. The final dividend payment for the year will be set in light of the financial performance for the whole of 2014 and the outcomes of the Strategy Review.

Whilst many challenges and uncertainties remain, guidance maintained for the full year

Our guidance for the full financial year is maintained. We expect Adjusted Revenue of at least £4.8bn at constant currency (approximately £4.6bn at estimated reported currency), which implies a revenue decline of approximately 10% in the second half as a result of contract losses and volume reductions. Our expectations for Adjusted Operating Profit of not less than £170m at constant currency (approximately £155m at reported currency) are also unchanged, indicating a phasing of profitability that is split approximately one-third/two-thirds across the two half-year financial periods, as previously anticipated.

The significant improvement in profitability in the second half compared to the first is expected to come from a greater run-rate of cost reduction across the Group as a result of restructuring and other efficiency programmes, the non-repeat of certain charges taken in the first half, as well as an element of normal underlying seasonality of profits weighted towards the second half of the year.

As part of the Strategy Review, we described in early July how we are carrying out a detailed analysis of our contracts, with particular focus on those that are loss-making. Initial assessments of some of our larger contracts has now led to a provision on COMPASS being required. The Strategy Review will also inform further these assessments, including the appraisal of the carrying value of various assets and any potentially required impairments. As previously stated, to the extent that there are further financial consequences of the Strategy Review, including analysis of our contract base, there may be an impact on our currently stated expectations for the financial year.

Contract awards, pipeline, order book and revenue visibility

The Group achieved contract awards of £2.5bn in the first half. This includes notable new awards such as the Caledonian Sleeper rail franchise, as well as the retention of a number of important existing operations such as Northern Rail. The value of new awards has however been low – of our pipeline of around 40 major

opportunities at the start of 2014, eight have been lost whilst two have been won. We are working on improving win rates and the pipeline itself requires replenishment: over the next two years the estimated total value of new larger bid opportunities is £8bn, down from £12bn six months ago.

The Group's order book is £17.1bn, level on six months earlier. This provides revenue visibility of 96% for 2014. Currently, known incremental revenue growth for 2015 of approximately 2% is outweighed by the impact of known revenue attrition of approximately 7%, which is driven by the ending of contracts such as the Docklands Light Railway, National Physical Laboratory and Australian garrison support services. At present, order book visibility is around 70% for next year, which is low by historical standards. While there are still bid opportunities that can add revenue in 2015, there are also further rebids to secure and volume-related pressures, most notably Immigration Services in Australia.

With revenues expected to be lower in 2015 than in 2014, it will be hard to achieve anything other than a slight improvement in margin, notwithstanding the benefit of cost savings to be achieved in the second half of this year. The outcome of progress over the next six months in terms of improving underlying contract performances, delivering cost efficiencies, securing rebids such as Australian Immigration Services, assessing volumes in various operations, winning new work and – in particular – completing the Strategy Review, will help us to establish appropriate guidance for 2015 in due course.

We continue to manage our portfolio of businesses, and further disposals of operations considered non-core to our future development may be pursued. There were two small disposals during the latest period, Braintree Community Hospital clinical health services and Collectica debt recovery and fine enforcement services.

In summary...

We have had a poor first half, and we have not won as many new contracts as we would have liked, but there is some good news. We expect financial performance in the second half to be much stronger than that in the first; We have strengthened our balance sheet with a successful equity placing; made good progress in Corporate Renewal and in re-building trust with the UK Government; our Strategy Review is running to plan; we have made some strong senior management appointments; and we have taken action to rationalise the structure of the business and save cost. All these things are important steps forward on what will be a long journey to restore the Company's fortunes. But restore them, we will.

Rupert Soames OBE

Serco Group Chief Executive Officer

Divisional Reviews

This section is presented according to Serco's structure in the first half of 2014 of five divisions based around our principal markets:

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

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

UK Central Government

The UK Central Government division includes our frontline services in Defence, Science, Home Affairs (encompassing justice-related operations, immigration and border security); Citizen Services (principally welfare support operations); and Transport contracts for the Department for Transport (principally Northern Rail).

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£836.2m	£868.2m	(4%)	(3%)
Adjusted Operating Profit	£30.5m	£69.8m	(56%)	(55%)
Margin	3.6%	8.0%	(440bps)	(430bps)

Divisional revenue declined 3% on an organic basis. Most of the decline was caused by a reduction in the revenue received by our UK business from the Australian Immigration Services contract, in recognition of the support given to the contract. There were other reductions such as those from the loss of the Electronic Monitoring contract and the re-role of HMP Ashfield, as well as lower revenue at Northern Rail given the start of the new interim franchise. These were offset by other areas of growth in existing relationships, notably supporting the expansion of HMP Thameside and a number of defence-related contracts such as our strategic partnership with the Defence Science and Technology Laboratory (Dstl).

Margins fell sharply in large part because of the loss of Electronic Monitoring and the reduced contribution from Immigration Services in Australia. Costs increased significantly as we applied additional resources to improve the operational performance of contracts such as PECS and COMPASS, with the latter incurring an operating loss of £14m in total in the period including an onerous contract provision of £6m to cover estimated future losses to the end of the contract; this estimate is based on our latest assumptions regarding volumes of those seeking asylum in the UK, the duration of accommodation and support services required, and forecasts of our own costs to deliver the contract. There has also been a lower recovery of bid investment costs as a result of fewer contract awards in the period. The Corporate Renewal Programme has increased costs such as those required to operate UK Central Government as a separate division. The previous contract re-pricing on AWE and that agreed recently on Northern Rail has also had an impact. Improvement in a number of these areas is anticipated to result in profitability in the second half of the year being stronger than that achieved in the first half.

Reflecting the strength of operations in the welfare services market, we were delighted to be awarded the prestigious Merlin Standard by the Department for Work & Pensions, which benchmarks excellence in supply chain management. Ranking Serco first among 50 prime contractors delivering the Work Programme, our approach to developing a network of organisations has been key to delivering support for the placing of over 26,000 long-term unemployed people back into work so far.

Contract awards in the period included, for the UK Department for Transport, a 22-month interim franchise for Northern Rail for which the total estimated revenue value to Serco is £520m, albeit at a lower profit margin than in the recent past. Serco's management of the National Physical Laboratory on behalf of the UK's Department for Business, Innovation & Skills was also extended and we currently expect a transition to the new academic partners will occur at the end of 2014. Our services for the UK Ministry of Defence were expanded following the merger of the Service Personnel and Veterans Agency (SPVA) into the Defence Business Services (DBS) organisation, with Serco having supported the operations of DBS since 2012.

Disappointingly, we lost bids to support the Defence Infrastructure Organisation (DIO) in the management of its property assets, and for the Nuclear Decommissioning Authority to help manage decommissioning at 12 nuclear sites.

Looking ahead to the second half of 2014 and beyond, the interim franchise for Northern Rail will reduce revenue and profits in the second half of the year, though the gain share agreement could drive some improvement in the margin in 2015. Serco and Abellio have agreed not to rebid together for the next Northern Rail franchise that would run from February 2016; Serco's current share of revenue accounts for around 20% of divisional revenue. From the start of 2015, the transition of NPL will reduce divisional revenue by approximately 5%. Other rebids over the next two years are few in number with the largest being the National Citizen Service where the current contract runs to the end of 2014 and has current annual revenue accounting for approximately 2% of the division.

Although there are limited major new bid opportunities to be decided over the coming months, the next two years sees several opportunities including managing and operating the laboratory network of the Department for Environment, Food & Rural Affairs; outsourcing of the Defence Fire & Risk Management Organisation; and other rail franchises such as TransPennine Express.

UK & Europe Local & Regional Government

The UK & Europe Local & Regional Government division includes our frontline services in the devolved public service delivery markets of Health, Transport (excluding Northern Rail), Direct Services (principally environmental and leisure services for local authorities) and our various support operations for European Agencies. The division also includes a smaller business unit providing Infrastructure Services (such as facilities management) to certain public and private sector organisations.

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£425.3m	£449.1m	(5%)	(4%)
Adjusted Operating Profit	£6.9m	£13.6m	(49%)	(45%)
Margin	1.6%	3.0%	(140bps)	(130bps)

Divisional revenue on an organic basis, which excludes the impact of the various small non-core disposals in 2013 and 2014, increased by 2%. Revenue was broadly stable in each business unit, with the small amount of organic growth created by the annualisation of additional environmental waste services started in 2013, and new European Agency contracts with the European Commission and European Space Agency.

Profitability in the period reduced more significantly, although most of the decline related to a contribution in the comparable period from the UK transport maintenance and technology business that was disposed in the second half of last year. There were also some areas of increased costs including the effect of operating this new division separately as part of the Corporate Renewal Programme. Underlying seasonality of certain contracts, particularly various transport operations, together with cost saving actions and lower bid costs, is anticipated to increase profitability significantly in the second half of the year.

In recognition of operational excellence, Merseyrail has retained for the third time the top position for overall customer satisfaction in the National Rail Passenger Survey which ranks all UK franchised train operating companies. Merseyrail's Public Performance Measure (PPM), the rail industry-wide benchmark for punctuality, has also continued to be one of the highest in the country. Meanwhile on the Suffolk Community Healthcare contract, all four of our hospitals have had excellent Care Quality Commission (CQC) reports, and elsewhere in our health integrated facilities management operations, Derriford Hospital has been recognised as a leader in infection control.

In terms of new contract wins, Serco's selection by Transport Scotland to manage the new franchise for the Caledonian Sleeper services was the Group's largest contract award in the period, with total revenue to Serco over the 15-year contract estimated at approximately £800m. To be operated separately from the main ScotRail franchise from April 2015, our transformation of the service includes supporting the introduction of new rolling stock and many other innovative changes to improve dramatically the customer experience. In Direct Services, Havering has been added as a fifth London borough where we provide environmental services with a total contract value of around £40m, whilst a recent extension to our Milton Keynes contract is valued at £48m and expanded landscaping services adds a further £10m. In our leisure services business, we were awarded a new contract valued at approximately £50m to manage and operate the Wet 'n' Wild waterpark in North Shields, Tyne

and Wear. An extension with expanded scope was secured to continue providing IT support to the European Parliament valued at €60m, whilst a new contract for additional IT support to the European Space Agency was also awarded with a value to Serco of approximately €36m.

Looking ahead to the second half of 2014 and beyond, there will be attrition from the unsuccessful rebid of the Docklands Light Railway, which accounted for around 10% of divisional revenue and transfers to the new operator on 7 December 2014; the impact on profitability is far lower, since the contract margin was significantly below the Group average. Other near-term rebids include in Infrastructure Services a private sector facilities management contract for an aviation industry customer, and in European Agencies an IT support contract for the European Commission – each represents approximately 1-2% of divisional revenue. Later in 2015 the Suffolk Community Healthcare contract is due to end, which accounts for approximately 5% of divisional revenue.

There are limited major new bid opportunities to be decided over the next 12 months. Further out, opportunities continue to be developed regarding support work for European Agencies, environmental and integrated waste management services for local councils, non-clinical health support services for NHS trusts and transport operations such as ferry services for devolved authorities.

Americas

Our Americas division provides professional, technology and management services focused on defence, transportation, healthcare and business outsourcing. 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 selected US state and municipal governments.

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£367.6m	£374.6m	(2%)	+7%
Adjusted Operating Profit	£22.9m	£29.8m	(23%)	(16%)
Margin	6.2%	8.0%	(180bps)	(180bps)

Divisional revenue increased by 7% on an organic basis, driven by major new contract awards for the US Affordable Care Act (ACA) eligibility support services and for the Virginia Department of Transport traffic management services, both of which began in the second half of last year. These new contracts more than offset other contract attrition, as previously described, including the end of certain areas of work for the US Federal Retirement Thrift Investment Board (FRTIB) and the Department of Veteran Affairs, as well as some reduced support levels on our US intelligence agency IT contracts and the end of C4ISR work on Naval Electronic Surveillance Systems and Atlantic Aviation Engineering.

Profitability in the period reduced, primarily as new contracts such as processing support work for the US ACA are at lower margins than the areas where work has ended, such as for FRTIB. Additionally, the short-term extension to our contract supporting the Department of State's National Visa Center and Kentucky Consular Center (NVC/KCC) was at lower margins, as was that for our rebid contract to provide Driver Examination Services for the Ontario Ministry of Transportation in Canada.

In recognition of the importance of strong supply chain management and increasing subcontracting opportunities, Serco was delighted to be awarded the Champions of Veteran Enterprise Award. This award recognises Federal agencies and prime contractors that meet or exceed a Congressionally-mandated goal in terms of subcontracting work to veteran-owned small businesses.

The first option year of the ACA contract has been confirmed with a base value of approximately \$100m. The estimated value of other contract awards and task orders in the period totalled over \$300m, which includes progress on securing certain rebid work for a US intelligence agency providing program management and acquisition support valued at over \$100m, and further IT installation support on US Navy aircraft carriers and a contract for marine training systems support, together valued at approximately \$35m. Serco also secured IDIQ contract vehicles that enable us to compete for task orders to deliver electronic surveillance systems support to the US Navy and C4ISR tasks providing worldwide communications and infrastructure support to the US Army.

Looking ahead to the second half of 2014 and beyond, the growth from the major new contract awards in 2013 will have annualised and there will be a greater impact from attrition. The NVC/KCC contracts transitioned to new operators in June 2014, with these previously accounting for approximately 4% of Americas' divisional

revenue. We have secured one of the two US intelligence agency IT support services contracts that were rebid in the period, with the impact of the one that was lost accounting for approximately 3% of the Americas division. Our contracts for the US Department of Homeland Security providing various benefits records management services account for approximately 5% and are subject to upcoming rebids. Our contract for air traffic control services for the Federal Aviation Administration is due for rebid towards the end of 2014, and accounts for approximately 3% of divisional revenue. C4I2TSR services for the US Air Force, which accounted for approximately 4% of 2013 divisional revenue, will require successful competing through other contract vehicles as the current vehicle has expired.

The short-term outlook for the Federal Government services market remains challenging given issues around agreement of government budgets and funding. In the longer term, the market, including defence services, remains attractive in size and growth potential. New bid opportunities include further development in non-defence areas, such as processing support for the Department of State Passport Support Services and various transport operations and maintenance contracts.

AMEAA

Our AMEAA division comprises our activities in the Australia, New Zealand & Asia region and the Middle East region, in which we provide a range of frontline services including transport, justice, immigration, health, defence and other direct services such as facilities management.

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£470.1m	£500.2m	(6%)	+10%
Adjusted Operating Profit	£19.7m	£38.8m	(49%)	(42%)
Margin	4.2%	7.8%	(360bps)	(370bps)

Divisional revenue increased by 10% on an organic basis. The division's single largest contract which provides Immigration Services in Australia began to reduce in the period, although the AMEAA division recognised broadly flat revenue for these operations since the proportion of the revenue credited to the UK division has reduced. A number of other contract starts and ramp-ups cumulatively drove the organic growth. These included: growth in the pre-operational phase at Fiona Stanley Hospital in Perth; new private sector aviation support services in the Australian natural resources industry; new transport management services in Asia such as those for the Hong Kong Tsing Sha Control Area; and a significant expansion in the Middle East including health services in Abu Dhabi, expanded transport operations in Dubai, and defence training services in Qatar.

Profitability in the period has, however, seen significant pressures. Although revenue recognised by AMEAA on the Immigration Services contract were broadly flat, the mix of revenue changed, with a higher proportion of lower-margin transport work and reducing numbers of people in our care leading to the closure of a number of detention centres. There were also lower margins on the recently extended Dubai Metro contract, and lower profits in the Defence Marine Services business arising from increased unscheduled maintenance required on the Armidale Class Patrol Boats contract; regarding the latter, we are currently assessing future maintenance costs and working with our customer to agree obligations. One-off transition costs have also been incurred in the period to close the Australian garrison support business. The one-off nature of some of these specific impacts, together with overhead cost efficiency plans in the management of the AMEAA region and underlying seasonality on contracts such as Great Southern Rail, are expected to contribute to an improved operating margin in the second half of the year.

Serco's rapid establishment of the new military college in Qatar saw its first graduates in the period, marking a significant operational milestone in new service delivery in the region. The college's main course, delivered in partnership with King's College London and the UK Ministry of Defence, is modelled on the highly successful equivalent course at the UK Defence Academy which Serco has managed and operated since 2000.

Work successfully rebid or extended in the period included air navigation services in Bahrain valued at approximately £30m, and public facilities management contracts for both the City of Melbourne and Abu Dhabi Municipality, together valued at approximately £35m. New contracts won included further healthcare support services also in Abu Dhabi, valued at approximately £27m, and facilities management services for the Abu Dhabi National Oil Company.

Looking ahead to the second half of 2014, a far greater adverse impact on revenue is anticipated in relation to the reduced volume of work in Immigration Services in Australia. Following the significant changes to government policies to address the issue of the number of people arriving by boat without a valid visa, the population in our care at the start of the second half of the year was approximately half the average level of 2013. Having secured an extension through to December 2014, the operations are now subject to competitive rebid and we expect to learn the outcome of this in the next few months. These operations are likely to have represented around one quarter of the AMEAA division's revenue for the 2014 financial year, so the potential loss of the rebid or further likely volume reductions would impact 2015.

Serco's rebid was unsuccessful in regard to our various Australian regional defence garrison support services contracts operated in partnership with Sodexo. These will account for approximately 8% of revenue of the AMEAA division in 2014, given the various extensions to continue our service provision to almost the end of this year.

Aside from the above-mentioned immigration and garrison support services contracts, no significant further attrition is anticipated from the ending of any other individual contracts and there are no other significant contracts that require extending or rebidding over the next two years.

Serco lost a number of new opportunities in the period, including its consortia bids for a new-build prison in Victoria, Australia, and the Sydney North West Rail link. There remain, however, significant market opportunities to achieve further growth in the AMEAA region. These include the immigration and justice market in Australia and New Zealand, and transport operations within the rail, bus and aviation sectors. Additionally there are opportunities within areas of defence and non-clinical healthcare support services across the region. Serco has strong skills and capabilities in each of these operational areas within the AMEAA region, and the ability to leverage experience from across the Group.

Global Services

Our Global Services division provides Business Process Outsourcing (BPO) services to both the private and public sectors, bringing together Serco's middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services.

6 months to 30 June	2014	2013	Change	Change at constant currency
Adjusted Revenue	£334.0m	£356.4m	(6%)	0%
Adjusted Operating (Loss) / Profit	(£2.6m)	£17.4m	(115%)	(99%)
Margin	(0.8%)	4.9%	(570bps)	(480bps)

In line with our Corporate Renewal Programme, a number of contracts have been transferred to the new UK Central Government division. Accordingly, the above revenue and profits for 2013 have been restated by £32.2m and £3.3m respectively.

Divisional revenue reduced by 1% on an organic basis. This underlying reduction resulted from the end of the Shop Direct transformation phase, together with a small number of contracts ending (such as Walsall education services) or running at lower volumes, which were only partially offset by growth elsewhere.

Impacts on profitability in the period have been much more significant. The moves from transformation to full operational phase on contracts such as Shop Direct and AEGON have significantly reduced profits. An additional impact of attrition and lower volumes has seen a number of delivery centres in the UK and India becoming underutilised. Typically higher margin project work and consulting, particularly that to the UK public sector, has also been at a much lower level than the comparable period.

The benefits of cost reduction already begun in the first half of the year, and additional reduction of headcount and related cost saving actions in the second half, together with specific operational improvement initiatives in several major contracts and delivery centres, are expected to shift the division back to a level of profitability in the second half closer to that achieved in the comparable period last year.

Demonstrating leading operational skills and capabilities, Serco was presented with three top awards highlighting excellence and innovation through BPO outsourcing. The company secured accolades for intelligent customer engagement and multi-channel engagement for its service transformation programmes on behalf of the UK's

leading multi-brand digital retailer, Shop Direct, and the UK operations of the world's largest video gaming company, Nintendo. Significantly, it also secured an award for its pioneering 'Voice of the Customer' work with BT and Liveperson, using advanced analytics to drive service improvements in online digital engagement. Serco's web chat team working for Shop Direct also secured three further recognitions at the Digital Experience Awards, including 'Best Overall Digital Experience'.

Contract awards in the period include those from UK local authorities, most notably a new win valued at over £70m with Lincolnshire County Council for the provision of a range of business process and contact centre services. Meanwhile, our ICT services for Peterborough City Council and the London Borough of Enfield have been extended, valued at £22m and £20m respectively. For the private sector, customer contact services contracts valued in total at approximately £50m have been awarded across Australia, Qatar and the United States. Also valued at approximately £50m is an extension in Australia to Serco's Traffic Camera Services processing contract.

Looking ahead to the second half of 2014 and the next financial year, the end of a number of contracts for Westminster City Council is likely to reduce divisional revenue by approximately 4%. There is no other significant attrition anticipated from the ending of any individual contracts and there are also no significant contracts that require extending or rebidding, although, as always, existing customers are always seeking to reduce costs.

Currently there are a small number of major new bid opportunities to be decided, although the pipeline in this business tends to be generated over a shorter time period than those for our frontline public service operations. Those opportunities currently being progressed include private sector multi-channel customer management services, and further strategic partnerships with local authorities for BPO support covering Finance, HR, ICT and citizen contact.

Finance Review

1. Income statement

Serco's income statement for the half year is summarised below and includes the adjusted measures which include the proportionally consolidated results of joint ventures.

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted revenue	2,433.2	2,548.5	(4.5%)	1.1%	5,143.9
Less: Share of joint venture revenue	(415.5)	(435.2)	(4.5%)	(2.7%)	(855.8)
Revenue	2,017.7	2,113.3	(4.5%)	1.9%	4,288.1
Adjusted operating profit	50.7	146.3	(65.3%)	(59.1%)	292.0
Amortisation of intangibles arising on acquisition	(5.8)	(12.5)			(21.4)
Transaction related costs	-	(2.7)			(3.5)
Share of joint venture tax and interest	(2.9)	(6.0)			(11.8)
Management estimation of charges related to UK Government reviews	(2.7)	-			(21.0)
Operating profit before exceptional items	39.3	125.1	(68.6%)	(61.9%)	234.3
Net profit on disposal of subsidiaries and operations	2.2	-			19.2
Other exceptional operating items	(31.6)	-			(109.7)
Operating profit	9.9	125.1	(92.1%)	(85.7%)	143.8
Net finance costs	(17.2)	(19.0)			(37.2)
(Loss)/profit before tax	(7.3)	106.1	(106.9%)	(99.2%)	106.6
Tax	0.9	(21.9)			(11.2)
(Loss)/profit for the year	(6.4)	84.2	(107.6%)	(100.5%)	95.4
Adjusted earnings per share	4.96p	19.69p	(74.8%)	(67.7%)	39.53p
Earnings per share	(1.27p)	17.18p	(107.4%)	(100.5%)	19.51p
Dividend per share	3.10p	3.10p	0.0%	0.0%	10.55p

1.1 Revenue

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted revenue	2,433.2	2,548.5	(4.5%)	1.1%	5,143.9
Less: Share of joint venture revenue	(415.5)	(435.2)	(4.5%)	(2.7%)	(855.8)
Revenue	2,017.7	2,113.3	(4.5%)	1.9%	4,288.1

Adjusted revenue declined by 4.5% to £2,433.2m (1.1% increase at constant currency). Organic revenue, which excludes currency effects, acquisitions and disposals, increased by 2.0%, with the drivers of this revenue performance discussed in the preceding Divisional Reviews.

1.2 Operating profit

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted operating profit	50.7	146.3	(65.3%)	(59.1%)	292.0
Amortisation of intangibles arising on acquisition	(5.8)	(12.5)			(21.4)
Transaction related costs	-	(2.7)			(3.5)
Share of joint venture tax and interest	(2.9)	(6.0)			(11.8)
Management estimation of charges related to UK Government reviews	(2.7)	-			(21.0)
Operating profit before exceptional items	39.3	125.1	(68.6%)	(61.9%)	234.3
Net profit on disposal of subsidiaries and operations	2.2	-			19.2
Other exceptional operating items	(31.6)	-			(109.7)
Operating profit	9.9	125.1	(92.1%)	(85.7%)	143.8
Adjusted operating margin	2.08%	5.74%	(366bps)	(342bps)	5.68%

Adjusted operating profit decreased by 65% to £50.7m (59% decline at constant currency). This represents a margin of 2.1% which is a 366 basis point decrease compared with the comparative period. Drivers of the margin performance are discussed in the preceding Divisional Reviews. These highlight the impact on margins from the performance of a number of challenging contracts, including COMPASS which suffered an operating loss of £14.0m in the period, £6.0m of which related to the recognition of an onerous contract provision.

1.3 Reportable segments

The reportable segments for 2013 have been restated to reflect the separation of the UK & Europe segment into the two new segments of UK Central Government (CG) and UK & Europe Local Regional & Government (LRG).

	CG £m	LRG £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Six months ended 30 June 2014							
Adjusted revenue	836.2	425.3	367.6	470.1	334.0	-	2,433.2
Adjusted operating profit	30.5	6.9	22.9	19.7	(2.6)	(26.7)	50.7
Amortisation of intangibles arising on acquisition	(0.2)	-	(1.1)	(1.1)	(3.4)	-	(5.8)
Share of joint venture tax and interest	(1.4)	(1.2)	-	(0.3)	-	-	(2.9)
Management estimation of charges related to UK Government reviews	(0.8)	-	-	-	-	(1.9)	(2.7)
Operating profit before exceptional items	28.1	5.7	21.8	18.3	(6.0)	(28.6)	39.3
Six months ended 30 June 2013 (restated)							
Adjusted revenue	868.2	449.1	374.6	500.2	356.4	-	2,548.5
Adjusted operating profit	69.8	13.6	29.8	38.8	17.4	(23.1)	146.3
Amortisation of intangibles arising on acquisition	(0.2)	-	(7.0)	(1.3)	(4.0)	-	(12.5)
Transaction related costs	-	(0.8)	-	-	(1.9)	-	(2.7)
Share of joint venture tax and interest	(3.7)	(1.3)	-	(1.0)	-	-	(6.0)
Operating profit before exceptional items	65.9	11.5	22.8	36.5	11.5	(23.1)	125.1

	CG	LRG	Americas	AMEAA	Global Services	Corporate	Total
Year ended 31 December 2013 (restated)	£m	£m	£m	£m	£m	£m	£m
Adjusted revenue	1,712.5	907.2	765.3	1,049.5	709.4	-	5,143.9
Adjusted operating profit	135.9	27.4	58.8	82.1	33.9	(46.1)	292.0
Amortisation of intangibles arising on acquisition	(0.3)	-	(11.3)	(2.4)	(7.4)	-	(21.4)
Transaction related costs	-	-	-	-	(3.5)	-	(3.5)
Share of joint venture tax and interest	(6.9)	(3.0)	-	(1.9)	-	-	(11.8)
Management estimation of charges related to UK Government reviews	(13.7)	-	-	-	(3.5)	(3.8)	(21.0)
Operating profit before exceptional items	115.0	24.4	47.5	77.8	19.5	(49.9)	234.3

1.4 Management estimation of charges related to UK Government reviews

There were £2.7m (six months ended 30 June 2013: £nil) of costs estimated and allocated by management in relation to the 2013 UK Government reviews on the business and related activities. These costs are in addition to those identified as exceptional items on the face of the Income Statement.

1.5 Exceptional operating profit items

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Costs associated with UK Government reviews	(5.7)	-	(11.6)
Settlement amounts relating to UK Government reviews	-	-	(66.3)
UK clinical health onerous contract provisions	(3.9)	-	(17.6)
Restructuring costs	(14.5)	-	(14.9)
Provision for settlement relating to pension deficit funding	(7.5)	-	-
Asset impairment	-	-	(9.6)
Deferred consideration relating to prior year acquisition	-	-	10.3
Total other exceptional operating items	(31.6)	-	(109.7)
Gain on disposal of UK transport maintenance business	-	-	23.2
Loss on disposal of occupational health business	-	-	(3.9)
Loss on disposal of Ascot College	-	-	(0.1)
Gain on disposal of Braintree Community Hospital	0.5	-	-
Loss on disposal of Collectica business	(3.7)	-	-
Gain on disposal of the nuclear assurance technical consulting services business disposed in prior period	5.4	-	-
Profit on disposal of businesses	2.2	-	19.2
Total exceptional items	(29.4)	-	(90.5)

Costs associated with UK Government reviews

In the six months to 30 June 2014 there have been external adviser and other directly-related incremental costs that amounted to £5.7m.

UK clinical health withdrawal and onerous contract provisions

During the period we continued to monitor performance on the UK clinical health operations, against which an onerous contract provision was made in the prior year and where the Group's intention is to withdraw from the UK clinical health market. Two contracts, Cornwall Out of Hours and Braintree Clinical Services which was disposed of in the period, are being exited early and a third loss-making contract, Suffolk Community Health, is being run through to the end of the contract term in 2015. Following a further review of the costs of delivering improved service levels and meeting performance obligations through to the end of the contracts and the intended withdrawal from this market, we have revised upwards our estimate of the costs of running the contracts to term, resulting in an additional charge of £3.9m.

Restructuring

As a result of the 2013 review of the cost structures in the UK businesses, a restructuring charge of £14.5m was taken in the period. This principally reflects the cost of headcount reductions (£6.4m) and property related exit costs (£7.1m). These have been treated as exceptional costs as they have arisen directly as a result of the 2013 restructuring programme in response to the effect of the UK Government reviews.

Provision for settlement relating to pension deficit funding

The Group is in dispute with the Trustees of the Docklands Light Railway (DLR) pension scheme over the extent of its liability to fund the deficit on the pension scheme. As part of the contract we are obliged to make contributions towards a reduction in the overall deficit during the contract period. This has been reflected in our annual profits over the life of the contract in line with franchise accounting. The Scheme Trustees have however recently completed a valuation and we have a dispute over the extent of liability that Serco has to fund the deficit. At 30 June 2014 the Group has recognised a £7.5m provision in relation to this matter for the estimated settlement, together with associated costs.

In normal circumstances any pension deficit payment arising from such a review would be a charge to the Statement of Other Comprehensive Income (SOCl). However, given the resolution of any legal process is likely to occur after the end the franchise period, we have treated the potential payment as a settlement of a legal dispute within the income statement. This has been disclosed as an exceptional item as it is material and considered a non-recurring event as the dispute arises from a disagreement over the extent of liability to fund the deficit.

Exceptional net profit on disposal of subsidiaries and operations

On 10 March 2014 the Group disposed of its Braintree Community Hospital business to the Mid Essex Clinical Hospital Trust. There was a payment of £0.5m to the purchaser and the gain on disposal was £0.5m, reflecting the net liabilities disposed.

On 19 June 2014 the Group disposed of its debt collection business, Collectica Limited. The initial cash consideration received was £6.5m and the resulting loss on disposal was £3.7m.

There was a gain of £5.4m recognised in the period in relation to the disposal of the nuclear assurance technical consulting services business sold in 2012. This reflected disposal costs and other pension costs that had been previously provided, but are no longer deemed to be required.

1.6 Net finance costs

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted net finance costs	(17.4)	(19.2)	(9.4%)	(10.4%)	(37.6)
Less: Share of joint venture interest	0.2	0.2			0.4
Net finance costs	(17.2)	(19.0)	(9.5%)	(10.5%)	(37.2)

Adjusted net finance costs decreased by £1.8m in the period, due principally to a lower movement in the discount unwind on provisions and deferred consideration and a foreign exchange benefit from the translation of US dollar denominated interest costs.

1.7 Profit before tax

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted profit before tax	33.3	127.1	(73.8%)	(66.4%)	254.4
Amortisation of intangibles arising on acquisition	(5.8)	(12.5)			(21.4)
Transaction related costs	-	(2.7)			(3.5)
Share of joint venture tax	(2.7)	(5.8)			(11.4)
Management estimation of charges related to UK Government reviews	(2.7)	-			(21.0)
Profit before tax before exceptional items	22.1	106.1	(79.2%)	(71.1%)	197.1
Net profit on disposal of subsidiaries and operations	2.2	-			19.2
Other exceptional operating items	(31.6)	-			(109.7)
(Loss)/profit before tax	(7.3)	106.1	(106.9%)	(99.2%)	106.6

Adjusted profit before tax reduced by 74% to £33.3m (66% decline at constant currency).

1.8 Tax

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change	Change at constant currency	Year ended 31 December 2013 £m
Adjusted tax	(8.3)	(30.6)	(72.9%)	(65.2%)	(61.1)
Tax on amortisation of intangibles arising on acquisition	1.8	2.9			5.5
Share of joint venture tax	2.7	5.8			11.4
Tax on management estimation of charges related to UK Government reviews	0.5	-			4.2
Tax before exceptional items	(3.3)	(21.9)	(84.9%)	(75.0%)	(40.0)
Tax on exceptional items	4.2	-			28.8
Tax	0.9	(21.9)	(104.1%)	(94.2%)	(11.2)
Adjusted effective tax rate	24.9%	24.1%			24.0%
Effective tax rate before exceptional items	14.9%	20.6%			20.3%

Excluding the tax effect on adjusted items and including the proportional consolidated results of the joint ventures, the Adjusted effective tax rate was 24.9% in the period compared with 24.1% in the comparable period.

1.9 Earnings per share (EPS)

	Six months ended 30 June 2014 pence	Six months ended 30 June 2013 pence	Change	Change at constant currency	Year ended 31 December 2013 pence
Adjusted earnings per share	4.96	19.69	(74.8%)	(67.7%)	39.53
Amortisation of intangibles arising on acquisition	(0.79)	(1.96)			(3.25)
Transaction related costs	-	(0.55)			(0.72)
Management estimation of charges related to UK Government reviews	(0.44)	-			(3.43)
Earnings per share before exceptional item	3.73	17.18	(78.3%)	(70.9%)	32.13
Exceptional items	(5.00)	-			(12.62)
Earnings per share	(1.27)	17.18	(107.4%)	(100.5%)	19.51

Adjusted EPS decreased by 75% to 4.96p (68% decline at constant currency). Measures of basic EPS are calculated on a weighted average share base of 503.6m during the period (6 months to 30 June 2013: 490.1m, year ended 31 December 2013: 489.0m).

2. Dividend

	Six months ended 30 June 2014 pence	Six months ended 30 June 2013 pence	Change	Year ended 31 December 2013 pence
Dividend per share	3.10	3.10	0.0%	10.55

The Board has declared an interim dividend of 3.10p per share, representing a consistent level with the 2013 interim dividend. The interim dividend will be paid on 17 October 2014 to shareholders on the register as at 5 September 2014.

3. Cash flow

The Group generated a free cash inflow of £51.6m (six months ended 30 June 2013: £29.0m), the increase arising principally as a result of the improvement in working capital in the period partly offset by the reduced profit.

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Adjusted operating profit excluding joint ventures	34.0	117.3	233.1
Non cash items	39.0	29.0	53.0
Adjusted EBITDA excluding joint ventures	73.0	146.3	286.1
Working capital movement	0.6	(93.2)	(144.0)
Adjusted operating cash flow excluding joint ventures	73.6	53.1	142.1
Interest	(17.3)	(18.2)	(38.2)
Tax received/(paid)	4.1	(8.8)	(18.8)
Net expenditure on tangible and intangible assets*	(23.5)	(21.6)	(51.8)
Dividends from joint ventures	14.7	24.5	51.5
Free cash flow	51.6	29.0	84.8
Acquisition of subsidiaries net of cash acquired	(5.3)	(18.6)	(18.6)
Disposal of subsidiaries and operations net of cash acquired	6.8	(2.1)	40.6
Transaction related costs	-	(0.5)	(2.8)
Other exceptional items	(16.8)	-	(83.7)
Proceeds from share placement	155.8	-	-
Purchase of own shares and issue proceeds of other share capital	2.3	(14.8)	(14.9)
Financing**	(58.8)	112.9	73.2
Management estimation of charges related to UK Government reviews	(1.9)	-	(9.2)
Special pension contributions	-	(19.2)	(19.7)
Dividends paid	(36.4)	(36.4)	(51.5)
Net increase/(decrease) in cash and cash equivalents before exchange	97.3	50.3	(1.8)
Exchange (loss)/gain	(1.6)	0.8	(15.9)
Net increase/(decrease) in cash and cash equivalents	95.7	51.1	(17.7)

Notes:

*Net expenditure on tangible and intangible assets excludes assets funded under finance lease arrangements.

**Financing is stated net of directly reimbursed capital expenditure.

3.1 Adjusted operating cash flow excluding joint ventures

Adjusted operating cash flow excluding joint ventures of £73.6m (six months ended 30 June 2013: £53.1m) reflects a conversion of Adjusted EBITDA into cash of 100.8 % (six months ended 30 June 2013: 36.3%).

The strong working capital performance in the period includes the timing benefits from the unwind of some late customer payments and milestone payments that had not been received at the end of 2013.

3.2 Interest

Net interest paid decreased by £0.9m to £17.3m, principally due to the timing of interest payments associated with the Group's funding arrangements.

3.3 Tax

Tax received of £4.1m (six months ended 30 June 2013: payment of £8.8m), reflects a net repayment of tax, primarily driven by UK losses resulting in tax refunds in respect of earlier years.

3.4 Net expenditure on tangible and intangible assets

Gross expenditure on tangible and intangible assets was £27.4m (six months ended 30 June 2013: £31.5m). This represents 1.4% of revenue (six months ended 30 June 2013: 1.5%). After disposal proceeds of £3.9m (six months ended 30 June 2013: £9.9m), net capital expenditure was £23.5m (six months ended 30 June 2013: £21.6m).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £14.7m (six months ended 30 June 2013: £24.5m), reflecting a conversion rate of joint ventures' profit after tax into dividends of 107% (six months ended 30 June 2013: 107%).

3.6 Purchase of own shares and issue proceeds of share capital

The net £2.3m cash inflow in the period (six months ended 30 June 2013: outflow £14.8m) related to £2.3m (six months ended 30 June 2013: £1.2m) of proceeds from the issue of share capital associated with the exercise of share options. There was no outflow in the period to purchase shares (six months ended 30 June 2013: £16.0m) for the Employee Share Ownership Trust (ESOT) in order to satisfy options granted under the Group's share option schemes.

3.7 Proceeds from share placement

This related to a net receipt of £155.8m relating to the share placement which involved the issue of 49.9m new shares on 7 May 2014.

3.8 Financing

The outflow from financing of £58.8m (six months ended 30 June 2013: inflow of £112.9m) is primarily due to the repayment of borrowings following the share placement receipt. Further detail on sources of funding is supplied in section 9 below.

3.9 Management estimation of charges related to UK Government reviews

There was cash spend of £1.9m (six months ended 30 June 2013: nil) in relation to costs estimated and allocated by management in relation to the 2013 UK Government reviews on the business and related activities.

3.10 Other exceptional items

There was spend of £16.8m (six months ended 30 June 2013: nil) in relation to other exceptional items, this included £9.0m of spend in relation to the direct costs associated with the UK reviews, £6.4m in relation to restructuring and £7.2m for the cash spend associated with the UK Clinical Health onerous contract provisions. This is offset by £5.8m refund of VAT related to the prior year settlement to the UK Central Government.

3.11 Special pension contributions

The comparative period special pension contributions of £19.7m related to a £16.8m payment to fund the deficit on the Vertex pension fund prior to its transfer into the Group's largest defined benefit scheme, Serco Pension and Life Assurance Scheme (SPLAS), and £2.9m in relation to deficit recovery funding of the Walsall defined benefit pension scheme.

3.12 Reconciliation of free cash flow

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

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Operating activities:			
Net cash inflow from operating activities, before special pension contributions and other exceptional items	75.8	43.8	111.3
Investing activities:			
Net cash (outflow)/inflow from investing activities	(6.2)	(26.4)	14.2
Less: Increase in security deposits	-	-	0.2
Less: (Proceeds)/costs on disposal of businesses	(6.8)	2.1	(40.6)
Less: Acquisition of subsidiaries, net of cash acquired	5.3	18.6	18.6
Financing activities:			
Interest paid	(18.4)	(19.5)	(40.8)
Management estimation of charges related to UK Government reviews	1.9	-	9.2
Transaction related costs	-	0.5	2.8
Directly reimbursed capital expenditure	-	9.9	9.9
Free cash flow	51.6	29.0	84.8

4. Balance sheet

A summary of Serco's balance sheet at 30 June 2014 is presented below together with a summary of the key movements. Further information is provided in the Condensed Financial statements.

	At 30 June 2014 £m	At 30 June 2013 £m	At 31 December 2013 £m
Non-current assets	1,838.0	1,891.2	1,841.8
Current assets	1,107.5	1,137.2	967.1
Current liabilities	(831.3)	(858.2)	(768.0)
Non-current liabilities	(885.2)	(1,038.8)	(945.0)
Net assets	1,229.0	1,131.4	1,095.9

4.1 Non-current assets

Non-current assets at £1,838.0m are at a similar level to the 31 December 2013 year-end position. The most significant item remains goodwill at £1,261m which is analysed in further detail, including disclosure of impairment testing, in note 11 of the Condensed Financial Statements.

4.2 Current assets

Current assets at £1,107.5m are £140.4m higher than the 31 December 2013 year-end position. The most significant item is trade and other receivables at £816.5m and this has increased by £52.1m in the period. Cash and cash equivalents have increased by £95.7m since year-end.

4.3 Current liabilities

Current liabilities at £831.3m are £63.3m higher than the 31 December 2013 year-end position, principally reflecting the £69.8m increase in trade and other payables.

4.4 Non-current liabilities

Non-current liabilities at £885.2m are £59.8m lower than the 31 December 2013 year-end position. The most significant item is the £709.0m of loans which have decreased by £47.1m and are analysed in further detail in note 12 of the Condensed Financial Statements.

4.5 Net assets

At £1,229.0m net assets have increased by £133.1m, principally reflecting the net proceeds of £156m from the share placement in May 2014 involving the issue of 49.9m new shares. The placement net proceeds have been used to reduce the net debt of the group.

5. Acquisitions

On 2 January 2014, 70% of the share capital of MENA Business Services LLC was acquired. MENA is a regional provider of contact centre, training services and business consultancy outsourcing services, based in the Middle East. The initial cash consideration was £3.1m. Up to a further £2.1m is payable from 2015 to 2016, contingent on the financial performance of the acquired business. The provisional fair value of this deferred contingent consideration is £2.1m. Provisional goodwill of £4.4m arose on the transaction. Net cash payments arising on the acquisition were £2.3m, representing cash consideration of £3.1m net of £0.8m of cash balances acquired.

Deferred consideration payments of £3.0m were made in the period in relation to prior year acquisitions, representing the final payment in respect of Intelenet.

6. Disposals

The table below shows the net cash proceeds from the disposal of businesses and operations reflecting the cash proceeds less any cash and cash equivalents disposed and disposal costs paid in the period.

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Braintree Community Hospital (disposal cash costs)	(0.1)	-	-
Collectica	5.3	-	-
UK transport maintenance and technology business	2.0	-	40.2
UK occupational health business	-	-	2.2
Ascot College	-	-	0.7
UK data hosting operations (disposal cash costs)	(0.4)	(2.1)	(2.5)
Net cash proceeds	6.8	(2.1)	40.6

7. Net debt

	At 30 June 2014 £m	At 30 June 2013 £m	At 31 December 2013 £m
Cash and cash equivalents	220.8	193.9	125.1
Loans	(716.8)	(858.5)	(782.2)
Obligations under finance leases	(63.3)	(66.9)	(68.0)
Recourse net debt	(559.3)	(731.5)	(725.1)
Non-recourse debt	(21.5)	(22.6)	(20.3)
Net debt	(580.8)	(754.1)	(745.4)

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Movement in net debt	164.6	(122.1)	(113.4)
Opening net debt	(745.4)	(632.0)	(632.0)
Closing net debt	(580.8)	(754.1)	(745.4)

Adjusted net debt, including the proportional share of joint venture net cash of £52.8m, is £528.0m (30 June 2013: £681.4m, 31 December 2013: £701.2m).

7.1 Recourse net debt

In the period, recourse net debt decreased by £165.8m to £559.3m. Sources of funding are described in section 7.3 below.

Cash and cash equivalents include encumbered cash of £13.2m (30 June 2013: £9.4m, 31 December 2013: £10.2m). This is cash relating to customer advance payments.

7.2 Non-recourse debt

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

In the period, non-recourse debt increased by £1.2m to £21.5m. The increase is due to additional financing within the National Physical Laboratory contract.

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Repayment of non-recourse loans	1.4	4.9	10.2
Non-recourse loan advances	(2.6)	(2.2)	(5.3)
Foreign exchange	-	(0.2)	(0.1)
Movement in non-recourse net debt	(1.2)	2.5	4.8
Opening non-recourse debt	(20.3)	(25.1)	(25.1)
Closing non-recourse debt	(21.5)	(22.6)	(20.3)

7.3 Reconciliation of free cash flow to recourse net debt

The tables below reconcile free cash flow at the beginning of Section 3 of the Finance Review to the movement in Group recourse net debt and net debt.

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Free cash flow	51.6	29.0	84.8
Acquisition of subsidiaries net of cash acquired	(5.3)	(18.6)	(18.6)
Disposal of subsidiaries and operations net of cash disposed	6.8	(2.1)	40.6
Transaction related costs	-	(0.5)	(2.8)
Proceeds from share placement	155.8	-	-
Purchase of own shares and issue proceeds of other share capital	2.3	(14.8)	(14.9)
Repayment of non-recourse loans	(1.4)	(4.9)	(10.2)
New and acquired finance leases	(4.5)	(23.1)	(33.0)
Management estimation of charges related to UK Government reviews	(1.9)	-	(9.2)
Other exceptional items	(16.8)	-	(83.7)
Special pension contribution	-	(19.2)	(19.7)
Dividends paid	(36.4)	(36.4)	(51.5)
Dividend to non-controlling interest	-	-	(0.6)
Foreign exchange	15.6	(34.0)	0.6
Movement in recourse net debt	165.8	(124.6)	(118.2)
Opening recourse net debt	(725.1)	(606.9)	(606.9)
Closing recourse net debt	(559.3)	(731.5)	(725.1)

8. Pensions

The Group is a sponsor of a number of defined benefit schemes and defined contribution schemes. At 30 June 2014, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £60.5m (30 June 2013: net asset of £12.2m, 31 December 2013: net asset of £42.7m). The pension scheme asset base is £1.4bn.

Defined benefit pension schemes

	At 30 June 2014 £m	At 30 June 2013 £m	At 31 December 2013 £m
Group schemes – non contract specific	78.9	26.7	58.4
Contract specific schemes	(3.5)	(12.1)	(5.5)
Net retirement benefit asset	75.4	14.6	52.9
Intangible assets arising from rights to operate franchises and contracts	0.3	2.0	1.0
Deferred tax liabilities	(15.2)	(4.4)	(11.2)
	60.5	12.2	42.7

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

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

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

During the period we provided £7.5m in relation to an estimated settlement on a dispute in respect of funding of the Docklands Light Railway (DLR) pension scheme. As part of the contract we are obliged to make contributions towards a reduction in the overall deficit during the contract period. This has been reflected in our annual profits over the life of the contract in line with franchise accounting. The Scheme Trustees have however recently completed a valuation and we have a dispute over the extent of liability that Serco has to fund the deficit. At 30 June 2014 the Group has recognised a £7.5m provision in relation to this matter for the estimated settlement, together with associated costs.

Excepting this matter, Serco has limited ongoing commercial risk in relation to the contract specific schemes, due either to the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Amongst our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 30 June 2014, SPLAS had a surplus of £84.8m (31 December 2013: £64.2m). This is calculated under IAS 19 (Revised) using market-derived rates at 30 June 2014. It therefore reflects the effect of the market conditions on investment returns in the period.

The estimated actuarial deficit of SPLAS, calculated using prudent Trustee assumptions, as at 30 June 2014 was approximately £2m (31 December 2013: £13m). The value calculated in the latest triennial review was a deficit of £24m at 5 April 2012. We continue to review the level of benefits and contributions under the scheme in the light of our business needs and changes to pension legislation.

9. Treasury

The Group has a committed £730.0m (31 December 2013: £730.0m) five-year multi-currency revolving credit facility which matures in March 2017. As at 30 June 2014, £145.0m (31 December 2013: £175.0m) had been drawn down. In addition to the bank facility, Serco has US private placements totalling £557.8m (31 December 2013: £574.7m) with scheduled repayments between 2014 and 2024, with £23.2m maturing in August 2014.

The above facilities are unsecured and have financial and non-financial covenants and obligations typical of these arrangements. The principal financial covenants (as defined) require leverage not to exceed 3.5 times EBITDA and EBITDA to cover interest at least 3.0 times. As at 30 June 2014 these ratios were 2.4 times and 6.5 times respectively (At 31 December 2013 these ratios were 2.3 times and 8.8 times respectively).

10. Going concern

In order to satisfy ourselves that we have adequate resources for the future, the Directors have reviewed the Group's committed funding and liquidity positions, and our ability to generate cash from trading activities. The Directors have also reviewed our business plans and the principal risks we face.

Although trading was poor in the first half of the year, profits were in line with our revised expectations and cash flow and net debt were better than expected. However, the reduction in profitability led to pressure on our loan covenants and we moved to strengthen the balance sheet in May 2014 via an equity placing of 49.9m shares, raising net proceeds of £156m.

Despite the challenges and uncertainties which remain in our business, including a comparatively low level order book visibility (of 71% for the next year) relative to the past, we are making good progress with our Strategy Review, and in rebuilding trust and confidence with the UK Government. The Group's principal

funding is through a revolving credit facility and US private placements. As at 30 June 2014, the Group had £1,287.8m of committed credit facilities and headroom of £585.0m. The Group fully expects to meet scheduled repayments through operational cash flows.

Whilst the current economic environment continues to contain uncertainties, our revenues are largely derived from long-term contracts and our contract portfolio is of sufficient diversity that a downturn in any particular market, sector or geography has a diluted effect on the Group as a whole.

Based on the current business plan and anticipated forecast trading, and taking account of the information set out above, 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.

11. Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 12 to 15 of the 2013 Annual Report and Accounts and the key headline risks for the remainder of 2014 are restated below. This summary is not intended, and should not be used, as a substitute for reading the appropriate pages of the Annual Report and Accounts which include further commentary on the risks and the Group's management of them. Whilst the Group's view of its principal risks and uncertainties for the remaining six months of the financial year remains substantially unchanged, there may be additional risks unknown to Serco and other risks, currently believed to be immaterial, which could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

(i) Market risks

- Change in political environment, including changes to government policies, expenditure levels and budgetary constraints
- Failure to win a strategic or significant bid or rebid
- Failure to effectively manage brand and reputation

(ii) Operational risks

- Major information security breach

(iii) Governance risks

- Significant incident of bribery or corrupt practice

(iv) People risks

- Failure to retain and attract key leadership talent

(v) Finance risks

- The impairment of goodwill could adversely impact reported results

Responsibility statement

We confirm to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;
- b) the interim management report includes a fair review of the information required by the DTR 4.2.7R (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Rupert Soames
Group Chief Executive

Andrew Jenner
Group Chief Financial Officer

11 August 2014

Independent Review Report to Serco Group plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

11 August 2014

Condensed consolidated income statement

For the six months ended 30 June 2014

		Six months ended 30 June 2014 (unaudited)			Six months ended 30 June 2013 (unaudited)		Year ended 31 December 2013 (audited)	
	Note	Before exceptional items £m	Exceptional Items £m	Total £m	Total £m	Before exceptional items £m	Exceptional Items £m	Total £m
Adjusted revenue		2,433.2	-	2,433.2	2,548.5	5,143.9	-	5,143.9
Less: Share of revenue of joint ventures		(415.5)	-	(415.5)	(435.2)	(855.8)	-	(855.8)
Revenue	2	2,017.7	-	2,017.7	2,113.3	4,288.1	-	4,288.1
Cost of sales		(1,826.9)	-	(1,826.9)	(1,829.4)	(3,788.9)	-	(3,788.9)
Gross profit		190.8	-	190.8	283.9	499.2	-	499.2
Administrative expenses		(159.5)	-	(159.5)	(166.6)	(287.1)	-	(287.1)
Other expenses – amortisation of intangibles arising on acquisition		(5.8)	-	(5.8)	(12.5)	(21.4)	-	(21.4)
Other expenses – transaction related costs		-	-	-	(2.7)	(3.5)	-	(3.5)
Share of profits in joint ventures, net of interest and tax	5	13.8	-	13.8	23.0	47.1	-	47.1
Net profit on disposal of subsidiaries and operations	6	-	2.2	2.2	-	-	19.2	19.2
Other exceptional operating items	6	-	(31.6)	(31.6)	-	-	(109.7)	(109.7)
Operating profit		39.3	(29.4)	9.9	125.1	234.3	(90.5)	143.8
Investment revenue	7	2.8	-	2.8	2.6	5.2	-	5.2
Finance costs	7	(20.0)	-	(20.0)	(21.6)	(42.4)	-	(42.4)
Profit/(loss) before tax		22.1	(29.4)	(7.3)	106.1	197.1	(90.5)	106.6
Tax	8	(3.3)	4.2	0.9	(21.9)	(40.0)	28.8	(11.2)
Profit/(loss) for the period		18.8	(25.2)	(6.4)	84.2	157.1	(61.7)	95.4
Attributable to:								
Equity holders of the parent		18.8	(25.2)	(6.4)	84.2	157.1	(61.7)	95.4
Non-controlling interest		-	-	-	-	-	-	-
Earnings per share (EPS)								
Basic EPS	10	3.73p	(5.00p)	(1.27p)	17.18p	32.13p	(12.62p)	19.51p
Diluted EPS	10			(1.27p)	16.72p	31.38p	(12.32p)	19.06p

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
(Loss)/profit for the period		(6.4)	84.2	95.4
Other comprehensive income for the period:				
Items that will not be reclassified subsequently to profit or loss:				
Net actuarial gain/(loss) on defined benefit pension schemes ¹	15	10.3	(34.0)	30.3
Actuarial gain/(loss) on reimbursable rights ¹	15	8.4	(7.9)	(37.1)
Tax relating to items not reclassified		(3.3)	10.1	3.0
Share of other comprehensive (expense)/income in joint ventures		(0.1)	1.8	3.9
Items that may be reclassified subsequently to profit or loss:				
Net exchange loss on translation of foreign operations ²		(6.3)	(5.7)	(53.1)
Fair value gain/(loss) on cash flow hedges during the period ²		8.8	4.7	(4.8)
Tax relating to items that may be reclassified		(2.8)	(1.4)	1.2
Share of other comprehensive expense in joint ventures		-	(0.6)	(1.8)
Total comprehensive income for the period		8.6	51.2	37.0
Attributable to:				
Equity holders of the parent		8.6	51.1	37.0
Non-controlling interest		-	0.1	-

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

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

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2014

	Share capital	Share premium account	Capital redemption reserve	Other reserve	Retained earnings	Retirement benefit obligations reserve	Share-based payment reserve	Own shares reserve	Hedging and translation reserve	Total	Non-controlling interest
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013 (audited)	10.0	326.5	0.1	-	900.7	(138.6)	77.7	(58.8)	10.0	1,127.6	1.3
Total comprehensive income for the period	-	-	-	-	85.4	(31.8)	-	-	(2.5)	51.1	0.1
Shares transferred to option holders on exercise of share options	-	1.1	-	-	-	-	(1.0)	1.1	-	1.2	-
Dividends paid	-	-	-	-	(36.4)	-	-	-	-	(36.4)	-
Expense in relation to share-based payment	-	-	-	-	-	-	5.9	-	-	5.9	-
Tax charge in relation to share-based payment	-	-	-	-	-	-	(3.4)	-	-	(3.4)	-
Purchase of own shares for Employee Share Ownership Trust (ESOT)	-	-	-	-	-	-	-	(16.0)	-	(16.0)	-
At 30 June 2013 (unaudited)	10.0	327.6	0.1	-	949.7	(170.4)	79.2	(73.7)	7.5	1,130.0	1.4
Total comprehensive income for the period	-	-	-	-	12.1	28.0	-	-	(54.2)	(14.1)	(0.1)
Shares transferred to option holders on exercise of share options	-	0.2	-	-	-	-	(3.5)	3.2	-	(0.1)	-
Dividends paid	-	-	-	-	(15.1)	-	-	-	-	(15.1)	(0.6)
Expense in relation to share-based payment	-	-	-	-	-	-	(3.0)	-	-	(3.0)	-
Tax charge in relation to share-based payment	-	-	-	-	-	-	(2.5)	-	-	(2.5)	-
At 31 December 2013 (audited)	10.0	327.8	0.1	-	946.7	(142.4)	70.2	(70.5)	(46.7)	1,095.2	0.7
Total comprehensive income for the period	-	-	-	-	(6.5)	15.4	-	-	(0.3)	8.6	-
Issue of share capital	1.0	-	-	154.8	-	-	-	-	-	155.8	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	-	(4.7)	6.9	-	2.2	-
Dividends paid	-	-	-	-	(36.4)	-	-	-	-	(36.4)	-
Expense in relation to share-based payment	-	-	-	-	-	-	3.1	-	-	3.1	-
Tax charge in relation to share-based payment	-	-	-	-	-	-	(0.2)	-	-	(0.2)	-
At 30 June 2014 (unaudited)	11.0	327.8	0.1	154.8	903.8	(127.0)	68.4	(63.6)	(47.0)	1,228.3	0.7

Condensed consolidated balance sheet

At 30 June 2014

	Note	At 30 June 2014 (unaudited) £m	At 30 June 2013 (unaudited) £m	At 31 December 2013 (audited) £m
Non-current assets				
Goodwill	11	1,261.0	1,334.7	1,270.8
Other intangible assets		177.8	205.4	185.7
Property, plant and equipment		169.1	187.4	176.8
Interests in joint ventures		7.1	11.5	8.1
Trade and other receivables		79.6	73.4	78.3
Retirement benefit assets	15	84.8	34.2	64.2
Deferred tax assets		57.9	43.8	57.9
Derivative financial instruments	14	0.7	0.8	-
		1,838.0	1,891.2	1,841.8
Current assets				
Inventories		53.3	67.0	49.4
Trade and other receivables		816.5	848.6	764.4
Current tax assets		15.5	21.0	19.5
Cash and cash equivalents		220.8	193.9	125.1
Derivative financial instruments	14	1.4	6.7	8.7
		1,107.5	1,137.2	967.1
Total assets		2,945.5	3,028.4	2,808.9
Current liabilities				
Trade and other payables		(713.9)	(757.9)	(644.1)
Current tax liabilities		(11.6)	(13.9)	(10.4)
Obligations under finance leases		(15.2)	(14.2)	(14.9)
Provisions	13	(39.1)	(10.2)	(26.2)
Loans		(34.8)	(49.0)	(52.2)
Derivative financial instruments	14	(16.7)	(13.0)	(20.2)
		(831.3)	(858.2)	(768.0)
Non-current liabilities				
Trade and other payables		(34.8)	(40.9)	(34.1)
Obligations under finance leases		(48.1)	(52.7)	(53.1)
Loans		(709.0)	(833.7)	(756.1)
Derivative financial instruments	14	(17.2)	(18.7)	(21.1)
Retirement benefit obligations	15	(9.4)	(19.6)	(11.3)
Provisions	13	(29.2)	(38.6)	(34.9)
Deferred tax liabilities		(37.5)	(34.6)	(34.4)
		(885.2)	(1,038.8)	(945.0)
Total liabilities		(1,716.5)	(1,897.0)	(1,713.0)
Net assets		1,229.0	1,131.4	1,095.9
Equity				
Share capital		11.0	10.0	10.0
Share premium account		327.8	327.6	327.8
Capital redemption reserve		0.1	0.1	0.1
Other reserve		154.8	-	-
Retained earnings		903.8	949.7	946.7
Retirement benefit obligations reserve		(127.0)	(170.4)	(142.4)
Share-based payment reserve		68.4	79.2	70.2
Own shares reserve		(63.6)	(73.7)	(70.5)
Hedging and translation reserve		(47.0)	7.5	(46.7)
Equity attributable to equity holders of the parent		1,228.3	1,130.0	1,095.2
Non-controlling interest		0.7	1.4	0.7
Total equity		1,229.0	1,131.4	1,095.9

Condensed consolidated cash flow statement

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Net cash inflow from operating activities before cash spend on special pension contributions and other exceptional items		75.8	43.8	111.3
Special contributions to defined benefit pension schemes		-	(19.2)	(19.7)
Other exceptional items		(16.8)	-	(83.7)
Net cash inflow from operating activities	17	59.0	24.6	7.9
Investing activities				
Interest received		1.1	1.3	2.6
Dividends received from joint ventures		14.7	24.5	51.5
Increase in security deposits		-	-	(0.2)
Proceeds from disposal of property, plant and equipment		3.8	3.0	4.6
Proceeds from disposal of intangible assets		0.1	-	0.4
Proceeds/(costs) on disposal of subsidiaries and operations	4	6.8	(2.1)	40.6
Acquisition of subsidiaries, net of cash acquired (excluding acquisition related costs)	3	(5.3)	(18.6)	(18.6)
Purchase of other intangible assets		(12.3)	(13.8)	(27.8)
Purchase of property, plant and equipment		(15.1)	(20.7)	(38.9)
Net cash (outflow)/inflow from investing activities		(6.2)	(26.4)	14.2
Financing activities				
Interest paid		(18.4)	(19.5)	(40.8)
Dividends paid	9	(36.4)	(36.4)	(51.5)
Non-controlling interest dividends paid		-	-	(0.6)
Repayment of loans		(70.6)	(44.7)	(77.5)
Repayment of non-recourse loans		(1.4)	(4.9)	(10.2)
New loan advances		22.4	168.9	176.5
Capital element of finance lease (repayments)/advances		(9.2)	3.5	(4.9)
Purchase of own shares for Employee Share Ownership Trust (ESOT)		-	(16.0)	(16.0)
Proceeds from issue of share capital and exercise of share options		158.1	1.2	1.1
Net cash inflow/(outflow) from financing activities		44.5	52.1	(23.9)
Net increase/(decrease) in cash and cash equivalents		97.3	50.3	(1.8)
Cash and cash equivalents at beginning of period		125.1	142.8	142.8
Net exchange (loss)/gain		(1.6)	0.8	(15.9)
Cash and cash equivalents at end of period		220.8	193.9	125.1

Notes to the condensed set of financial statements

1. General information, going concern and accounting policies

The information for the year ended 31 December 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not contain statements made under s498(2) or (3) of the Companies Act 2006 and did not draw attention to any matters by way of emphasis.

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

In 2014 there have been no significant changes to accounting under IFRS which have affected the Group's results. Other changes to accounting standards in the current year which had no material impact on the Group's financial statements are:

- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 17 *Separate Financial Statements*. These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.
- Amendments to IAS 32 *Financial Instruments: Presentation*. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group as no such set-off is adopted.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

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 except for the change in segments as described in note 2. The condensed set of financial statements includes the results of subsidiaries, joint ventures have been equity accounted.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review and Divisional Reviews on pages 3 to 11. The Finance Review includes a summary of the Group's financial position, its cash flows and borrowing facilities.

In order to satisfy themselves that the Group has adequate resources for the future, the Directors have reviewed the Group's committed funding and liquidity positions, and the ability to generate cash from trading activities. The Directors have also reviewed the strategy and the principal risks the Group faces. Whilst the current economic environment continues to contain uncertainties, revenues are largely derived from long-term contracts and the contract portfolio is of sufficient diversity that a downturn in any particular market, sector or geography has a diluted effect on the Group as a whole.

Although trading was poor in the first half of the year, profits were in line with the Group's revised expectations and cash flow and net debt were better than expected. However, the reduction in profitability led to pressure on the Group's loan covenants and the Group moved to strengthen the balance sheet in May 2014 via an equity placing of 49.9m shares, raising net proceeds of £156m.

Notes to the condensed set of financial statements

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

The Group's principal funding is through a revolving credit facility and US private placements. As at 30 June 2014, the Group had £1,287.8m of committed credit facilities and headroom of £585.0m. The revolving credit facility matures in March 2017, whilst repayments of the US private placements occur between 2014 and 2024, with a scheduled repayment of £23.2m in August 2014. The Group fully expects to meet these repayments through operational cash flows.

Despite the challenges and uncertainties which remain in our business, including a comparatively low level order book visibility (of 71% for the next year) relative to the past, the Group is making good progress with its Strategy Review, and in rebuilding trust and confidence with the UK Government. Therefore, the Directors have a reasonable expectation that the Group will be able to operate within the level of available facilities and cash for the foreseeable future; accordingly believe that it is appropriate to prepare the condensed financial statements on a going concern basis.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of cash-generating units and also the selection of appropriate discount rates, which involves judgement, to calculate present values (see note 11). The carrying value of goodwill is £1,261.0m (31 December 2013: £1,270.8m) at the balance sheet date.

Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, future returns on assets and future contribution rates (see note 15).

Business combinations

The calculation of fair values associated with business combinations requires the use of judgement in determining the future economic inflows and outflows associated with the acquired assets and liabilities. This includes the estimation of contingent deferred consideration and intangibles arising on acquisition. As permitted by IFRS 3 (2008), provisional amounts are recognised for acquired net assets during the measurement period where complete information about facts and circumstances that existed at the acquisition date is not available at the reporting date.

Provisions for onerous contracts

Determining whether provisions are required for loss making onerous contracts requires an estimate to be made of the future profitability of the given contract, based on various interdependent factors. Historically these provisions have been rare, but in the current year an exceptional charge was made for onerous contracts, with further details provided in note 13.

Notes to the condensed set of financial statements

2. Segmental information

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

Following the Cabinet Office review across other Serco contracts with UK Central Government, Serco agreed with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency which included the separation of the UK & Europe division into two new divisions - UK Central Government and UK & Europe Local & Regional Government. The reportable segments have therefore changed in 2014 to reflect the separation of the UK & Europe segment into these two new segments. In addition, certain contracts have moved from the Global Services division to the UK Central Government division, resulting in the transfer of the following amounts from Global Services:

	Six months ended 30 June 2013	Year ended 31 December 2013
Revenue	32.2	62.8
Operating profit	3.3	6.0
Segment assets	3.8	2.1
Segment liabilities	(3.0)	(3.1)

The Group's reportable operating segments under IFRS 8 *Operating Segments* are provided below.

Reportable segments	Operating segments
UK Central Government	Frontline services delivered to the UK Central Government in areas including defence, science, home affairs, citizen services and transport operations;
UK & Europe Local & Regional Government	UK and European frontline services in areas including health, transport and local government direct services;
Americas	Frontline services to defence and other federal agencies, civilian agencies, selected state and municipal governments and the Canadian Government;
AMEAA	Frontline services in the Australia, New Zealand and Asia region and the Middle East region; and
Global Services	Business Process Outsourcing (BPO) across middle and back office services.

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2014. The accounting policies of the reportable segments are the same as those described in the summary of the significant accounting policies which are described in the Group's latest Annual Report and Accounts.

Segment assets exclude all derivative financial instruments, current and deferred taxation assets, loans to joint ventures and cash. Segment liabilities consist of all trade and other payables and retirement benefit obligations.

Notes to the condensed set of financial statements

2. Segmental information (continued)

Geographic analysis

	Six months ended 30 June 2014		Six months ended 30 June 2013		Year ended 31 December 2013	
	Revenue (unaudited) £m	Non- current assets (unaudited) £m	Revenue (unaudited) £m	Non- current assets (unaudited) £m	Revenue (audited) £m	Non- current assets (audited) £m
United Kingdom	1,028.7	791.1	1,029.1	778.5	2,071.5	784.1
United States	345.9	407.6	346.1	466.0	706.5	423.7
Australia	356.0	170.3	423.0	196.9	869.2	167.0
Other countries	287.1	407.8	315.1	402.6	640.9	406.5
Total	2,017.7	1,776.8	2,113.3	1,844.0	4,288.1	1,781.3

Reportable segments

Six months ended 30 June 2014 (unaudited)	CG £m	LRG £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Revenue							
Adjusted revenue	836.2	425.3	367.6	470.1	334.0	-	2,433.2
Less: Share of joint venture revenue	(321.7)	(54.8)	(0.3)	(38.7)	-	-	(415.5)
Revenue	514.5	370.5	367.3	431.4	334.0	-	2,017.7
Result							
Operating profit before exceptional items	28.1	5.7	21.8	18.3	(6.0)	(28.6)	39.3
Exceptional net profit on disposal of subsidiaries and operations	1.7	0.5	-	-	-	-	2.2
Other exceptional operating items	(1.2)	(12.4)	-	(4.0)	(0.6)	(13.4)	(31.6)
Operating profit	28.6	(6.2)	21.8	14.3	(6.6)	(42.0)	9.9
Investment revenue							2.8
Finance costs							(20.0)
Loss before tax							(7.3)
Tax							0.9
Loss after tax							(6.4)
Segment assets:							
Interests in joint ventures	3.6	(3.7)	0.2	7.0	-	-	7.1
Other segment assets	230.4	461.3	535.2	442.2	856.5	113.8	2,639.4
Total segment assets	234.0	457.6	535.4	449.2	856.5	113.8	2,646.5
Unallocated assets							299.0
Consolidated total assets							2,945.5
Segment liabilities:							
Segment liabilities	(148.9)	(137.5)	(72.8)	(163.7)	(190.3)	(44.7)	(757.9)
Unallocated liabilities							(958.6)
Consolidated total liabilities							(1,716.5)

Notes to the condensed set of financial statements

2. Segmental information (continued)

Six months ended 30 June 2013 (unaudited and restated)	CG £m	LRG £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Revenue							
Adjusted revenue	868.2	449.1	374.6	500.2	356.4	-	2,548.5
Less: Share of joint venture revenue	(337.4)	(50.5)	(0.4)	(46.9)	-	-	(435.2)
Revenue	530.8	398.6	374.2	453.3	356.4	-	2,113.3
Result							
Operating profit	65.9	11.5	22.8	36.5	11.5	(23.1)	125.1
Investment revenue							2.6
Finance costs							(21.6)
Profit before tax							106.1
Tax							(21.9)
Profit after tax							84.2
Segment assets:							
Interests in joint ventures	9.3	(5.5)	0.2	7.5	-	-	11.5
Other segment assets	244.0	491.0	635.0	473.6	885.2	19.2	2,748.0
Total segment assets	253.3	485.5	635.2	481.1	885.2	19.2	2,759.5
Unallocated assets							268.9
Consolidated total assets							3,028.4
Segment liabilities:							
Segment liabilities	(136.0)	(146.6)	(97.7)	(171.8)	(229.8)	(36.5)	(818.4)
Unallocated liabilities							(1,078.6)
Consolidated total liabilities							(1,897.0)

Year ended 31 December 2013 (unaudited and restated)	CG £m	LRG £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Revenue							
Adjusted revenue	1,712.5	907.2	765.3	1,049.5	709.4	-	5,143.9
Less: Share of joint venture revenue	(666.4)	(104.4)	(0.7)	(84.3)	-	-	(855.8)
Revenue	1,046.1	802.8	764.6	965.2	709.4	-	4,288.1
Result							
Operating profit before exceptional items	115.0	24.4	47.5	77.8	19.5	(49.9)	234.3
Exceptional net profit on disposal of subsidiaries and operations	-	19.2	-	-	-	-	19.2
Other exceptional operating items	(73.9)	(18.4)	-	(10.1)	(6.0)	(1.3)	(109.7)
Operating profit	41.1	25.2	47.5	67.7	13.5	(51.2)	143.8
Investment revenue							5.2
Finance costs							(42.4)
Profit before tax							106.6
Tax							(11.2)
Profit after tax							95.4
Segment assets:							
Interests in joint ventures	5.9	(4.5)	0.2	6.5	-	-	8.1
Other segment assets	194.5	444.1	558.3	418.7	844.6	126.0	2,586.2
Total segment assets	200.4	439.6	558.5	425.2	844.6	126.0	2,594.3
Unallocated assets							214.6
Consolidated total assets							2,808.9
Segment liabilities:							
Segment liabilities	(114.1)	(118.2)	(70.3)	(147.7)	(177.4)	(61.3)	(689.0)
Unallocated liabilities							(1,024.0)
Consolidated total liabilities							(1,713.0)

Notes to the condensed set of financial statements

3. Acquisitions

On 2 January 2014, 70% of the share capital of MENA Business Services LLC was acquired. MENA is a regional provider of contact centre, training services and business consultancy outsourcing services, based in the Middle East.

The initial cash consideration was £3.1m. Up to a further £2.1m is payable from 2015 to 2016, contingent on the financial performance of the acquired business. The provisional fair value of this deferred contingent consideration is £2.1m. Goodwill of £4.4m arose on the transaction. Net cash payments arising on the acquisition were £2.3m, representing cash consideration of £3.1m net of £0.8m of cash balances acquired.

The provisional value of goodwill of £4.4m arising from the acquisition represents future opportunities in the Middle East business consultancy outsourcing services market. None of the goodwill is expected to be deductible for corporate income tax purposes.

Deferred consideration payments of £3.0m were made in the period in relation to prior year acquisitions, representing the final payment in respect of Intelenet.

In 2013 deferred consideration payments were made in relation to prior year acquisitions, which totalled £18.6m. This represented £11.9m in relation to the acquisition of Intelenet and £6.7m in relation to the acquisition of Serco Listening Company Limited.

Notes to the condensed set of financial statements

4. Disposals

On 10 March 2014 the Group disposed of its Braintree Community Hospital business to the Mid Essex Clinical Hospital Trust. There was a payment of £0.5m to the purchaser and the gain on disposal was £0.5m, reflecting the net liabilities disposed. On 19 June 2014 the Group disposed of its debt collection business, Collectica Limited. The initial cash consideration received was £6.5m and the resulting loss on disposal was £3.7m.

There was a gain of £5.4m recognised in the period in relation to the disposal of the nuclear assurance technical consulting services business that had been sold in 2012, following the release of provisions in relation to the 2012 disposal of the technical services business which have become time expired.

In the period, deferred cash proceeds of £2.0m in relation to the prior year disposal of UK transport maintenance and technology business were received. £0.4m was also cash paid in relation to accrued disposal costs in relation to prior year transactions.

	Collectica Six months ended 30 June 2014 £m	Braintree Six months ended 30 June 2014 £m	Other Six months ended 30 June 2014 £m	Total Six months ended 30 June 2014 £m	Total Six months ended 30 June 2013 £m	Total Year ended 31 December 2013 £m
The profit/(loss) on disposal is calculated as follows:						
Consideration	6.5	(0.5)	-	6.0	-	49.2
Less:						
Net assets disposed	(9.2)	-	-	(9.2)	-	(23.7)
Disposal related costs	(1.0)	1.0	5.4	5.4	-	(6.3)
Profit/(loss) on disposal	(3.7)	0.5	5.4	2.2	-	19.2

The net cash inflow/(outflow) arising on disposals is as follows:

Consideration received	6.5	(0.5)	2.0	8.0	-	49.2
Less:						
Deferred consideration	-	0.5	-	0.5	-	(2.3)
Cash and cash equivalents disposed	(1.0)	-	-	(1.0)	-	-
Disposal-related costs paid during the period	(0.2)	(0.1)	(0.4)	(0.7)	(2.1)	(6.3)
Net cash inflow/(outflow) on disposal	5.3	(0.1)	1.6	6.8	(2.1)	40.6

Notes to the condensed set of financial statements

5. Joint ventures

The Group has certain arrangements where control is shared equally with one or more parties. As each arrangement is a separate legal entity and legal ownership and control are equal with all other parties, there are no significant judgements required to be made with regards to consolidation.

Summarised financial information of the two joint ventures which are material to the Group and an aggregation of the other joint ventures in which the Group has an interest is as follows:

Six months ended 30 June 2014 (unaudited)						Six months ended 30 June 2013 (unaudited)	Year ended 31 December 2013 (audited)
	AWEML ¹ £m	NRHL ² £m	Group portion of material joint ventures ³ £m	Group portion of other joint ventures ³ £m	Total ³ £m	Total £m	Total £m
Revenue	519.0	297.6	321.8	93.7	415.5	435.2	855.8
Operating profit	29.4	4.0	11.8	4.9	16.7	29.0	58.9
Net investment revenue/ (finance costs)	0.3	0.2	0.2	(0.4)	(0.2)	(0.2)	(0.4)
Income tax expense	(3.0)	(1.8)	(1.9)	(0.8)	(2.7)	(5.8)	(11.4)
Profit from continuing operations	26.7	2.4	10.1	3.7	13.8	23.0	47.1
Other comprehensive income	-	(1.0)	(0.5)	0.4	(0.1)	1.7	2.1
Total comprehensive income	26.7	1.4	9.6	4.1	13.7	24.7	49.2
Dividends received from joint venture	9.0	2.9	11.9	2.8	14.7	24.5	51.5
Non-current assets	457.2	12.4	158.6	20.2	178.8	214.8	177.5
Current assets	193.5	91.8	110.4	39.9	150.3	155.7	136.2
Current liabilities	(177.9)	(100.0)	(109.3)	(35.7)	(145.0)	(146.4)	(131.6)
Non-current liabilities	(456.9)	(10.8)	(157.7)	(19.3)	(177.0)	(212.6)	(174.0)
Net assets	15.9	(6.6)	2.0	5.1	7.1	11.5	8.1
Proportion of group ownership	33%	50%	-	-	-	-	-
Interest in joint ventures	5.3	(3.3)	2.0	5.1	7.1	11.5	8.1

1 AWE Management Limited (100% of entity's results)

2 Northern Rail Holdings Limited (100% of entity's results)

3 Representing the Group's percentage portion of the results of the respective joint ventures

Notes to the condensed set of financial statements

6. Exceptional items

Exceptional items are non-recurring items of financial performance that are material to the results of the Group either by virtue of size or nature. The Group believes these items require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Net profit on disposal of subsidiaries and operations

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Gain on disposal of UK transport maintenance business	-	-	23.2
Gain on disposal of Braintree Community Hospital	0.5	-	-
Loss on disposal of occupational health business	-	-	(3.9)
Loss on disposal of Collectica	(3.7)	-	-
Loss on disposal of Ascot College	-	-	(0.1)
Prior period technical services disposal adjustment	5.4	-	-
Net profit on disposal of subsidiaries and operations	2.2	-	19.2

In June 2014 the Group concluded the sale of Collectica Limited, a debt recovery business, to Marston Holdings Limited. Collectica, whose main contract is with Her Majesty's Court and Tribunal Service, an executive agency of the Ministry of Justice (MoJ), collects long standing debt using bailiff services. The loss on disposal was £3.7m.

In March 2014, the Group's operations at Braintree Community Hospital were disposed, resulting in a gain of £0.5m.

A further gain of £5.4m was also made in the period, following the release of provisions in relation to the 2012 disposal of the technical services business which have become time expired.

Other exceptional operating items

During the prior year an investigation was undertaken by the MoJ into the billing practices in respect of the Electronic Monitoring (EM) contract. Additionally, the Cabinet Office undertook a wider review across other Serco contracts with UK Central Government. Serco also agreed with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency which included the separation of the UK & Europe division into two new divisions - UK Central Government and UK & Europe Local & Regional Government. The audits, reviews and corporate renewal processes all incurred one-off costs that were deemed to be exceptional items in 2013 and 2014, which are set out in the table below together with other items identified for separate presentation.

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Costs associated with UK Government reviews	(5.7)	-	(11.6)
Settlement amounts relating to UK Government reviews	-	-	(66.3)
UK clinical health contract provisions	(3.9)	-	(17.6)
Restructuring	(14.5)	-	(14.9)
Provision for settlement relating to pension deficit funding	(7.5)	-	-
Asset impairment	-	-	(9.6)
Deferred consideration relating to prior year acquisition	-	-	10.3
Other exceptional operating items	(31.6)	-	(109.7)

Notes to the condensed set of financial statements

6. Exceptional items (continued)

Settlement amounts relating to UK Government reviews

In December 2013, following a review of the billing arrangements on the EM contract by the MoJ, a settlement of £64.3m was reached in respect of contractual claims. In addition, a £2.0m settlement was reached on the Prisoner Escort & Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profit earned on this contract. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established; Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office, in relation to the electronic monitoring contract.

Costs associated with UK Government reviews

Since July 2013 there have been external adviser and other directly-related incremental costs that amounted to £11.6m in the period to 31 December 2013 and £5.7m in the six months to 30 June 2014.

UK clinical health withdrawal and onerous contract provisions

During the period the Group continued to monitor performance on the UK clinical health operations, against which an onerous contract provision was made in the prior year and where the Group's intention is to withdraw from the UK clinical health market. Two contracts, Cornwall Out of Hours and Braintree Clinic al Services which was disposed of in the period, are being exited early and a third loss-making contract, Suffolk Community Health, is being run through to the end of the contract term in 2015. Following a further review of the costs of delivering improved service levels and meeting performance obligations through to the end of the contracts and the intended withdrawal from this market, the Group has revised upwards the estimate of the costs of running the contracts to term, resulting in an additional non-cash exceptional charge of £3.9m in the period (year ended 31 December 2013: £17.6m).

Restructuring

As a result of an assessment of the Group's operations, a restructuring charge of £14.5m was taken in the six months ended 30 June 2014, which was in addition to a charge of £14.9m incurred in 2013.

Provision for settlement relating to pension deficit funding

The Group is in dispute with the Trustees of the DLR pension scheme over the extent of its liability to fund the deficit on the pension scheme. At 30 June 2014 the Group has recognised a £7.5m provision in relation to this matter for the estimated settlement, together with associated costs. This has been disclosed as an exceptional item as it is material and considered a non-recurring event as the dispute arises from a disagreement over the extent of liability to fund the deficit.

Asset impairment

As a result of a review of under-performing businesses and operations, an impairment charge of £9.6m was taken in 2013 in relation to the carrying value of fixed assets in Great Southern Railway, a rail tourism business based in Australia, reflecting challenging market condition.

Adjustment to prior year acquisitions

On assessment against the earn-out criteria, in 2013 an adjustment was made to the deferred consideration arising on the Intelenet acquisition in 2011 of £10.3m.

Tax impact of above items

The tax impact of these items was a tax credit of £4.2m (31 December 2013: £28.8m).

Notes to the condensed set of financial statements

7. Investment revenue and finance costs

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Interest receivable on other loans and deposits	1.3	1.4	2.4
Net interest receivable on retirement benefit obligations	1.5	1.2	2.3
Movement in discount on other debtors	-	-	0.5
Investment revenue	2.8	2.6	5.2
Interest payable on non-recourse loans	(0.4)	(0.5)	(0.8)
Interest payable on other loans	(15.7)	(17.1)	(31.5)
Facility fees and other charges	(1.9)	(1.8)	(6.1)
Interest payable on obligations under finance leases	(1.9)	(1.2)	(2.5)
Movement in discount on provisions and deferred consideration	(0.1)	(1.0)	(1.5)
Finance costs	(20.0)	(21.6)	(42.4)

8. Tax

The effective tax rate on profit before exceptional items is 14.9% (six months to 30 June 2013: 20.6%). The principal drivers of this tax rate are the mix of taxable profits across the countries in which the group operates and the equity accounting for our joint ventures which includes their tax charges in the group profit before tax.

The effective tax rate on exceptional items is 14.3% (six months to 30 June 2013: £nil). This rate is driven by costs for which no tax relief is available.

During the period the group has recognised a deferred tax credit of £4.6m (six months to 30 June 2013: nil) in respect of UK losses incurred in the period. At as 30 June 2014 the total deferred tax asset recognised in respect of UK losses is £29.6m (six months to 30 June 2013: £nil).

9. Dividends

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2013 of 7.45p per share on 487.4 million ordinary shares (2013: Final dividend for the year ended 31 December 2012 of 7.45p per share on 488.3 million ordinary shares)	36.4	36.4	36.4
Interim dividend for the year ended 31 December 2013 of 3.10p per share on 486.9 million shares (2012: Interim dividend for the year ended 31 December 2012 of 2.65p per share on 488.2 million shares)	-	-	15.1
	36.4	36.4	51.5

The declared interim dividend is 3.10p per ordinary share on 538.4 million shares, representing a payment of £16.7m (2013: interim dividend of 3.10p per ordinary share on 486.9 million shares, representing a payment of £15.1m).

The declared interim dividend was approved by the Board on 11 August 2014 and has not been included as a liability as at 30 June 2014.

Notes to the condensed set of financial statements

10. Earnings per share

Basic and diluted earnings per share (EPS) have been calculated in accordance with IAS 33 *Earnings per Share*.

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

	Six months ended 30 June 2014 (unaudited) Millions	Six months ended 30 June 2013 (unaudited) Millions	Year ended 31 December 2013 (audited) Millions
Number of shares			
Weighted average number of ordinary shares for the purpose of basic EPS	503.6	490.1	489.0
Effect of dilutive potential ordinary shares: share options	12.3	13.4	11.6
Weighted average number of ordinary shares for the purpose of diluted EPS	515.9	503.5	500.6

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Earnings (unaudited) £m	Earnings (unaudited) £m	Earnings (audited) £m
Earnings per share			
	Per share amount (unaudited) Pence	Per share amount (unaudited) Pence	Per share amount (audited) Pence
Earnings before exceptional items	18.8	84.2	157.1
Exceptional items	(25.2)	-	(61.7)
Earnings for the purpose of basic EPS	(6.4)	84.2	95.4
Effect of dilutive potential ordinary shares	-	(0.46)	-
Diluted EPS	(6.4)	16.72	19.06

At 30 June 2014 options over 1,073,127 (30 June 2013 and 31 December 2013: nil) 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 year and they were therefore anti-dilutive.

11. Goodwill

	£m
At 1 January 2013	1,312.1
Exchange differences	22.6
At 30 June 2013	1,334.7
Disposals	(15.7)
Exchange differences	(48.2)
At 31 December 2013	1,270.8
Additions	4.4
Disposals	(3.4)
Exchange differences	(10.8)
At 30 June 2014	1,261.0

Notes to the condensed set of financial statements

11. Goodwill (continued)

The goodwill acquired in business combinations is allocated at acquisition to the cash-generating units (CGUs) that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Following a weakened outlook in certain parts of the business, an impairment review was undertaken. This review focused on the Global Services and Health CGUs and adopted key assumptions consistent with the prior year end, except for the discount rate in Global Services which has reduced to 11.4% to more appropriately represent the respective risks inherent in the associated Indian and UK cash flows. No other CGUs displayed any indicators of impairment after considering their performance in the period and in light of headroom on historic impairment reviews.

Key assumptions

The key assumptions affecting the CGUs within each operating segment are discussed below. The table shows the key assumptions applied in the impairment review across the CGUs. These assumptions are revised in light of changes to the current economic environment.

	Discount rate 30 June 2014 %	Discount rate 31 December 2013 %	Terminal growth rates 30 June 2014 %	Terminal growth rates 31 December 2013 %	Goodwill 30 June 2014 £m	Goodwill 31 December 2013 £m	Goodwill 30 June 2013 £m
UK Central Government							
Home Affairs		9.1		2.2	42.6	46.0	46.0
UK&E Local & Regional Government							
Health	9.2	9.1	2.2	2.2	79.5	79.5	81.4
Transport & Local Direct Services		9.1		2.2	116.6	116.9	131.2
Germany		8.6		2.0	17.1	17.6	17.9
Global Services	11.4	12.5	4.0	4.0	517.7	513.3	501.9
Americas		10.5		2.4	373.8	385.9	421.4
AMEAA							
ASPAC		10.4		3.0	105.7	103.3	125.9
Middle East		8.6		3.0	8.0	8.3	9.0
At 31 December					1,261.0	1,270.8	1,334.7

Sensitivity analysis

Sensitivity analysis has been performed for each key assumption and, except as noted below, the Directors have not identified any reasonably possible change in a key assumption that would cause the carrying value of net assets, including goodwill, to exceed the recoverable amount.

Sensitivity analysis shows that a 1% increase in the discount rate would result in an impairment of the Health CGU of £0.8m and the Global Services CGU of £45.2m. A 1% increase in the discount rate would not cause the operating assets, including goodwill, to exceed their recoverable amount on any other CGU.

Sensitivity analysis shows that a 1% decrease in the terminal growth rate would result in an impairment of the Global Services CGU of £60.2m. A 1% decrease in the terminal growth rate would not cause the operating assets, including goodwill, to exceed their recoverable amount on any other CGU.

Notes to the condensed set of financial statements

12. Analysis of net debt

	Cash and cash equivalents £m	Non-recourse loans £m	Other loans £m	Obligations under finance leases £m	Total £m
At 1 January 2013 (audited)	142.8	(25.1)	(699.5)	(50.2)	(632.0)
Cash flow	50.3	4.9	(124.2)	(3.5)	(72.5)
Exchange differences	0.8	(0.2)	(34.8)	(0.1)	(34.3)
Non-cash movements	-	(2.2)	-	(13.1)	(15.3)
At 30 June 2013 (unaudited)	193.9	(22.6)	(858.5)	(66.9)	(754.1)
Cash flow	(52.1)	-	25.2	8.4	(18.5)
Exchange differences	(16.7)	0.1	51.1	0.4	34.9
Non-cash movements	-	2.2	-	(9.9)	(7.7)
At 31 December 2013 (audited)	125.1	(20.3)	(782.2)	(68.0)	(745.4)
Cash flow	97.5	1.4	48.2	9.2	156.3
Acquisitions	0.8	-	-	-	0.8
Disposals	(1.0)	-	-	-	(1.0)
Exchange differences	(1.6)	-	17.2	-	15.6
Non cash movements	-	(2.6)	-	(4.5)	(7.1)
At 30 June 2014 (unaudited)	220.8	(21.5)	(716.8)	(63.3)	(580.8)

13. Provisions

	Employee Related ¹ £m	Property ² £m	Contract ³ £m	Other ⁴ £m	Total £m
At 1 January 2013 (audited)	13.3	7.9	14.9	20.1	56.2
Charged to income statement	3.2	-	0.3	4.7	8.2
Released to income statement	-	(0.1)	(1.2)	(4.5)	(5.8)
Utilised during the period	(1.7)	(1.7)	(4.4)	(3.8)	(11.6)
Unwinding of discount	-	0.1	0.2	-	0.3
Exchange differences	0.3	0.4	0.1	0.7	1.5
At 30 June 2013 (unaudited)	15.1	6.6	9.9	17.2	48.8
Derecognised on disposal of subsidiary	-	(0.3)	-	-	(0.3)
Charged to income statement	2.6	0.2	21.4	3.1	27.3
Released to income statement	-	-	(3.4)	(2.9)	(6.3)
Utilised during the period	(1.0)	(0.8)	(1.5)	(2.2)	(5.5)
Unwinding of discount	-	0.1	-	-	0.1
Exchange differences	(1.0)	(0.5)	(0.5)	(1.0)	(3.0)
At 31 December 2013 (audited)	15.7	5.3	25.9	14.2	61.1
Acquisitions	-	0.1	-	-	0.1
Charged to income statement	6.4	2.4	12.0	9.0	29.8
Released to income statement	(0.2)	(0.4)	(3.5)	(3.7)	(7.8)
Utilised during the period	(1.4)	(0.8)	(10.0)	(2.1)	(14.3)
Unwinding of discount	-	0.1	-	-	0.1
Exchange differences	(0.3)	(0.2)	-	(0.2)	(0.7)
At 30 June 2014 (unaudited)	20.2	6.5	24.4	17.2	68.3

Analysed as:

Current	3.1	2.5	18.3	15.2	39.1
Non-current	17.1	4.0	6.1	2.0	29.2

- Employee related provisions are liabilities for long-term service awards, terminal gratuities and redundancy payments which have been recognised based on contractual entitlement, including (where applicable) an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts.
- 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 required. Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations as they fall due over the next ten years.
- Contract provisions relate to provisions for loss making onerous contracts. Management has used the present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts in determining the provision.
- Other provisions are held for legal and other costs that the Group expects to incur over an extended period. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome.

Notes to the condensed set of financial statements

14. Financial instruments

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: derived from unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: derived from other observable market data for the assets or liabilities; and

Level 3: derived from valuation techniques using data that is not based on observable market data.

Based on the above, the derivative financial instruments held by the Group at 30 June 2014, are considered to fall into Level 2. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. There have been no transfers between levels in the year.

The Group held the following financial instruments:

	Carrying amount (measurement basis)		Comparison fair value	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost 6 months ended 30 June 2014 (unaudited) £m	Fair value - Level 2 6 months ended 30 June 2014 (unaudited) £m	Level 2 6 months ended 30 June 2014 (unaudited) £m	Amortised cost Year ended 31 December 2013 (audited) £m	Fair value - Level 2 Year ended 31 December 2013 (audited) £m	Level 2 Year ended 31 December 2013 (audited) £m
Financial assets - current						
Cash and bank balances	220.8	-	220.8	125.1	-	125.1
Forward foreign exchange contracts designated as FVTPL	-	0.8	-	-	8.6	-
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	0.6	-	-	-	-
Forward foreign exchange contracts	-	-	-	-	0.1	-
Trade receivables	244.3	-	244.3	210.7	-	210.7
Loan receivables	2.4	-	2.4	2.5	-	2.5
		-				
Financial assets – non-current						
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	0.7	-	-	-	-
Loan receivables	3.1	-	3.1	3.3	-	3.3
Financial liabilities - current						
Forward foreign exchange contracts designated as FVTPL	-	(3.9)	-	-	(6.8)	-
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	(0.7)	-	-	(0.3)	-
Forward foreign exchange contracts	-	(12.1)	-	-	(13.1)	-
Trade payables	(160.9)	-	(160.9)	(169.9)	-	(169.9)
Loans	(34.8)	-	(36.4)	(52.2)	-	(59.3)
Obligations under finance leases	(15.2)	-	(15.2)	(14.9)	-	(14.9)
Financial liabilities – non-current						
Interest rate swaps designated as FVTPL	-	-	-	-	(0.1)	-
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	(4.0)	-	-	(0.3)	-
Forward foreign exchange contracts	-	(13.2)	-	-	(20.7)	-
Loans	(709.0)	-	(715.1)	(756.1)	-	(736.8)
Obligations under finance leases	(48.1)	-	(48.1)	(53.1)	-	(53.1)

Notes to the condensed set of financial statements

14. Financial instruments (continued)

	Carrying amount (measurement basis)	Fair value - Level 2 6 months ended 30 June (unaudited)	Comparison fair value Level 2 6 months ended 30 June (unaudited)
	£m	£m	£m
Financial assets - current			
Cash and bank balances	193.9	-	193.9
Forward foreign exchange contracts designated as FVTPL	-	6.1	-
Derivative financial instruments in designated hedge accounting relationships:			
Cross currency swaps	-	0.3	-
Forward foreign exchange contracts	-	0.3	-
Trade receivables	574.6	-	574.6
Loan receivables	1.0	-	1.0
Financial assets – non-current			
Derivative financial instruments in designated hedge accounting relationships:			
Cross currency swaps	-	0.7	-
Forward foreign exchange contracts	-	0.1	-
Loan receivables	0.5	-	0.5
Financial liabilities - current			
Forward foreign exchange contracts designated as FVTPL	-	(1.2)	-
Derivative instruments in designated hedge accounting relationships:			
Forward foreign exchange contracts	-	(11.8)	-
Trade payables	(183.7)	-	(183.7)
Loans	(49.0)	-	(45.7)
Obligations under finance leases	(14.2)	-	(14.2)
Financial liabilities – non-current			
Interest rate swaps designated as FVTPL	-	(0.1)	-
Derivative instruments in designated hedge accounting relationships:			
Forward foreign exchange contracts	-	(18.6)	-
Loans	(833.7)	-	(824.0)
Obligations under finance leases	(52.7)	-	(52.7)

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and finance lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the tenor of the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

Notes to the condensed set of financial statements

15. Defined benefit schemes

The service cost included in operating profit in the period is £12.5m (30 June 2013: £9.3m, 31 December 2013: £20.1m). Included in investment revenue and finance costs is a credit of £1.5m (30 June 2013: £1.2m, 31 December 2013: £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 estimated actuarial deficit of SPLAS as at 30 June 2014 was approximately £2m (31 December 2013: £13m, 30 June 2013: £27m). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2012 and resulted in an actuarially assessed deficit of £24m. Following this review, the Group agreed with the Trustees to a small increase in contributions, bringing cash contributions up to 33% of members' pensionable salaries until 2021. The level of benefits and contributions under the scheme is kept under continual review in light of the needs of the business and changes to pension legislation.

	Contract specific £m	Non-contract specific £m	Total £m
At 30 June 2014 (unaudited)			
Fair value of scheme assets	239.4	1,201.7	1,441.1
Present value of scheme liabilities	(287.3)	(1,126.5)	(1,413.8)
Net amount recognised	(47.9)	75.2	27.3
Members' share of deficit	-	3.7	3.7
Franchise adjustment	44.4	-	44.4
Net retirement benefit (obligation)/asset	(3.5)	78.9	75.4
Analysed as:			
Retirement benefit obligations	(3.5)	(5.9)	(9.4)
Retirement benefit assets	-	84.8	84.8
Related assets:			
Intangible assets	0.3	-	0.3
	Contract specific £m	Non-contract specific £m	Total £m
At 31 December 2013 (audited)			
Fair value of scheme assets	227.2	1,145.9	1,373.1
Present value of scheme liabilities	(267.8)	(1,091.2)	(1,359.0)
Net amount recognised	(40.6)	54.7	14.1
Members' share of deficit	-	3.7	3.7
Franchise adjustment	35.1	-	35.1
Net retirement benefit (obligation)/asset	(5.5)	58.4	52.9
Analysed as:			
Retirement benefit obligations	(5.5)	(5.8)	(11.3)
Retirement benefit assets	-	64.2	64.2
Related assets:			
Intangible assets	1.0	-	1.0
	Contract specific £m	Non-contract specific £m	Total £m
At 30 June 2013 (unaudited)			
Fair value of scheme assets	212.9	1,175.2	1,388.1
Present value of scheme liabilities	(287.3)	(1,152.9)	(1,440.2)
Net amount recognised	(74.4)	22.3	(52.1)
Members' share of deficit	-	4.3	4.3
Franchise adjustment	62.3	-	62.3
Effect of IFRIC 14	-	0.1	0.1
Net retirement benefit (obligation)/asset	(12.1)	26.7	14.6
Analysed as:			
Retirement benefit obligations	(12.1)	(7.5)	(19.6)
Retirement benefit assets	-	34.2	34.2
Related assets:			
Intangible assets	2.0	-	2.0

Notes to the condensed set of financial statements

15. Defined benefit schemes (continued)

	At 30 June 2014 (unaudited) %	At 31 December 2013 (audited) %	At 30 June 2013 (unaudited) %
Main assumptions:			
Rate of salary increases	3.00	3.20	3.80
Rate of increase in pensions in payment (CPI)	2.30	2.50	2.60
Rate of increase in pensions in payment (RPI)	3.30	3.30	3.50
Rate of increase in deferred pensions (CPI)	2.40	2.60	2.60
Rate of increase in deferred pensions (RPI)	3.40	3.40	3.40
Inflation assumption (CPI)	2.40	2.60	2.60
Inflation assumption (RPI)	3.30	3.40	3.40
Discount rate	4.30	4.60	4.60
	At 30 June 2014 (unaudited) Years	At 31 December 2013 (audited) Years	At 30 June 2013 (unaudited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	22.5	22.5	22.4
Current pensioners at 65 – female	25.0	24.9	24.9
Future pensioners at 65 – male	24.3	24.2	24.2
Future pensioners at 65 – female	27.0	26.9	26.9

Pension assumption sensitivities

	Assumption	Change in assumption	Change in present value of scheme liabilities
Discount rate	4.3%	+0.5% (0.5%)	(8%) +9%
Inflation	3.30% (RPI) and 2.40% (CPI)	+0.5% (0.5%)	+8% (8%)
Rate of salary increase	3.00%	+0.5% (0.5%)	+1% (1%)
Mortality	20.7 – 27.8*	Increase by one year	+2%

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

16. Share-based payments

In accordance with IFRS 2, a charge of £3.1m (30 June 2013: £5.9m, 31 December 2013: £2.9m) relating to the fair value of share schemes granted since 7 November 2002, has been charged to the condensed consolidated income statement.

Notes to the condensed set of financial statements

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

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited and restated) £m	Year ended 31 December 2013 (unaudited and restated) £m
Operating profit for the period	9.9	125.1	143.8
Adjustments for:			
Share of profits in joint ventures	(13.8)	(23.0)	(47.1)
Share-based payment expense	3.1	5.9	2.9
Exceptional impairment of intangible assets and property, plant and equipment	4.6	-	9.6
Depreciation and impairment of property, plant and equipment	22.8	21.2	47.7
Amortisation and impairment of intangible assets	19.1	24.6	46.1
Profit on disposal of subsidiaries and operations	(2.2)	-	(19.2)
Profit on disposal of property, plant and equipment	(0.2)	(0.1)	-
Loss on disposal of intangible assets	0.1	-	1.0
Movement in provisions	11.5	(9.2)	7.4
Release of deferred consideration in relation to prior year acquisition - exceptional	-	-	(10.3)
Other non cash movements	(1.4)	(0.9)	(6.2)
Operating cash inflow before movements in working capital	53.5	143.6	175.7
(Increase)/decrease in inventories	(3.6)	(8.0)	7.2
Increase in receivables	(68.7)	(96.3)	(66.0)
Increase/(decrease) in payables	73.7	(5.9)	(90.2)
Cash generated by operations	54.9	33.4	26.7
Tax received/(paid)	4.1	(8.8)	(18.8)
Net cash inflow from operating activities	59.0	24.6	7.9

18. Related party transactions

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

	Six months ended 30 June 2014 (unaudited) £m	Six months ended 30 June 2013 (unaudited) £m	Year ended 31 December 2013 (audited) £m
Royalties and management fees receivable	0.9	1.1	2.1
Dividends receivable	14.7	24.5	51.5
	15.6	25.6	53.6

The following receivable balances were held relating to joint ventures:

	At 30 June 2014 (unaudited) £m	At 30 June 2013 (unaudited) £m	At 31 December 2013 (audited) £m
Current:			
Loans and other receivables	0.1	0.1	0.4
Non-current:			
Loans and other receivables	9.3	2.6	9.5

19. Contingent liabilities

The Group provides support in relation to bonding and other finance arrangements of its joint ventures up to a maximum value of £26.5m (31 December 2013: £26.0m, 30 June 2013: £27.0m). The actual commitment outstanding at 30 June 2014 is £22.7m (31 December 2013: £22.6m, 30 June 2013: £22.9m).

In addition to this the Company and its subsidiaries have provided performance guarantees and indemnities relating to performance bonds and letters of credit issued by its banks on its behalf, in the ordinary course of business. These are not expected to result in any material financial loss.

The Group operates in many territories where the tax treatment of items is not certain, and it can and does take many years to resolve issues with the appropriate tax authorities or courts. Specifically, a potential liability exists in relation to withholding tax on a historic acquisition for an amount of £36.0m, including £9.0m of interest. No provision has been made for this liability as based on external advice we do not consider it probable that a payment will be required.

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