

Stock Exchange Announcement

11 August 2015

Serco Group plc – 2015 half year results

Six months ended 30 June	2015	2014 ⁽³⁾
Revenue ⁽¹⁾	£1,789.3m	£2,026.3m
Trading Profit ⁽²⁾	£62.7m	£63.3m
Operating Profit Before Exceptional Items	£59.8m	£57.5m
Operating (Loss)/Profit	(£24.8m)	£28.1m
EPS Before Exceptional Items (basic)	2.89p	5.41p
EPS (basic)	(10.32p)	1.42p
Dividend Per Share	-	3.10p
Free Cash Flow	(£77.5m)	£49.7m
Net Debt (including that for assets and liabilities held for sale)	£290.3m	£580.8m

Note 1: Revenue is as defined under IFRS. Adjustments are no longer made to include Serco's share of revenue from its joint ventures.

Note 2: Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Adjustments are no longer made to exclude Serco's share of joint venture tax and interest, management estimation of charges related to UK Government reviews or transaction-related costs.

Note 3: Prior period adjustments have been made to reflect the restatement of certain financial instruments; the impact of fair value movements now taken to the income statement rather than reserves increased pre-tax profit measures by £18.2m; fair value movements are still taken to reserves in the latest period.

- As stated in our First Half Trading Update, the first half has been a little better than was anticipated at the time of our rights issue.
- Trading Profit is in line with our guidance at the First Half Trading Update, with the addition of £5.5m net benefit of Contract and Balance Sheet Review adjustments and £10.3m from exclusion of depreciation and amortisation of assets held for sale; without the benefit of these items, Trading Profit was £46.9m.
- Trading Profit for the comparable period in 2014, excluding an £18.2m financial instruments restatement, was £45.1m.
- We maintain our guidance given at the time of our rights issue of Trading Profit for 2015 of around £90m, with risks now weighted on the upside. This guidance excludes any Contract and Balance Sheet Review adjustments and the treatment of assets held for sale.
- Net exceptional charge of £117.4m in the period, which includes a £70.1m impairment to assets held for sale and £32.8m refinancing costs.
- Rights issue and debt refinancing completed successfully in the period, with closing net debt of £290m, a reduction of £392m since the start of the year.
- £1bn total value of contracts signed in the period, representing 400 individual customer orders of which 15 are contracts greater than £10m; pipeline of larger new bid opportunities remains approximately £5bn.
- Operating costs reduced by over £200m, in proportion with revenue reduction; on track with overhead and other specific cost saving initiatives.
- Good progress being made in other areas of Strategy Review implementation, including reshaping the portfolio on core markets, exiting some of the Group's loss making contracts and improving management information and decision-making processes.

Rupert Soames, Serco Group Chief Executive, said: "This is a respectable start to what will be a long, and no doubt occasionally bumpy, road to recovery. In the period we completed some essential first steps, most notably raising the equity and refinancing our debt which has given us much a stronger balance sheet.

"Trading in the period was a little better than we anticipated at the time of the rights issue, and we are maintaining our previous guidance for 2015, albeit that we now believe that the risks associated with this guidance are weighted to the upside. As previously stated, we expect that revenues and profits will continue to be under pressure in 2016.

"We are making progress executing our strategy; total costs in the period were some £200m lower; we are reshaping the portfolio to become a focused provider of public services, and making good headway exiting loss-making contracts. Good progress is being made on developing and rolling out better reporting and control procedures.

"Many challenges remain, but we are now heading in the right direction. With the rights issue and refinancing behind us, we can now focus on the service we provide our customers and delivering our strategy".

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 today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting 9.00am. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility is also available on +44(0)20 3427 1912 (USA: +1646 254 3361) with participant pin code 2518869.

Forward looking statements

This announcement contains forward looking statements. The terms "expect", "anticipate", "may", "should", "will" and similar expressions identify forward looking statements. By their nature, these forward looking statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: general economic conditions and business conditions in Serco's markets; contracts awarded to Serco; customers' acceptance of Serco's products and services; operational problems; the actions of competitors, trading partners, creditors, rating agencies and others; the success or otherwise of partnering; changes in laws and governmental regulations; regulatory or legal actions, including the types of enforcement action pursued and the nature of remedies sought or imposed; exchange rate fluctuations; the development and use of new technology; changes in public expectations and other changes to business conditions; wars and acts of terrorism; and cyber-attacks. These forward looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, Serco expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this announcement to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based.

Chief Executive's review

Summary of financial performance

Revenue for the period was £1,789.3m (2014: £2,026.3m); this excludes Serco's share of revenue from its joint ventures of £363.9m. At constant currency and adjusting for disposals and acquisitions, the organic revenue decline was 11%, largely as a result of the ending of contracts such as the Docklands Light Railway and National Physical Laboratory in the UK, as well as certain US intelligence agency IT support services and visa processing work; it also reflected the reduced volumes and rates in Australian immigration services, although the decline in volume was marginally less than initially anticipated. Partially offsetting these declines were the start of new contracts such as the Caledonian Sleeper service and ramp-up of operations such as Fiona Stanley Hospital in Australia.

The Trading Profit for the period was £62.7m (2014: £63.3m). This included a net benefit of £5.5m following an assessment of the Contract and Balance Sheet Review items which resulted in a £745.3m charge to Trading Profit in 2014. The judgements supporting these items are re-assessed at least every six months. Additionally, the depreciation and amortisation charges related to assets designated as held for sale at 31 December 2014 have been excluded from the Group accounts; this increased reported Trading Profit by £10.3m. Excluding both these benefits, Trading Profit would have been £46.9m, which was in line with the guidance we gave in our First Half Trading Update. During the period, £69m of onerous contract provisions were utilised, of which £9m was applied to items classified as exceptional; onerous contract provision utilisation in the period was less than we had expected at the start of the year, but most of this effect was related to timing of expenditure. Currency movements had a £1.8m positive impact on Trading Profit for the period, with the constant currency equivalent therefore being £45.1m.

In the first half of 2014, Trading Profit of £63.3m included the benefit of an £18.2m restatement for the fair value movements of derivatives and investment hedges; excluding this restatement, Trading Profit would have been £45.1m. Therefore, in comparing Trading Profit of £46.9m in the latest period with £45.1m in the comparable period, the impact of profit reduction from contract attrition, volume reductions and the disposal of businesses has been offset by the utilisation of provisions and reducing operating costs in line with the revenue reduction.

The Group incurred a £117.4m net exceptional charge in the period. The largest item was an impairment of £70.1m in the carrying value of businesses held for sale; this impairment reflects the latest offers received from potential purchasers of the businesses, together with changes in the perimeter of the businesses offered for sale and the impact of trading on their assets and liabilities in the period. At 30 June 2015, the value of net assets held for sale was £307m. The second largest item was £32.8m of financing costs relating to the rights issue and debt refinancing and these include charges related to the early repayment of debt, all as previously indicated. Other items were a loss on disposals (principally the Great Southern Rail) of £4.9m, and £9.6m of exceptional restructuring and other incremental costs related to the development and implementation of the Strategy Review.

Earnings Per Share before exceptional items were 2.89p per share; including the impact of exceptional items, there was a loss of 10.32p per share.

Free Cash Flow was an outflow of £77.5m (2014: inflow of £49.7m), reflecting the cash outflows related to the utilisation of onerous contract provisions, as well as a working capital outflow as we continue the process of normalising balances at the end of the statutory period compared to the average for the period. Our expectation of free cash outflow for the year as a whole remains at £150m.

Net debt, including that for assets and liabilities held for sale, was £290.3m at the end of the period (31 December 2014: £682.2m). The reduction of £391.9m was principally a result of the April 2015 rights issue net proceeds of £530.1m, £77.5m Free Cash outflow and £72.8m outflow related to exceptional items. Net debt at 30 June 2015 was lower than our anticipation of approximately £350m, largely due to the benefit of the disposal of non-recourse loans and finance leases, together with some foreign exchange movements and timing of cash flows that were not anticipated within the half-year view. Our expectation for net debt at 31 December 2015 remains unchanged from that expressed at the start of the year, being approximately 2x EBITDA equating to closing net debt of approximately £320-350m (before any impact from potential disposals over the remainder of 2015).

As indicated in March, the Board is not recommending the payment of an interim dividend. The Board is committed to resuming dividend payments and a progressive dividend policy when it is prudent to do so. The decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the market outlook at the time.

The Revenue and Trading Profit performance are further described in the Divisional Reviews. Reconciliations to the statutory income statement and detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

Contract awards, pipeline, order book and outlook

The Group signed contracts with an aggregate total value of £1.0bn during the first half of the year; as anticipated, the period was relatively quiet with few major bidding outcomes due. The largest new contracts signed were those for the Saudi Railway Company and the new district general hospital for NHS Dumfries and Galloway. The majority of the total signed value comprised rebids and extensions, including BPO services for a major international financial services customer, air traffic control in the US and IT support services for European agencies. Win rates by volume were over 40% for new bids and over 80% for rebids and extensions.

The pipeline of larger new bids at 30 June 2015 consisted of around 30 opportunities with an estimated total contract value of around £5bn, largely unchanged during the period, as only a small number of bids have been decided, and a small number of new opportunities have entered the pipeline. The average opportunity is around eight years in length and approximately £30m in annual contract value. Rebuilding the pipeline is a major focus of the divisional management teams.

The Group's order book at 30 June 2015 stood at £11.5bn, down from £12.6bn six months earlier. For 2015, given the revenue achieved in the first half of £1.8bn and the order book for the second half of £1.4bn, there is 93% revenue visibility of our £3.5bn guidance. For 2016, contract losses to date and other known areas of revenue reduction are currently estimated to have an impact of around £350m or a 10% revenue decline; this is before the impact of any new contract wins, rebids or extensions. The biggest areas of known impact are in the LRG division, reflecting the end of the Suffolk Community Healthcare, National Citizens Service and Thurrock BPO contracts, together with assumed further volume reduction in Australian immigration services and the managed exit of a number of private sector BPO contracts in line with our strategy. There is £2.2bn of revenue already secured in the order book for 2016, and £1.7bn for 2017.

In terms of securing existing contracts beyond the period contracted to in the order book, there are around 60 contracts with greater than £5m annual revenue contribution that require extension or competitive rebid between now and the end of 2017. The aggregate annualised revenue of those still to be secured over the balance of 2015 is approximately £140m, with a further £340m due in 2016 and £360m due in 2017. This therefore represents approximately 23% of the current annualised revenue for the Group as a whole to be secured before the end of 2017.

Formal guidance for 2016 will be provided at the time of reporting the results for the 2015 financial year, which will be after our detailed budget process has been completed, and will reflect progress made on contract bidding over the balance of the current year. In addition to revenue-related pressures described above, this will also take account of the joint venture profit reduction from the end of the Northern Rail franchise and our update on other operational progress on contracts and cost actions.

Strategy implementation progress

In March, we set out in detail our new strategy, which is to focus on the public sector market and be a leading public service provider. Specifically, we intend to focus on five 'pillars', or market sectors: Defence, Justice & Immigration, Transport, Health and Citizen Services; and to do so across four geographies: UK & Europe, North America, Asia Pacific and the Middle East. The strategy builds upon Serco's long track record and expertise in the transformation and management of complex public services, and of supporting critical and sensitive activities central to the interests of governments. We believe our chosen markets have long-term structural growth drivers and that Serco can play a central role in helping governments respond to the challenge of improving the quality and reducing the cost of public services, whilst earning for our shareholders sustainable and attractive risk-adjusted returns.

This strategy has to be properly funded, and a firm foundation is required to allow the Group to grow and flourish in the future as well as being an absolute necessity to retain customers' confidence. To achieve a sustainable balance sheet with a prudent level of financial gearing, we therefore launched a rights issue during the period, which was successfully completed raising net proceeds of £530m. We subsequently reached agreement with our lending banks and US private placement noteholders to refinance our debt facilities; we have therefore achieved the necessary reduction in our borrowing, extended the time period of our Revolving Credit Facility and put in place more flexible financial covenants.

In reshaping our portfolio, one of four identified target disposals was completed during the period, with the sale of the Great Southern Rail tourist travel operation in Australia. The process related to the potential disposal of our offshore private sector BPO business continues, the main elements of which are the former Intelenet business. The Board continues to consider a number of alternative options, and a further update will be provided at the appropriate time. We are making good progress managing the process of exiting loss-making contracts in the remainder of the private sector BPO business which is predominantly UK onshore operations, and we expect that the run-rate of losses from these contracts will be significantly lower in 2016 than in 2015. The potential disposals of our Environmental Services and Leisure businesses in the UK are also ongoing, which involves the process of novating a large number of individual contracts with multiple local authority customers.

We are working hard to mitigate our loss-making contracts elsewhere throughout the Group in order to improve profitability and cash performance whilst meeting all our contractual service obligations. The adjustments required to the Contract and Balance Sheet Review charges taken last year were a small net positive in the period, and an absolute focus will remain in each and every period and in each and every contract to make further progress. In the second half of the year, we will complete the exit of the Suffolk Community Healthcare and National Citizens Service contracts, both of which had significant losses provided for as part of the Review, and expect further progress on ending loss-making private sector BPO contracts in the UK.

We have made good progress reducing costs, and in the first half operating costs were over £200m lower than the comparable period, which was in line with revenue reduction. Much of this was direct cost reduction resulting from contracts which we exited, or where volumes reduced or businesses were sold; but we are also driving out cost to offset the effect of negative operating leverage as the Group becomes smaller. Our previously announced plans to extract £20m of overhead and other cost savings in 2015 from specific initiatives are on track. Whilst these will annualise to a higher figure next year, there will be offset from inflationary pressure on labour costs and further pressure from negative operating leverage as revenues decline. Across the business we are reducing the number of management layers, rolling out continuous improvement initiatives in our contract base, and making better use of our scale in procurement and the use of shared services.

Management information has improved noticeably, increasing our visibility of performance and strengthening our controls and governance. Additionally, the strengthening of our bid risk management through tightened procedures and more thorough commercial reviews is becoming more deeply embedded in the business.

There remains much to do, in particular on the development of clear and focused market strategies, with improved business development effort in our chosen pillars and real progress on rebuilding our pipelines and win rates. With the rights issue and refinancing now behind us, we can focus entirely on customer service delivery and delivering our future strategy.

We have ended the first half of a very important year in reasonably good order, having completed a number of essential steps on the long road to recovery. We are rightly cautious on 2016 given further revenue attrition and profit pressure, but I am confident we are taking the necessary actions, and have the strategic plan, management team and stabilised financing position in place to succeed.

Rupert Soames OBE

Serco Group Chief Executive Officer

Divisional Reviews

Consistent with the reporting of the Year ended 31 December 2014, this section is presented according to the management structure and internal reporting that Serco put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division ('CG') is now a separate unit which brings together Serco's work for the UK Central Government; it also brings together all Transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government ('LRG') division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division. The former AMEAA region is now reported as two separate divisions – 'AsPac' (the Asia Pacific region, consisting principally of Serco's operations in Australia and New Zealand) and the Middle East. Americas is unchanged as a distinct regional division. The Global Services division now consists of BPO operations only in the private sector.

Aligned to statutory reporting and consistent with the reporting of the Year ended 31 December 2014, Serco's share of revenue from its joint ventures is no longer included in divisional revenue, while Serco's share of joint ventures' interest and tax costs is included in divisional Trading Profit. The Group has also simplified its reporting by ending the sharing of revenues and profits between divisions. The prior period comparative segmental information has been restated to reflect these changes and a full reconciliation of divisional results is available within the accompanying results presentation on www.serco.com/investors.

Six months ended 30 June 2015 £m	CG	LRG	Americas	AsPac	Middle East	Global Services	Corporate costs	Total
Revenue	366.0	463.8	357.9	281.1	143.9	176.6	-	1,789.3
Change	(27.6%)	(4.1%)	(2.6%)	(23.6%)	12.9%	1.0%	-	(11.7%)
Change at constant currency	(27.6%)	(2.7%)	(9.7%)	(19.0%)	4.9%	(3.0%)	-	(12.7%)
Trading Profit/(Loss) before Review adjustments and assets held for sale benefit	24.7	2.1	25.7	7.8	10.0	2.1	(25.5)	46.9
Contract and Balance Sheet Review adjustments	(3.1)	4.1	(3.0)	-	4.6	(1.9)	4.8	5.5
Benefit from not depreciating and amortising assets held for sale*	-	4.1	-	-	-	6.2	-	10.3
Trading Profit/(Loss)	21.6	10.3	22.7	7.8	14.6	6.4	(20.7)	62.7
Amortisation of intangibles arising on acquisition	-	(0.6)	(1.3)	(1.0)	-	-	-	(2.9)
Operating profit/(loss) before exceptionals	21.6	9.7	21.4	6.8	14.6	6.4	(20.7)	59.8

* the total benefit from not depreciating and amortising assets held for sale is £12.7m including £2.4m of amortisation of intangibles arising on acquisition within Global Services

Six months ended 30 June 2014 (restated) £m	CG	LRG	Americas	AsPac	Middle East	Global Services	Corporate costs	Total
Revenue before restatement	505.5	483.5	367.3	367.7	127.5	166.2	-	2,017.7
Restatement of financial instruments	-	-	-	-	-	8.6	-	8.6
Revenue	505.5	483.5	367.3	367.7	127.5	174.8	-	2,026.3
Trading Profit/(Loss) before restatement	23.1	5.3	23.3	13.7	11.0	(2.7)	(28.6)	45.1
Restatement of financial instruments	-	-	9.6	-	-	8.6	-	18.2
Trading Profit/(Loss)	23.1	5.3	32.9	13.7	11.0	5.9	(28.6)	63.3
Amortisation of intangibles arising on acquisition	(0.1)	(0.8)	(1.1)	(1.1)	-	(2.7)	-	(5.8)
Operating profit/(loss) before exceptionals	23.0	4.5	31.8	12.6	11.0	3.2	(28.6)	57.5

Year ended 31 December 2014 £m	CG	LRG	Americas	AsPac	Middle East	Global Services	Corporate costs	Total
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	-	3,955.0
Trading (Loss)/Profit before Contract and Balance Sheet Review items	58.0	3.4	43.2	35.5	19.1	6.9	(52.9)	113.2
Contract and Balance Sheet Review items (onerous contract provisions, asset impairments and other review items)	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(30.3)	(37.3)	(745.3)
Trading (Loss)/Profit	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)
Amortisation of intangibles arising on acquisition	(0.1)	(1.7)	(2.3)	(2.2)	-	(5.1)	-	(11.4)
Impairment of intangibles arising on acquisition	-	(5.5)	-	(6.4)	-	(0.4)	-	(12.3)
Operating (loss)/profit before exceptionals	(242.9)	(97.6)	14.2	(210.2)	(0.2)	(28.9)	(90.2)	(655.8)

UK Central Government

The UK Central Government division includes our frontline services in Defence, Home Affairs (encompassing justice-related operations, immigration and border security) and Transport (including contracts for the Department for Transport as well as those for devolved authorities).

Revenue in the period was £366.0m (2014: £505.5m), a decline of 28%. At constant currency and excluding the impact of disposals (the Collectica debt collection business disposed in June 2014), the organic decline was 26%. The principal drivers of the significant revenue reduction were the end of the contracts for the Docklands Light Railway (DLR), National Physical Laboratory (NPL) and the Colnbrook immigration removal centre. Other reductions included lower project or volume-related revenue, such as managing the Thameside prison expansion and operations at our strategic partnership with the Defence Science and Technology Laboratory (Dstl). There was limited growth elsewhere to offset these contract ends or reductions, with the largest being the start of the Caledonian Sleeper contract which Serco began operating on 31 March 2015.

Trading Profit, before Contract and Balance Sheet Review adjustments, was £24.7m, representing an implied margin of 6.7%. Trading Profit includes the profit contribution from joint ventures (the vast majority of which for the Group are in this division), and if the £344m share of revenue was also included the overall divisional margin is 3.5%; the joint venture profit contribution of £13.4m was broadly the same as the comparable period. Within Trading Profit, there was approximately £32m of onerous contract provision utilisation. This includes those for COMPASS and PECS, which as previously disclosed are amongst the largest provisions taken as part of the Contract and Balance Sheet Review and where the utilisation is weighted to earlier periods as we address operational performance. In comparing to the Trading Profit of £23.1m in the comparable period, the provision utilisation in the latest period, together with reductions in overhead costs, had the effect of more than offsetting the reduction in profit from contract attrition and the business disposal.

The Contract and Balance Sheet Review charge taken in 2014 in Central Government was £300.8m. The net impact of adjustments to key assumptions and other related changes was a £3.1m charge in the latest period, reducing Trading Profit to £21.6m.

UK Central Government represented less than £100m of the Group's aggregate total value of signed contracts during the period; there were a limited number of bids due for decision in the period, with the majority of the value signed reflecting smaller rebids or extensions that were secured.

The impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of approximately 7% in 2016; the key driver of this is the end of the current Defence Business Services arrangement, together with a number of smaller contracts ending or reducing in scope. Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are 11 contracts with annual revenue of over £5m within the UK Central Government division; in aggregate, these represent approximately 20% of the current annualised revenue for the division as a whole.

In terms of areas for future growth, there are limited major new bid opportunities in our pipeline and none that are due for decision over the remainder of the 2015 financial year. Looking beyond, there are opportunities for the potential outsourcing of the Defence Fire & Risk Management Organisation and the operation of the Clyde and Hebrides Ferries. Following the significant disruption to our customer relationships with UK Central Government in 2013 and the subsequent Corporate Renewal process that was put in place over the course of 2014, rebuilding the pipeline is now a major focus, and we will look to identify new opportunities in our core markets of Justice & Immigration, Defence and Transport in the UK as they emerge from policy decisions taken by the new government.

UK and Europe Local and Regional Government

The UK and Europe Local and Regional Government division includes our frontline services in the devolved public service delivery markets of Health, Direct Services (principally environmental and leisure services for local authorities) and Infrastructure Services (such as facilities management), together with Citizen Services which includes welfare support operations, BPO services for local authorities and various support operations for European Agencies.

Revenue in the period was £463.8m (2014: £483.5m), a decline of 4%. At constant currency and excluding the impact of disposals (the Braintree Community Hospital clinical healthcare services business disposed in March

2014), the organic decline was 2%. There was modest revenue growth from the start of new contracts such as Lincolnshire County Council BPO services and Havering environmental services, together with additional volume-related revenues in health procurement processing services. These areas of growth were offset by the end of contracts such as Westminster City Council BPO support and private sector facilities management for an aviation industry customer, together with a small number of other reductions in volume-related revenue predominantly in other Citizen Services operations.

Trading Profit, before Contract and Balance Sheet Review adjustments and the benefit from not depreciating or amortising assets designated as held for sale, was £2.1m, representing a margin of 0.5%. Within Trading Profit, there was approximately £3m of non-exceptional onerous contract provision utilisation. In comparing to the Trading Profit of £5.3m in the comparable period, the provision utilisation in the latest period, together with some initial progress on reducing overhead costs, only partially offset the reduction in profits from the net effect of contracts ending or reducing in scope.

The Contract and Balance Sheet Review charge taken in LRG in 2014 was £93.8m. The net impact of adjustments to key assumptions and other related changes was a £4.1m release in the latest period. As the division includes assets designated as held for sale there is a benefit of not charging depreciation and amortisation of £4.1m. After these adjustments and benefits, Trading Profit was £10.3m.

LRG represented approximately £150m of the Group's aggregate total value of signed contracts during the period; the largest items were the successful rebid of IT support services for European agencies, the new win for non-clinical support services to the new district general hospital for NHS Dumfries and Galloway, and a one-year extension to our operation of the Work Programme.

The impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of approximately 17% in 2016; key drivers of this significant reduction are the end of the Suffolk Community Healthcare and National Citizen Services contracts which were not rebid, and the Thurrock BPO services contract where settlement on early termination has been mutually agreed with the customer. This early termination will result in Serco receiving a £9.9m payment in lieu of anticipated profit in future years and other costs that will be incurred by Serco. Net of costs to transfer operations early and the associated impairments and other charges, a one-time profit currently estimated at £6m which will be recognised on completion of operational handover.

Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are 14 contracts with annual revenue of over £5m within the Local and Regional Government division; in aggregate, these represent approximately 30% of the current annualised revenue for the division as a whole.

In terms of areas for future growth, there are fewer major new bid opportunities in our pipeline than we would like, and none that are due for decision over the remainder of the 2015 financial year. Looking beyond, there are a number of opportunities being developed including further non-clinical support services for NHS trusts, environmental services for local authorities and other Citizen Services developments including further expansion of support to European Agencies.

Americas

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

Revenue in the period was £357.9m (2014: £367.3m), a decline of 3%. In US dollars, the main currency for operations of the division, revenue in the latest period was equivalent to US\$546m. The strengthening particularly of the US dollar provided growth of 7%, with the decline at constant currency being 10%. This decline was driven by the previously disclosed contract attrition from the end of various areas of operations on behalf of the US Federal Retirement Thrift Investment Board (FRTIB), certain US intelligence agency support services and visa processing work. This more than offset expansion in existing services such as the US Affordable Care Act (ACA) eligibility support services contract and naval installation task order work under the Sea Enterprise IDIQ framework.

Trading Profit, before Contract and Balance Sheet Review adjustments, was £25.7m, representing a margin of 7.2%. Within Trading Profit, there was approximately £1m of onerous contract provision utilisation. In comparing to the Trading Profit of £32.9m in the comparable period, this included a £9.6m credit reflecting the restatement of certain financial instruments for fair value movements that would ordinarily be taken directly to reserves; prior to this, the comparable Trading Profit would be £23.3m. Drivers of the improvement from £23.3m to £25.7m Trading Profit in the last period include the effects of provision utilisation, currency strengthening and cost reduction initiatives.

The Contract and Balance Sheet Review charge taken in the Americas division in 2014 was £26.7m. The net impact of adjustments to key assumptions and other related changes was a £3.0m charge in the latest period, reducing Trading Profit to £22.7m.

Americas represented approximately £250m of the Group's aggregate total value of signed contracts and order book progress during the period; the largest was the successful re-compete of air traffic control services for the Federal Aviation Administration, with others including rebids of cost analysis support to the US military and personnel identification support to the US Navy.

The impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of approximately 7% in 2016, driven by a number of individually small reductions in various operations. Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are seven contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent approximately 15% of the current annualised revenue for the division as a whole.

In terms of areas for future growth, our pipeline for the Americas division remains relatively buoyant; major new bid opportunities due for decision over the remainder of the 2015 financial year include processing support for the Department of State and Department of Homeland Security. Looking beyond, the market for defence services remains attractive in size and growth potential and other opportunities include state transport operations and maintenance contracts, non-clinical health support and involvement in parts of the Justice & Immigration market.

AsPac

Operations in the Asia Pacific division include Justice, Immigration, Defence, Health, Transport and Citizen Services. With Serco's operations in Australia being the largest element of the division, the country represents 14% of total Revenue for the Group.

Revenue in the period was £281.1m (2014: £367.7m), a decline of 24%. In Australian dollars, the main currency for operations of the division, revenue in the latest period was equivalent to A\$548m. Local currency weakness, particularly the Australian dollar, contributed a decline of 4%, with the decline at constant currency being 20%. Excluding the impact of disposals (the Great Southern Rail business disposed in May 2015), the organic decline was 16%. This decline was driven almost entirely by the anticipated further reduction in the volume of work in Australian immigration services, which more than offset growth from the Fiona Stanley Hospital in Perth becoming fully operational in the latest period as well as some other areas of scope expansion of existing services.

Trading Profit was £7.8m, representing a margin of 2.8%. Within Trading Profit, there was approximately £18m of onerous contract provision utilisation. In comparing to the Trading Profit of £13.7m in the comparable period, the major driver of reduction reflects the impact of the significant scale reduction in Australian immigration services; overheads also rose in the period but are anticipated to reduce in the second half and for the year as a whole.

The Contract and Balance Sheet Review charge taken in 2014 was £237.1m. There was no impact of adjustments to key assumptions and other related changes, and therefore no charge or release in the latest period within the Trading Profit of £7.8m.

AsPac represented approximately £100m of the Group's aggregate total value of signed contracts and order book progress during the period; the single largest element of this reflects the order book increase to account for a rolling one-year estimate of volumes for Australian immigration services; in a relatively quiet period for other bids due, most of the other progress represented contracts for various Citizen Services processing support work.

The impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of approximately 10% in 2016; the key driver of this is the anticipated further reduction in the volume of work in Australian immigration services and the annualisation effect of the GSR disposal. Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are 11 contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent approximately 30% of the current annualised revenue for the division as a whole.

In terms of areas for future growth, significant market opportunities remain in the AsPac region; major new bid opportunities due for decision over the remainder of the 2015 financial year include offshore immigration detention services and a marine vessel support opportunity. Looking beyond, there are further opportunities in Justice, Immigration and metro transport operations, and other developments expected in Citizen Services and non-clinical health services.

Middle East

Operations in the Middle East division include Transport, Defence, Health and other Direct Services such as facilities management.

Revenue in the period was £143.9m (2014: £127.5m), an increase of 13%. Local currency strengthening provided growth of 8% and a small health support services acquisition added 3%; organic growth at constant currency was therefore 2%. This revenue growth was driven by the start of the new contract for the Saudi Railway Company; other growth from the annualisation of contracts won during 2014 or increases in scope of existing operations was offset by a small number of operations reducing in scope and the end of air traffic control operations in Erbil.

Trading Profit, before Contract and Balance Sheet Review adjustments, was £10.0m, representing a margin of 6.9%. Within Trading Profit, onerous contract provision utilisation was immaterial. In comparing to the Trading Profit of £11.0m in the comparable period, the major driver of reduction reflected the impact of attrition being concentrated in areas that were higher margin.

The Contract and Balance Sheet Review charge taken in 2014 was £19.3m. The net impact of adjustments to key assumptions and other related changes was a £4.6m release in the latest period, which related principally to doubtful debts that were subsequently collected in the period, increasing Trading Profit to £14.6m.

The Middle East represented approximately £200m of the Group's aggregate total value of signed contracts during the period; the largest of these was the new win to support the Saudi Railway Company in the operation of the North South Railway. Other wins included successfully securing existing work for logistics and base support services provided to the Australian Defence Force (ADF) in the region, for facilities management at Abu Dhabi Global Market Square (formerly Sowwah Square) and for Baghdad air and navigation services.

The impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of approximately 5% in 2016; the key driver of this is expected reduction in the scale of the base support services for the ADF. Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are nine contracts with annual revenue of over £5m within the Middle East division; in aggregate, these represent approaching 30% of the current annualised revenue for the division as a whole.

In terms of areas for future growth, there remains a vibrant public service outsourcing market in the region and Serco has strong references to continue expanding. Major opportunities due in 2016 or 2017 include a number of light rail and other transport operations, as well as further developments in non-clinical health and other facilities management support.

Global Services

The Global Services division consists of Serco's private sector BPO business, predominantly for customers in the UK, India and North America, following the transfer of public sector BPO operations to our other divisions. The operations consist of middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services. As previously described, Serco currently plans to dispose of the majority of the private sector BPO business, provided we can secure transactions for the businesses which represent appropriate value for shareholders.

Revenue in the period was £176.6m (2014 £174.8m), an increase of 1%; excluding the prior period restatement for financial instruments, the increase was 6%. Local currency strengthening provided growth of 4%, with the growth at constant currency being 2%. The start of the new contract won in 2014 for multi-channel contact services for a major UK retailer provided revenue growth, as did expansion in domestic Indian BPO operations; however, this was largely offset by a number of small impacts of contract attrition (including our managed exit of a number of smaller loss-making contracts in the UK) or reductions in operational scope.

Trading Profit, before Contract and Balance Sheet Review adjustments and the benefit from not depreciating or amortising assets designated as held for sale, was £2.1m, representing a margin of 1.2%. Within Trading Profit, there was approximately £5m of onerous contract provision utilisation. In comparing to the Trading Profit of £5.9m in the comparable period, this includes an £8.6m credit reflecting the restatement of certain financial instruments for fair value movements that would ordinarily be taken directly to reserves; prior to this, the comparable Trading Profit would be a loss of £2.7m. Drivers of the improvement from a loss of £2.7m to £2.1m Trading Profit in the last period include the effects of provision utilisation, with the net effect of other impacts of growth and attrition, currency and cost initiatives being broadly neutral.

The Contract and Balance Sheet Review charge taken in 2014 was £30.3m. The net impact of adjustments to key assumptions and other related changes was a £1.9m charge in the latest period. As the division includes assets designated as held for sale there is a benefit of not charging depreciation and amortisation of £6.2m. After these adjustments and benefits, Trading Profit was £6.4m.

Global Services represented approximately £250m of the Group's aggregate total value of signed contracts during the period; the largest was successfully securing a five-year extension with a major international financial services customer.

Good progress has been made in managing the process of exiting loss-making contracts in the private sector business that is not part of the potential disposal of offshore operations nor part of the UK regulated operations; in 2014, these operations generated revenue of around £40m or 11% of the revenue for the division as a whole, and will have largely ended by the end of the current financial year. Marking further progress, within UK regulated operations, the transfer of the Shop Direct contract has been completed effective 3 August 2015, which generated revenue of approximately £50m in 2014 or 14% of divisional revenue; as part of the agreement Serco is receiving approximately £20m which reflects our upfront cost investment in the initial years of the contract which is recognised on the balance sheet; the one-time impact of the transfer agreement is expected to be profit-neutral.

The impact of the known revenue reductions from contracts ending is currently anticipated to be approximately 15% in 2016. Additionally, of existing work where an extension or rebid will be required at some point before the end of 2017, there are nine contracts with annual revenue of over £5m within the Global Services division; in aggregate, these represent approximately 20% of the current annualised revenue for the division as a whole.

Corporate Costs

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

Corporate costs in the period, before Contract and Balance Sheet Review adjustments, were £25.5m. These were £3.1m lower than the comparable period which included some one-time Corporate Renewal implementation work that occurred in 2014, and benefits of actions taken to reduce costs at the centre.

The Balance Sheet Review charge taken in 2014 was £37.3m. The net impact of adjustments to key assumptions and other related changes was a £4.8m net release in the latest period, reducing Corporate Costs to £20.7m.

Finance Review

Consolidated Income Statement

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 (restated)** £m	Year ended 31 December 2014 £m
Revenue	1,789.3	2,026.3	3,955.0
Trading profit/(loss)	62.7	63.3	(632.1)
Other expenses – amortisation and impairment of intangibles arising on acquisition	(2.9)	(5.8)	(23.7)
Operating profit/(loss) before exceptional items	59.8	57.5	(655.8)
Exceptional (loss)/profit on disposal of subsidiaries and operations	(4.9)	2.2	(5.4)
Other exceptional operating items	(79.7)	(31.6)	(656.1)
Exceptional operating items	(84.6)	(29.4)	(661.5)
Operating (loss)/profit	(24.8)	28.1	(1,317.3)
Investment income	4.3	2.8	6.2
Other finance costs	(22.9)	(20.0)	(42.9)
Exceptional finance costs	(32.8)	-	-
Total net finance costs	(51.4)	(17.2)	(36.7)
(Loss)/profit before tax	(76.2)	10.9	(1,354.0)
Tax on (loss)/profit before exceptional items	(15.8)	(6.1)	(11.1)
Tax on exceptional items	0.3	4.2	18.0
Tax	(15.5)	(1.9)	6.9
(Loss)/profit	(91.7)	9.0	(1,347.1)
Trading margin	3.5%	3.1%	(16.0%)
Earnings/(loss) per share before exceptional items (restated)*	2.89p	5.41p	(107.43p)
(Loss)/earnings per share (restated)*	(10.32p)	1.42p	(205.66p)
Dividends per share	-	3.10p	3.10p

*Restatement of earnings per share reflects adjustments associated with the rights issue

**Prior year adjustments have been made to reflect the restatement of certain financial instruments. Further details are presented in note 2.

Operating Profit/(Loss) Before Exceptional Items

Analysis of the trading performance of the Group is provided in the Chief Executive's review and the Divisional review sections above.

Included within Operating Profit Before Exceptional Items is the Group's share of the profit after tax of joint ventures. The most significant joint ventures are the Atomic Weapons Establishment (AWE) and Northern Rail, both in the Central Government division. The Group manages AWE in a consortium with Lockheed Martin and Jacobs Engineering Group. In the six months ended 30 June 2015, the Group's share of revenue was £166.5m (six months ended 30 June 2014: £173.0m) and profit after tax was £8.0m (six months ended 30 June 2014: £8.9m). Northern Rail is a 50% joint venture with Abellio to operate the rail franchise that runs until February 2016. In the six months ended 30 June 2015, the Group's share of revenue was £139.4m (six months ended 30 June 2014: £148.8m) and profit after tax was £2.1m (six months ended 30 June 2014: £1.2m). While the revenues and individual line items are not consolidated in the Group Income Statement, summary financial performance measures are set out below for information purposes.

Joint Ventures – Share of Results

	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Revenue	363.9	415.5	798.3
Operating profit	15.9	16.7	37.9
Net finance cost	(0.2)	(0.2)	(0.3)
Tax expense	(1.8)	(2.7)	(7.6)
Profit after tax	13.9	13.8	30.0
Dividends received from joint ventures	15.8	14.7	34.8

Exceptional Items

Exceptional Loss on Disposal of Businesses

The total exceptional loss on disposal of businesses in the six months ended 30 June 2015 was £4.9m (six months ended 30 June 2014: profit of £2.2m). In May 2015, the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.6m, with a loss on disposal of £4.2m being charged in the six month period to 30 June 2015. The transaction is part of the disposal programme of businesses identified as not being core to Serco's future strategy, as announced initially in November 2014. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. Both these businesses were classified as held for sale as at 31 December 2014.

In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group's frontline public services operations in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.7m.

Other Exceptional Operating Items

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

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Costs associated with UK Government review	-	(5.7)	(9.2)
UK frontline clinical health contract provisions	-	(3.9)	(16.1)
Restructuring costs	(9.6)	(14.5)	(32.7)
Provision for settlement relating to DLR pension deficit funding dispute	-	(7.5)	(35.6)
Other provision for legal claims	-	-	(20.1)
Impairment and related charges of Australian rail business	-	-	(37.2)
Impairment of other businesses transferred to assets held for sale	(70.1)	-	(39.2)
Impairment of goodwill	-	-	(466.0)
Total other exceptional items	(79.7)	(31.6)	(656.1)

In the six months ended 30 June 2015, a charge of £9.6m has arisen in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, provisions and other charges relating to the exit of the UK private sector BPO business, and external advisory fees and other incremental costs.

In the six months ended 30 June 2015, there was a £70.1m impairment in the carrying value of assets held for sale. This impairment reflects the latest offers received in the period, together with movements of the assets held for sale since the prior balance sheet date.

Exceptional Finance Costs

As previously indicated at the time of the rights issue and associated refinancing, as a result of the need to delay the delivery of the 31 December 2014 covenant test, costs were incurred in the six months ended 30 June 2015 to preserve the existing finance facilities. In addition, payments were made to the US Private Placement (USPP) Noteholders as a result of early settlement following the Group refinancing. Total charges of £32.8m have been treated as exceptional items as they are outside of the normal financing arrangements of the Group and are significant in size.

Other Finance Costs and Investment Income

Investment income of £4.3m (six months ended 30 June 2014: £2.8m) represents interest earned on deposits during the period of £1.8m and interest accruing on net retirement benefit assets of £2.5m.

Other finance costs of £22.9m (six months ended 30 June 2014: £20.0m) principally relate to interest incurred on the USPP loans and the Revolving Credit Facility (£15.1m), facility fees and other charges (£3.5m) and the movement in discount on provisions (£2.9m).

In total, pre-exceptional net finance costs were £18.6m (six months ended 30 June 2014: £17.2m). This was broadly in line with our assumptions at the start of the year and with our expectation for the full year of approximately £35m.

Taxation

The tax charge on pre-exceptional profit of £41.2m was £15.8m, an effective tax rate of 38%. The principal reasons why the tax rate is higher than the UK rate of 20.25% is due to higher rates of tax on profits arising in the international divisions (namely the Americas, Australia and India) and the absence of any deferred tax credit for losses incurred in the UK (which includes the result of UK divisions, corporate expenses and interest costs). The effective tax rate would have been 46% if depreciation and amortisation had been charged on assets held for sale during the period.

For the 2015 financial year as a whole, the effective tax rate is anticipated to be 40-45% as a result of the mix of international profits in the second half of the year. The forecast effective tax rate would otherwise be 50-55% for the year if depreciation and amortisation were to be charged on assets held for sale.

In the period, a £0.3m credit was also recognised on exceptional losses of £117.4m. There is only a limited tax credit associated with these exceptional costs, principally because no deferred tax credit has been recognised in respect of goodwill impairments and UK tax losses.

Net corporate income tax of £7.7m was paid during the period, relating primarily to our operations in Americas (£2.2m), India (£3.5m), Middle East (£0.6m) and Europe (£1.4m).

Dividend

As indicated in March, the Board is not recommending the payment of an interim dividend. The Board is committed to resuming dividend payments and adopting a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the market outlook at the time.

Share Count and EPS

The equity placing conducted in May 2014 and rights issue in April 2015 increased the weighted average number of shares for EPS purposes to 886.2m (30 June 2014: 632.6m), with the annualising effect of the rights issue expected to further increase the weighted average number of shares to approximately 990m and 1,100m for 2015 and 2016 respectively.

Earnings Per Share before exceptional items were 2.89p per share; including the impact of exceptional items, there was a loss of 10.32p per share.

Cash Flow and Movement in Net Debt

The table below shows the operating loss and Free Cash Flow reconciled to movements in net debt. Free Cash Flow is the cash flow from subsidiaries and dividends received from joint ventures and is stated before exceptional items which are considered non-recurring in nature. Free Cash Flow for the six months to 30 June 2015 was an outflow of £77.5m compared to an inflow of £49.7m in the six months to 30 June 2014. This reflected a £30.5m reduction in the Operating cash inflow (before movements in working capital, exceptional items and tax), a £74.0m year-on-year deterioration in working capital from the continued normalisation of balances at the end of the statutory period compared to the average for the period, tax returning to a paid position compared with a net refund received in 2014 and higher purchases of tangible and intangible assets of £5.8m.

Cash Flow	Six months ended 30 June 2015	Six months ended 30 June 2014 (restated)	Year ended 31 December 2014
	£m	£m	£m
Operating profit/(loss)	(24.8)	28.1	(1,317.3)
Add back: exceptional items	84.6	29.4	661.5
Operating profit/(loss) before exceptional items	59.8	57.5	(655.8)
Less: profit from joint ventures	(13.9)	(13.8)	(30.0)
Non cash movements	(7.2)	25.5	772.2
Operating cash inflow before movements in working capital, exceptional items and tax	38.7	69.2	86.4
Working capital movements	(71.5)	2.5	17.0
Tax (paid)/repaid	(7.7)	4.1	0.6
Non cash R&D expenditure credit	(0.3)	-	(0.5)
Cash flow from operating activities before exceptional items	(40.8)	75.8	103.5
Dividends from joint ventures	15.8	14.7	34.8
Interest received	1.6	1.1	2.7
Interest paid	(21.2)	(18.4)	(42.3)
Proceeds from disposal of tangible and intangible assets	0.3	3.9	6.9
Purchase of intangible assets	(13.6)	(12.3)	(20.0)
Purchase of tangible assets	(19.6)	(15.1)	(23.4)
Free Cash Flow	(77.5)	49.7	62.2
Acquisition of subsidiaries net of cash acquired	(0.2)	(5.3)	(6.5)
Net proceeds from disposal of subsidiaries and operations	(4.3)	6.8	1.9
Net proceeds/(costs) of equity rights issue	530.1	-	(4.1)
Proceeds from share placement	-	155.8	156.3
Share option proceeds	4.3	2.3	2.3
Acquisition of other investments	-	-	(3.5)
Decrease in security deposits	0.3	-	-
Increase in loans to joint ventures	(0.9)	-	-
Capitalisation of loan costs	1.4	-	4.6
Amortisation of capitalised loan costs	(1.6)	-	(1.0)
Impairment of loan receivable	0.2	-	(4.6)
Non-recourse loan advances	-	(2.6)	(6.8)
New and acquired finance leases	(2.4)	(4.5)	(13.7)
Disposal of non-recourse loans	24.0	-	-
Disposal of finance leases	1.4	-	-
Exceptional operating items	(41.5)	(16.8)	(40.4)
Exceptional finance costs	(31.3)	-	-
Dividends paid	-	(36.4)	(53.1)
Foreign exchange (loss)/gain on net debt	(10.1)	15.6	(30.4)
Movement in net debt including assets and liabilities held for sale	391.9	164.6	63.2
Assets held for sale movement in net debt	(25.1)	-	39.5
Net debt at 1 January	(642.7)	(745.4)	(745.4)
Net debt at period end	(275.9)	(580.8)	(642.7)

The table below analyses Trading Cash Flow and provides the associated pre-interest and pre-tax cash flows equivalent to Trading Profit. This is derived from the cash flow from operating activities excluding tax items and is shown after net capital expenditure and after dividends received from joint ventures. The percentage conversion of Trading Profit into Trading Cash Flow is a measure of the efficiency of the

business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

Trading Cash Flow	Six months ended 30 June 2015	Six months ended 30 June 2014 (restated)	Year ended 31 December 2014
	£m	£m	£m
Cash flow from operating activities before exceptional items	(40.8)	75.8	103.5
Less: tax paid/(repaid)	7.7	(4.1)	(0.6)
Less: non cash R&D expenditure credit	0.3	-	0.5
Dividends from joint ventures	15.8	14.7	34.8
Proceeds from disposal of tangible and intangible assets	0.3	3.9	6.9
Purchase of intangible assets	(13.6)	(12.3)	(20.0)
Purchase of tangible assets	(19.6)	(15.1)	(23.4)
Trading Cash Flow	(49.9)	62.9	101.7
Trading Profit/(Loss)	62.7	63.3	(632.1)
Trading Profit cash conversion	n/a	99.4%	n/a

Net Debt	At 30 June 2015 as reported	At 30 June 2015 assets and liabilities held for sale adjustment	At 30 June 2015 including assets and liabilities held for sale	At 30 June 2014
	£m	£m	£m	£m
Cash and cash equivalents	157.1	18.9	176.0	220.8
Loans receivable	0.9	-	0.9	5.5
Other loans	(412.4)	-	(412.4)	(722.3)
Obligations under finance leases	(21.5)	(33.3)	(54.8)	(63.3)
Recourse net debt	(275.9)	(14.4)	(290.3)	(559.3)
Non-recourse debt	-	-	-	(21.5)
Net debt	(275.9)	(14.4)	(290.3)	(580.8)

	At 31 December 2014 as reported	At 31 December 2014 assets and liabilities held for sale adjustment	At 31 December 2014 including assets and liabilities held for sale
	£m	£m	£m
Cash and cash equivalents	180.1	22.4	202.5
Loans receivable	1.0	-	1.0
Other loans	(797.3)	(0.8)	(798.1)
Obligations under finance leases	(26.5)	(37.1)	(63.6)
Recourse net debt	(642.7)	(15.5)	(658.2)
Non-recourse debt	-	(24.0)	(24.0)
Net debt	(642.7)	(39.5)	(682.2)

Rights Issue, Debt Refinancing and Covenants

The Group announced in November 2014 plans for new equity to be raised through a rights issue and for the proceeds to be used primarily to reduce the Group's indebtedness. This was launched on 12 March 2015 and received shareholder approval on 30 March 2015. The equity rights issue successfully completed in April 2015 raising approximately £555m of gross proceeds (£530m net after expenses), with trading in new shares commencing on 17 April 2015 and 549,265,547 new shares being issued.

On 30 April 2015, the Group concluded a refinancing with its lending banks and US PP Noteholders. This included the reduction of gross indebtedness by £450m. The Group's committed revolving credit facility was reduced in size from £730m to £480m and the maturity date increased by two years to March 2019. Financial covenants across the Group's funding arrangements are unchanged, reflecting the strengthening of the Group's balance sheet by the rights issue. Fees and expenses relating to the repayment of the Group's borrowings and amendments to the existing finance agreements were approximately £33m, and these included a premium of £25m on the early settlement of US PP notes. These expenses have been treated as Exceptional Finance Costs in the period.

The compliance certificates for Serco Group plc's borrowing facilities for the year to 31 December 2014 were submitted to its lenders in May 2015 in accordance with the amended terms of those facilities and these showed the Group complied with the financial covenants.

For covenant purposes the definition of Consolidated Total Net Borrowings (CTNB) represents Group recourse net debt at the balance sheet date adjusted to exclude encumbered cash, loan receivable amounts, and also adjusted to reflect the impact of currency hedges associated with recourse loans. The covenant definition of EBITDA is the twelve month operating profit of the business before exceptional items, deducting profits from joint ventures and after adding back depreciation, intangible amortisation, share-based payment charges and dividends received from joint ventures. The covenant test for 31 December 2014 was deferred until 31 May 2015. The covenant definition of EBITDA was amended to exclude the impact of charges arising from the Contract and Balance Sheet Review whilst CTNB was calculated after the proceeds less underwriting charges from the equity rights issue. The covenant test for the years ended 31 December 2013 and 2014 and 30 June 2015 are shown below.

	At 30 June 2015 £m	At 31 December 2014 £m	At 31 December 2013 £m
Operating (loss)/profit before exceptional items*	(653.5)	(655.8)	236.0
Less: Joint venture post-tax profits	(30.1)	(30.0)	(47.1)
Add: Dividends from joint ventures	35.9	34.8	51.5
Amortisation of other intangible assets	34.1	38.7	46.1
Depreciation of property, plant and equipment	29.8	41.8	46.3
Impairment of property, plant and equipment	1.6	-	-
Share-based payment expense	6.4	5.4	2.9
Other adjustments	-	-	(4.4)
Balance sheet and contract write-downs in 2014	752.1	757.6	-
EBITDA per covenant	176.3	192.5	331.3
Net finance costs	38.1	36.7	37.2
Other adjustments	(1.2)	0.2	0.5
Net finance costs per covenant	36.9	36.9	37.7
Recourse net debt (including assets and liabilities held for sale)	290.3	658.2	725.1
Encumbered cash and other items	2.4	-	21.7
Proceeds from rights issue less underwriting charge	-	(543.7)	-
Consolidated Total Net Borrowings (CTNB)	292.7	114.5	746.8
Covenant CTNB/EBITDA (not to exceed 3.5x)	1.66x	0.59x	2.25x
Covenant EBITDA / Net finance costs (at least 3.0x)	4.78x	5.22x	8.79x

* As restated for the six months ended 30 June 2014

Balance Sheet Summary

The balance sheet at 30 June 2015 is summarised below showing the impact of the assets and liabilities held for sale for each line item. Net assets have increased by £430m to £364m during the period largely due to the funds raised through the rights issue and a reduction in provisions due to utilisation. Further detail of the movements in provisions is given below.

	At 30 June 2015 Including assets held for sale £m	At 30 June 2015 Adjustment for assets held for sale £m	At 30 June 2015 As reported £m	At 30 June 2014 As reported £m	At 31 December 2014 Including assets held for sale £m	At 31 December 2014 Adjustment for assets held for sale £m	At 31 December 2014 As reported £m
Non-current assets							
Goodwill	737.4	(206.8)	530.6	1,261.0	820.6	(279.1)	541.5
Other intangible assets	120.4	(24.9)	95.5	177.8	123.8	(5.0)	118.8
Property, plant and equipment	111.5	(74.3)	37.2	169.1	132.9	(94.5)	38.4
Other non-current assets	69.4	(18.6)	50.8	87.4	73.5	(26.8)	46.7
Deferred tax assets	43.3	(10.4)	32.9	57.9	48.4	(11.0)	37.4
Retirement benefit assets	133.8	-	133.8	84.8	143.9	-	143.9
	1,215.8	(335.0)	880.8	1,838.0	1,343.1	(416.4)	926.7
Current assets							
Inventories	35.5	(1.1)	34.4	53.3	33.9	(2.7)	31.2
Trade and other current assets	678.9	(118.3)	560.6	817.9	623.7	(119.0)	504.7
Current tax	20.1	-	20.1	15.5	20.7	(4.2)	16.5
Cash and cash equivalents	176.0	(18.9)	157.1	220.8	202.5	(22.4)	180.1
	910.5	(138.3)	772.2	1,107.5	880.8	(148.3)	732.5
Assets classified as held for sale	-	473.3	473.3	-	-	564.7	564.7
Total current assets	910.5	335.0	1,245.5	1,107.5	880.8	416.4	1,297.2
Total assets	2,126.3	-	2,126.3	2,945.5	2,223.9	-	2,223.9
Current liabilities							
Trade and other current liabilities	(660.7)	72.5	(588.2)	(730.6)	(695.7)	96.1	(599.6)
Current tax liabilities	(40.0)	21.9	(18.1)	(11.6)	(34.4)	21.8	(12.6)
Provisions	(164.9)	17.7	(147.2)	(39.1)	(223.8)	18.1	(205.7)
Obligations under finance leases	(17.6)	8.6	(9.0)	(15.2)	(18.5)	8.9	(9.6)
Loans	(34.9)	-	(34.9)	(34.8)	(48.4)	4.5	(43.9)
	(918.1)	120.7	(797.4)	(831.3)	(1,020.8)	149.4	(871.4)
Amounts classified as held for sale	-	(166.1)	(166.1)	-	-	(219.9)	(219.9)
Total current liabilities	(918.1)	(45.4)	(963.5)	(831.3)	(1,020.8)	(70.5)	(1,091.3)
Non-current liabilities							
Other non-current liabilities	(38.0)	0.5	(37.5)	(52.0)	(37.3)	7.6	(29.7)
Deferred tax liabilities	(13.9)	2.5	(11.4)	(37.5)	(11.7)	2.5	(9.2)
Provisions	(363.0)	17.7	(345.3)	(29.2)	(384.1)	11.9	(372.2)
Obligations under finance leases	(37.2)	24.7	(12.5)	(48.1)	(45.1)	28.2	(16.9)
Loans	(377.5)	-	(377.5)	(709.0)	(773.7)	20.3	(753.4)
Retirement benefit obligations	(14.5)	-	(14.5)	(9.4)	(17.4)	-	(17.4)
	(844.1)	45.4	(798.7)	(885.2)	(1,269.3)	70.5	(1,198.8)
Total liabilities	(1,762.2)	-	(1,762.2)	(1,716.5)	(2,290.1)	-	(2,290.1)
Net assets/(liabilities)	364.1	-	364.1	1,229.0	(66.2)	-	(66.2)

Provisions

The total of current and non current provisions after removing those related to businesses held for sale have decreased by £85.4m since 31 December 2014, the majority of which relates to a reduction in contract provisions as a result of the utilisation of provisions against losses on onerous contracts. Movements in contract provisions before removing those related to businesses held for sale since the prior year end are as follows:

	Exceptional OCPs arising from contract and balance sheet review £m	Other OCPs arising from contract and balance sheet review £m	Other contract provisions £m	At 30 June 2015 including assets held for sale £m	Held for sale adjustment £m	At 30 June 2015 as reported £m
At 31 December 2014 (audited)	(13.7)	(433.4)	(4.8)	(451.9)	21.5	(430.4)
Charged to income statement	-	(14.2)	(0.2)	(14.4)	-	(14.4)
Released to income statement – exceptional	-	-	0.3	0.3	-	0.3
Released to income statement - other	-	6.5	2.8	9.3	-	9.3
Utilised during the year	8.7	60.1	4.6	73.4	(4.7)	68.7
Transferred from trade payables	-	-	(4.6)	(4.6)	4.6	-
Assets held for sale	-	-	-	-	4.0	4.0
Unwinding of discount	-	(2.8)	-	(2.8)	-	(2.8)
Exchange differences	-	9.0	0.1	9.1	(0.2)	8.9
At 30 June 2015 (unaudited)	(5.0)	(374.8)	(1.8)	(381.6)	25.2	(356.4)

OCPs arising from the Contract and Balance Sheet Review in 2014 accounted for £447.1m of the 31 December 2014 contract provisions balance shown above. Although OCPs for individual contracts may fluctuate from year to year, actual results in the six months to 30 June 2015 have been largely in line with the forecasts previously made. A full assessment of the forecasts driving the OCPs is being conducted annually as part of the year end budgeting process. However, the judgements supporting the Contract and Balance Sheet Review items are being assessed every six months (or more frequently if required due to a change in specific identified circumstances). In the six months ended 30 June 2015 there were six Contract and Balance Sheet Review OCPs where changes in key assumptions were identified and forecasts were updated. Of the six contracts where changes were made to previous estimates, four resulted in a combined additional charge to Trading Profit of £14.2m and two contracts required a combined release of £6.5m resulting in a net charge of £7.7m. All contracts where OCPs have been recognised will continue to be monitored and a further update will be provided in the Annual Report and Accounts for the year ended 31 December 2015.

In addition to the net charge of £7.7m impacting Contract Provisions, other adjustments arising from the Contract and Balance Sheet Review in the period relate to releases of other provisions of £4.9m and accruals of £3.8m where liabilities have lapsed due to the passage of time. Furthermore, £4.5m of allowances for bad debt were released following the receipt of payments in respect of old outstanding balances. The overall net benefit to Trading Profit of the Contract and Balance Sheet Review adjustments was therefore £5.5m in the period.

ROIC

Return on Invested Capital is calculated using the Income Statement for the rolling 12 month period to 30 June 2015 and a two-point average of the opening balance sheet at 31 December 2014 and the closing Balance Sheet at 30 June 2015. For 31 December 2014, a single point has been used as there has been a significant reduction in net assets reflecting the losses in the year. The composition of Invested Capital and calculation of ROIC is summarised in the table below. The return from Trading Profit before the benefit of Contract and Balance Sheet Review adjustments and the exclusion of depreciation and amortisation on assets held for sale is 11.5%. For the year ended 31 December 2014, the equivalent return from Trading Profit before the Contract and Balance Sheet Review items was 11.3%.

Invested Capital and ROIC %

	At 30 June 2015	At 31 December 2014
	£m	£m
Non-current assets		
Goodwill	530.6	541.5
Other intangible assets	95.5	118.8
Property, plant and equipment	37.2	38.4
Interest in joint ventures	1.4	1.6
Trade and other receivables	46.1	38.1
	710.8	738.4
Current assets		
Inventory	34.4	31.2
Trade and other receivables	557.2	498.8
Assets classified as held for sale	473.3	564.7
	1,064.9	1,094.7
Total invested capital assets	1,775.7	1,833.1
Current liabilities		
Trade and other payables	(573.9)	(581.9)
Liabilities classified as held for sale	(166.1)	(219.9)
Non-current liabilities		
Trade and other payables	(37.5)	(29.7)
Total invested capital liabilities	(777.5)	(831.5)
Invested capital closing	998.2	1,001.6
Invested capital opening	1,001.6	n/a
Average Invested capital	999.9	1,001.6
Trading loss (12 months)	(632.7)	(632.1)
ROIC %	(63.3%)	(63.1%)

At 30 June 2014, ROIC calculation is not provided because of the subsequent significant reduction in net assets in the second half of 2014 as a result of the Contract and Balance Sheet Review.

Principal risks and uncertainties

The principal risks and uncertainties that could materially affect Serco's results and operations are set out on pages 15 to 20 of the 2014 Annual Report and Accounts and the key headline risks for the remainder of 2015 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.

- Contract non-compliance and contract performance
- Failure to win material bids/rebids
- Major information security breach
- SFO Investigation
- Political and economic risk
- Failure to act with integrity
- People
- Delivery of the Group's strategy
- Failure of financial and commercial controls

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 Officer

Angus Cockburn
Group Chief Financial Officer

10 August 2015

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 2015 which comprises the condensed income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of equity, condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 22. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it 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 Conduct 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 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 2015 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 Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, UK
10 August 2015

Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June 2015

	Note	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (restated**) (unaudited) £m	Year ended 31 December 2014 (audited) £m
Revenue		1,789.3	2,026.3	3,955.0
Cost of sales		(1,597.1)	(1,826.9)	(4,019.7)
Gross profit/(loss)		192.2	199.4	(64.7)
Administrative expenses				
General and administrative expenses		(143.4)	(149.9)	(597.4)
Exceptional (loss)/profit on disposal of subsidiaries and operations	7	(4.9)	2.2	(5.4)
Other exceptional operating items	7	(79.7)	(31.6)	(656.1)
Other expenses – amortisation and impairment of intangibles arising on acquisition		(2.9)	(5.8)	(23.7)
Share of profits in joint ventures, net of interest and tax	6	13.9	13.8	30.0
Operating (loss)/profit		(24.8)	28.1	(1,317.3)
Operating profit/(loss) before exceptional items		59.8	57.5	(655.8)
Investment income	8	4.3	2.8	6.2
Finance costs	9	(22.9)	(20.0)	(42.9)
Exceptional finance costs	7	(32.8)	-	-
Total net finance costs		(51.4)	(17.2)	(36.7)
(Loss)/profit before tax		(76.2)	10.9	(1,354.0)
Tax on (loss)/profit before exceptional items		(15.8)	(6.1)	(11.1)
Tax on exceptional items		0.3	4.2	18.0
Tax (charge)/credit	10	(15.5)	(1.9)	6.9
(Loss)/profit for the period		(91.7)	9.0	(1,347.1)
Attributable to:				
Equity owners of the Company		(91.5)	9.0	(1,347.3)
Non-controlling interests		(0.2)	-	0.2
Earnings per share (EPS)*				
Basic EPS	12	(10.32p)	1.42p	(205.66p)
Diluted EPS	12	(10.32p)	1.39p	(205.66p)

*Restatement of earnings per share reflects adjustments associated with the rights issue.

**Prior year adjustments have been made to reflect the restatement of certain financial instruments. Further details are presented in note 2.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (restated) (unaudited) £m	Year ended 31 December 2014 (audited) £m
(Loss)/profit for the year	(91.7)	9.0	(1,347.1)
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial (loss)/gain on defined benefit pension schemes ¹	(9.5)	10.3	52.8
Actuarial gain on reimbursable rights ¹	-	8.4	13.5
Tax relating to items not reclassified ¹	1.2	(3.3)	(12.9)
Share of other comprehensive income/(expense) in joint ventures	0.1	(0.1)	1.9
Items that may be reclassified subsequently to profit or loss:			
Net exchange (loss)/gain on translation of foreign operations ²	(14.6)	(14.9)	24.9
Fair value gain/(loss) on cash flow hedges during the year ²	6.3	(0.8)	(2.7)
Tax relating to items that may be reclassified ²	(1.5)	-	-
Share of other comprehensive income/(expense) in joint ventures	1.5	-	(3.8)
Total comprehensive (expense)/income for the year	(108.2)	8.6	(1,273.4)
Attributable to:			
Equity owners of the Company	(108.0)	8.6	(1,273.7)
Non-controlling interest	(0.2)	-	0.3

Notes:

- Recorded in retirement benefit obligations reserve in the consolidated statement of changes in equity.
- Recorded in hedging and translation reserve in the consolidated statement of changes in equity.

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Capital redemption reserve	Retained earnings	Retirement benefit obligations reserve	Share-based payment reserve	Own shares reserve	Hedging and translation reserve	Total share holders' equity	Non-controlling interest
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2014	10.0	327.8	0.1	946.7	(142.4)	70.2	(70.5)	(46.7)	1,095.2	0.7
Prior year adjustment (note 2)	-	-	-	(5.7)	-	-	-	5.7	-	-
At 1 January 2014 (restated) (audited)	10.0	327.8	0.1	941.0	(142.4)	70.2	(70.5)	(41.0)	1,095.2	0.7
Total comprehensive income for the period	-	-	-	8.9	15.4	-	-	(15.7)	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 payments	-	-	-	-	-	3.1	-	-	3.1	-
Tax charge in relation to share based payments	-	-	-	-	-	(0.2)	-	-	(0.2)	-
At 30 June 2014 (restated) (unaudited)	11.0	327.8	0.1	1,068.3	(127.0)	68.4	(63.6)	(56.7)	1,228.3	0.7
Total comprehensive income for the period	-	-	-	(1,358.1)	38.0	-	-	37.8	(1,282.3)	0.3
Issue of share capital	-	-	-	0.5	-	-	-	-	0.5	-
Shares transferred to option holders on exercise of share options	-	0.1	-	-	-	0.9	(0.9)	-	0.1	-
Dividends paid	-	-	-	(16.7)	-	-	-	-	(16.7)	-
Expense in relation to share-based payments	-	-	-	-	-	2.3	-	-	2.3	-
Tax charge in relation to share based payments	-	-	-	-	-	(0.2)	-	-	(0.2)	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	0.8
At 31 December 2014 (audited)	11.0	327.9	0.1	(306.0)	(89.0)	71.4	(64.5)	(18.9)	(68.0)	1.8
Total comprehensive income for the period	-	-	-	(89.9)	(8.3)	-	-	(9.8)	(108.0)	(0.2)
Transfer on disposal	-	-	-	(3.4)	3.4	-	-	-	-	-
Issue of share capital	11.0	-	-	519.1	-	-	-	-	530.1	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.1)	4.4	-	4.3	-
Expense in relation to share based payments	-	-	-	-	-	4.1	-	-	4.1	-
At 30 June 2015 (unaudited)	22.0	327.9	0.1	119.8	(93.9)	75.4	(60.1)	(28.7)	362.5	1.6

Condensed Consolidated Balance Sheet

	Note	At 30 June 2015 (unaudited) £m	At 30 June 2014 (restated) (unaudited) £m	At 31 December 2014 (audited) £m
Non-current assets				
Goodwill	13	530.6	1,261.0	541.5
Other intangible assets		95.5	177.8	118.8
Property, plant and equipment		37.2	169.1	38.4
Interests in joint ventures		1.4	7.1	1.6
Trade and other receivables		46.1	79.6	38.1
Derivative financial instruments		3.3	0.7	7.0
Deferred tax assets		32.9	57.9	37.4
Retirement benefit assets		133.8	84.8	143.9
		880.8	1,838.0	926.7
Current assets				
Inventories		34.4	53.3	31.2
Trade and other receivables		557.2	816.5	498.8
Current tax assets		20.1	15.5	16.5
Cash and cash equivalents		157.1	220.8	180.1
Derivative financial instruments		3.4	1.4	5.9
		772.2	1,107.5	732.5
Assets classified as held for sale	21	473.3	-	564.7
		1,245.5	1,107.5	1,297.2
Total assets		2,126.3	2,945.5	2,223.9
Current liabilities				
Trade and other payables		(573.9)	(713.9)	(581.9)
Derivative financial instruments		(14.3)	(16.7)	(17.7)
Current tax liabilities		(18.1)	(11.6)	(12.6)
Provisions	15	(147.2)	(39.1)	(205.7)
Obligations under finance leases		(9.0)	(15.2)	(9.6)
Loans		(34.9)	(34.8)	(43.9)
		(797.4)	(831.3)	(871.4)
Liabilities directly associated with assets classified as held for sale	21	(166.1)	-	(219.9)
		(963.5)	(831.3)	(1,091.3)
Non-current liabilities				
Trade and other payables		(37.5)	(34.8)	(29.7)
Derivative financial instruments		-	(17.2)	-
Deferred tax liabilities		(11.4)	(37.5)	(9.2)
Provisions	15	(345.3)	(29.2)	(372.2)
Obligations under finance leases		(12.5)	(48.1)	(16.9)
Loans		(377.5)	(709.0)	(753.4)
Retirement benefit obligations		(14.5)	(9.4)	(17.4)
		(798.7)	(885.2)	(1,198.8)
Total liabilities		(1,762.2)	(1,716.5)	(2,290.1)
Net assets/(liabilities)		364.1	1,229.0	(66.2)
Equity				
Share capital		22.0	11.0	11.0
Share premium account		327.9	327.8	327.9
Capital redemption reserve		0.1	0.1	0.1
Retained earnings/(loss)		119.8	1,068.3	(306.0)
Retirement benefit obligations reserve		(93.9)	(127.0)	(89.0)
Share-based payment reserve		75.4	68.4	71.4
Own shares reserve		(60.1)	(63.6)	(64.5)
Hedging and translation reserve		(28.7)	(56.7)	(18.9)
Equity attributable to owners of the Company		362.5	1,228.3	(68.0)
Non-controlling interest		1.6	0.7	1.8
Total equity		364.1	1,229.0	(66.2)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2015

	Note	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Net cash (outflow)/inflow from operating activities before exceptional items		(40.8)	75.8	103.5
Exceptional items		(41.5)	(16.8)	(40.4)
Net cash (outflow)/inflow from operating activities	19	(82.3)	59.0	63.1
Investing activities				
Interest received		1.6	1.1	2.7
Decrease in security deposits		0.3	-	-
Dividends received from joint ventures		15.8	14.7	34.8
Proceeds from disposal of property, plant and equipment		-	3.8	5.8
Proceeds from disposal of intangible assets		0.3	0.1	1.1
Proceeds on disposal of subsidiaries and operations	5	(4.3)	6.8	1.9
Acquisition of subsidiaries, net of cash acquired	4	(0.2)	(5.3)	(6.5)
Acquisition of other investments		-	-	(3.5)
Purchase of other intangible assets		(13.6)	(12.3)	(20.0)
Purchase of property, plant and equipment		(19.6)	(15.1)	(23.4)
Net cash outflow from investing activities		(19.7)	(6.2)	(7.1)
Financing activities				
Interest paid		(21.2)	(18.4)	(42.3)
Exceptional finance costs paid		(31.3)	-	-
Dividends paid	11	-	(36.4)	(53.1)
Increase in loans to Joint Ventures		(0.9)	-	-
Repayment of loans		(392.4)	(70.6)	(36.0)
Repayment of non recourse loans		-	(1.4)	(3.1)
New loan advances		-	22.4	17.4
Capital element of finance lease repayments		(9.6)	(9.2)	(18.2)
Costs of equity rights issue		-	-	(4.1)
Share placement net proceeds		530.1	155.8	156.3
Proceeds from issue of other share capital and exercise of share options		4.3	2.3	2.3
Net cash inflow from financing activities		79.0	44.5	19.2
Net (decrease)/increase in cash and cash equivalents		(23.0)	97.3	75.2
Cash and cash equivalents at beginning of year		180.1	125.1	125.1
Net exchange (loss)/gain		(3.5)	(1.6)	2.2
Cash reclassified to assets held for sale		3.5	-	(22.4)
Cash and cash equivalents at end of year		157.1	220.8	180.1

Notes to the consolidated financial statements

1. General information, going concern and accounting policies

The information for the year ended 31 December 2014 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006. The auditor's report did however draw attention by way of emphasis to a material uncertainty in the Directors' use of the going concern basis of accounting. Further details of events impacting going concern since the signing of the 2014 statutory accounts are provided below.

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 2015 there have been no significant changes to accounting under IFRS which have affected the Group's results. The only changes to accounting standards in the current year are:

Title	Type	Background	Impact on Serco
Annual Improvements to IFRSs: 2011-2013 Cycle: <ul style="list-style-type: none"> • IFRS 1 First-time adoption of International Financial Reporting Standards • IFRS 3 Business combinations • IFRS 13 Fair value measurement • IAS 40 Investment property 	Amendments to existing standards	<p>As IFRS 1 relates to first time adopters of IFRS this element is not relevant.</p> <p>The IFRS 3 changes clarify the scope exclusion for the formation of a joint arrangement in the financial statements of the joint arrangement itself and is not relevant.</p> <p>The amendment to IFRS13 clarifies that the scope of the portfolio exception includes all contracts accounted for within the scope of IAS 39 <i>Financial instruments: Recognition and measurement</i> or IFRS 9 <i>Financial instruments</i>, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 <i>Financial instruments: presentation</i>. However, the portfolio exception is not applied.</p> <p>IAS 40 is not relevant as no investment properties are held.</p>	None.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements except for the change in segments as described in note 3. 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.

Going Concern

In assessing the basis of preparation of the condensed financial statements for the six months ended 30 June 2015, the Directors have applied the UK Corporate Governance Code (the Code) as updated in September 2014. The Code requires two explicit statements being made around the financial viability of the company in the annual financial statements; one covering the Directors' confirmation of the appropriateness of the going concern basis of accounting, and another which includes a broader assessment of the long term viability of the Group. The half year financial statements are required only to cover the Directors' assessment of the going concern basis of accounting.

In April 2015, an equity rights issue and a refinancing with lending banks and US Private Placement Noteholders were successfully completed, raising approximately £555m of gross proceeds (£530m net after expenses) and reducing gross indebtedness by £450m. The Group's committed revolving credit facility was reduced in size from £730m to £480m and the maturity date increased by two years to March

2019. Financial covenants across the Group's funding arrangements are unchanged, reflecting the strengthening of the Group's balance sheet by the rights issue. In undertaking the refinancing, cash flow forecasts were prepared covering a period to 31 December 2019. Trading performance to date in 2015 has been materially consistent with these plans and the updated forecast for the business is largely unchanged, consequently the Directors have concluded that it is appropriate to consider these plans when making their going concern assessment, together with the strategy and the principal risks and uncertainties the Group faces. 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 and accordingly believe that it is appropriate to prepare the condensed financial statements on a going concern basis.

2. Prior Year Restatement

The December 2014 Annual Report and Accounts included a description of prior year restatements of certain financial instruments. These resulted in a cumulative net charge of £9.7m to prior years' reported profits, which included a net credit to the profit for the six months to 30 June 2014 of £15.4m. These amounts had previously been taken directly to reserves, and as a consequence there was no adjustment required to restate the net assets of the Group as at 30 June 2014 or prior years.

The first adjustment relates to derivatives held by Intelenet at the time of Serco's acquisition of that company in 2011. Under IFRS 3, in order to achieve hedge accounting at a Group level, these derivatives should have been designated at Serco Group level at that time. Because the Group designation was not made at that time, they do not qualify for hedge accounting and so the fair value movement on these instruments since 2011, together with the associated tax, has been reclassified to either retained earnings or the income statement. The second adjustment relates to net investment hedges that were not designated. These therefore did not qualify for hedge accounting and the fair value movement of these instruments was reclassified to either retained earnings or the income statement. Both of these financial instruments have now been designated and hedge documentation has been put in place, therefore any mark to market movements will be booked through reserves in the future.

Impact of prior year restatement on summarised financial statements

Six months to 30 June 2014	As previously disclosed £m	Other Distributable Reserves £m	Derivatives £m	Net Investment Hedges £m	Restated £m
Income statement					
Revenue	2,017.7	-	8.6	-	2,026.3
Operating profit	9.9	-	8.6	9.6	28.1
Investment income	2.8	-	-	-	2.8
Finance costs	(20.0)	-	-	-	(20.0)
Profit before tax	(7.3)	-	8.6	9.6	10.9
Tax (charge)/credit	0.9	-	(2.8)	-	(1.9)
Profit for the year	(6.4)	-	5.8	9.6	9.0
Earnings per share*	(1.01p)	-	0.91p	1.52p	1.42p
*restated for effect of rights issue					
Other comprehensive (expense)/income for the year	15.0	-	(5.8)	(9.6)	(0.4)
Total comprehensive income for the year	8.6	-	-	-	8.6
Balance sheet					
Non-current assets	1,838.0	-	-	-	1,838.0
Current assets	1,107.5	-	-	-	1,107.5
Total assets	2,945.5	-	-	-	2,945.5
Current liabilities	(831.3)	-	-	-	(831.3)
Non-current liabilities	(885.2)	-	-	-	(885.2)
Total liabilities	(1,716.5)	-	-	-	(1,716.5)
Net assets	1,229.0	-	-	-	1,229.0
Retained earnings	903.8	154.8	(25.1)	34.8	1,068.3
Other reserve	154.8	(154.8)	-	-	-
Hedging and translation reserve	(47.0)	-	25.1	(34.8)	(56.7)
Other equity accounts	217.4	-	-	-	217.4
Equity	1,229.0	-	-	-	1,229.0

3. Segmental Information

This note is presented according to the management structure and internal reporting that Serco has put in place from 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division, which brings together Serco's work for the UK Central Government, also now brings together all Transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division. The Global Services division now consists of BPO operations only in the private sector.

The Group has also simplified its reporting by ending the sharing of Income Statement reporting of certain contracts between two segments. This shared reporting of contracts occurred predominantly between the AsPac and UK segments, with these contracts now being solely reported within the segment that delivers the contract to the end customer. Eliminating the shared Income Statement reporting of such contracts increases the transparency and clarity of our segmental performance reporting. The prior period comparative segmental information has been restated to reflect these changes.

The Group's reportable operating segments under IFRS 8 *Operating Segments* are:

Reportable segment	Operating segment
UK Central Government	Frontline services for sectors including Defence, Justice & Immigration and Transport delivered to UK Government;
UK & Europe Local & Regional Government	Services for sectors including Health, Local Government Direct Services, Citizen Services and BPO services delivered to UK & European public sector customers;
Americas	Professional, technology and management services for sectors including Defence, Transport and Citizen Services delivered to US federal and civilian agencies, some state and municipal governments and the Canadian Government;
AsPac	Frontline services for sectors including Defence, Justice & Immigration, Transport, Health and Citizen Services in the Asia Pacific region including Australia, New Zealand and Hong Kong;
Middle East	Frontline services for sectors including Defence, Transport, Health and other Direct Services such as facilities management in the Middle East region;
Global Services	BPO services for private sector customers predominantly in the UK, India and North America; and
Corporate	Central and head office costs.

3. Segmental Information (continued)

Geographic Information

	Six months ended 30 June 2015		Six months ended 30 June 2014 (restated)		Year ended 31 December 2014	
	Revenue	Non-current assets*	Revenue	Non-current assets*	Revenue	Non-current assets*
	£m	£m	£m	£m	£m	£m
United Kingdom	839.3	438.5	1,028.7	791.1	1,917.8	485.2
United States	337.5	336.3	345.9	407.6	660.4	337.5
Australia	248.7	129.9	343.2	170.3	657.0	140.3
Middle East	143.9	15.0	127.0	195.5	267.2	13.6
Other countries	219.9	246.4	181.5	212.3	452.6	308.7
Total	1,789.3	1,166.1	2,026.3	1,776.8	3,955.0	1,285.3

*Non-current assets exclude derivative financial instruments, deferred tax assets and loans to joint ventures and includes assets of £324.6m (30 June 2014 £nil; 31 December 2014: £405.4m) reclassified as held for sale.

The following is an analysis of the Group's revenue and results by operating segment in the six months ended 30 June 2015.

Six months ended 30 June 2015	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	366.0	463.8	357.9	281.1	143.9	176.6	-	1,789.3
Result								
Trading profit/(loss)*	21.6	10.3	22.7	7.8	14.6	6.4	(20.7)	62.7
Amortisation and impairment of intangibles arising on acquisition	-	(0.6)	(1.3)	(1.0)	-	-	-	(2.9)
Operating profit/(loss) before exceptional items	21.6	9.7	21.4	6.8	14.6	6.4	(20.7)	59.8
Exceptional loss on disposal of subsidiaries and operations	-	-	-	(4.2)	(0.7)	-	-	(4.9)
Other exceptional operating items	(0.7)	(5.2)	-	(0.8)	-	(68.0)	(5.0)	(79.7)
Operating profit/(loss)	20.9	4.5	21.4	1.8	13.9	(61.6)	(25.7)	(24.8)
Investment income								4.3
Finance costs								(22.9)
Exceptional finance costs								(32.8)
Loss before tax								(76.2)
Tax on (loss)/profit before exceptional items								(15.8)
Tax on exceptional items								0.3
Loss for the period								(91.7)

*Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Segment assets								
Interests in joint ventures	(6.9)	5.3	0.3	2.3	0.4	-	-	1.4
Other segment assets	191.3	413.0	463.1	219.9	95.1	343.9	149.3	1,875.6
Total segment assets	184.4	418.3	463.4	222.2	95.5	343.9	149.3	1,877.0
Unallocated assets								249.3
Consolidated total assets								2,126.3
Segment liabilities								
Segment liabilities	(390.2)	(315.9)	(109.6)	(228.1)	(75.2)	(87.3)	(20.5)	(1,226.8)
Unallocated liabilities								(535.4)
Consolidated total liabilities								(1,762.2)

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, provisions and retirement benefit obligations.

3. Segmental Information (continued)

Six months ended 30 June 2014 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	505.5	483.5	367.3	367.7	127.5	174.8	-	2,026.3
Result								
Trading profit/(loss)*	23.1	5.3	32.9	13.7	11.0	5.9	(28.6)	63.3
Amortisation and impairment of intangibles arising on acquisition	(0.1)	(0.8)	(1.1)	(1.1)	-	(2.7)	-	(5.8)
Operating profit/(loss) before exceptional items	23.0	4.5	31.8	12.6	11.0	3.2	(28.6)	57.5
Exceptional profit on disposal of subsidiaries and operations	1.7	0.5	-	-	-	-	-	2.2
Other exceptional operating items	(1.2)	(12.4)	-	(3.5)	(0.5)	(0.6)	(13.4)	(31.6)
Operating profit/(loss)	23.5	(7.4)	31.8	9.1	10.5	2.6	(42.0)	28.1
Investment income								2.8
Finance costs								(20.0)
Profit before tax								10.9
Tax on (loss)/profit before exceptional items								(6.1)
Tax on exceptional items								4.2
Profit for the period								9.0
*Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.								
Segment assets								
Interests in joint ventures	(4.0)	3.9	0.2	7.0	-	-	-	7.1
Other segment assets	254.3	664.7	535.2	356.9	93.5	629.3	105.5	2,639.4
Total segment assets	250.3	668.6	535.4	363.9	93.5	629.3	105.5	2,646.5
Unallocated assets								299.0
Consolidated total assets								2,945.5
Segment liabilities								
Segment liabilities	(175.2)	(309.4)	(84.1)	(124.3)	(58.3)	(8.8)	(66.1)	(826.2)
Unallocated liabilities								(890.3)
Consolidated total liabilities								(1,716.5)

3. Segmental Information (continued)

Year ended 31 December 2014 (restated**)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	-	3,955.0
Result								
Trading (loss)/profit*	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)
Amortisation and impairment of intangibles arising on acquisition	(0.1)	(7.2)	(2.3)	(8.6)	-	(5.5)	-	(23.7)
Operating (loss)/profit before exceptional items	(242.9)	(97.6)	14.2	(210.2)	(0.2)	(28.9)	(90.2)	(655.8)
Exceptional profit/(loss) on disposal of subsidiaries and operations	1.9	0.4	-	-	-	(3.1)	(4.6)	(5.4)
Other exceptional operating items	(42.7)	(95.9)	(101.7)	(41.3)	(1.7)	(332.7)	(40.1)	(656.1)
Operating loss	(283.7)	(193.1)	(87.5)	(251.5)	(1.9)	(364.7)	(134.9)	(1,317.3)
Investment income								6.2
Finance costs								(42.9)
Loss before tax								(1,354.0)
Tax on (loss)/profit before exceptional items								(11.1)
Tax on exceptional items								18.0
Loss for the year								(1,347.1)

*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Segment assets								
Interests in joint ventures	(7.0)	5.0	0.2	3.0	0.4	-	-	1.6
Other segment assets	135.1	431.9	458.9	236.3	99.7	394.5	178.9	1,935.3
Total segment assets	128.1	436.9	459.1	239.3	100.1	394.5	178.9	1,936.9
Unallocated assets								287.0
Consolidated total assets								2,223.9
Segment liabilities								
Segment liabilities	(427.1)	(303.4)	(109.5)	(265.6)	(68.5)	(64.7)	(101.7)	(1,340.5)
Unallocated liabilities								(949.6)
Consolidated total liabilities								(2,290.1)

** The restated segmental information for the year ended 31 December 2014 is the same as that disclosed in note 5 of the 2014 Annual Report and Accounts.

4. Acquisitions

Deferred consideration payments of £0.2m were made in the period in relation to the prior year acquisition of MENA Business Services LLC. In addition, the fair value of deferred contingent consideration on this acquisition was finalised, resulting in a reduction of the provisional goodwill of £1.6m.

5. Disposals

The total exceptional loss on disposal of businesses in the six months ended 30 June 2015 was £4.9m (six months ended 30 June 2014: profit of £2.2m). In May 2015, the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.6m, with a loss on disposal of £4.2m being charged in the six month period to 30 June 2015. The transaction is part of the disposal programme of businesses identified as not being core to Serco's future strategy, as announced initially in November 2014. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. Both these businesses were classified as held for sale as at 31 December 2014.

In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group's frontline public services operations in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.7m. Details of these transactions are given below:

The net assets at the date of disposal were:	Great Southern Rail Six months ended 30 June 2015 (unaudited) £m	National Physical Laboratory Six months ended 30 June 2015 (unaudited) £m	Other Six months ended 30 June 2015 (unaudited) £m	Total Six months ended 30 June 2015 (unaudited) £m	Total Six months ended 30 June 2014 (unaudited) £m	Total Year ended 31 December 2014 (audited) £m
Goodwill	-	-	-	-	3.4	3.4
Other intangible assets	-	-	-	-	0.2	0.2
Property, plant and equipment	0.9	25.4	-	26.3	-	0.2
Deferred tax assets	-	2.8	-	2.8	-	-
Current tax assets	-	-	0.9	0.9	-	-
Inventories	1.2	-	-	1.2	-	-
Trade and other receivables	9.7	12.2	0.8	22.7	6.3	6.5
Cash and cash equivalents	7.3	10.6	0.4	18.3	1.0	1.0
Trade and other payables	(14.2)	(14.9)	-	(29.1)	(1.6)	(1.7)
Tax liabilities	-	-	(0.4)	(0.4)	(0.1)	(0.1)
Non recourse loans	-	(24.0)	-	(24.0)	-	-
Provisions	(0.7)	-	-	(0.7)	-	-
Net assets disposed	4.2	12.1	1.7	18.0	9.2	9.5

The (loss)/profit on disposal is calculated as follows:

Cash consideration	2.6	12.1	1.0	15.7	6.0	7.1
Less:						
Net assets disposed	(4.2)	(12.1)	(1.7)	(18.0)	(9.2)	(9.5)
Impairment of loan receivable in respect of prior year disposal	-	-	-	-	-	(4.6)
Disposal-related costs	(2.6)	-	-	(2.6)	5.4	1.6
(Loss)/profit on disposal	(4.2)	-	(0.7)	(4.9)	2.2	(5.4)

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

Consideration received	2.6	12.1	1.0	15.7	8.0	9.1
Less:						
Deferred consideration	(0.1)	(0.5)	-	(0.6)	0.5	(0.3)
Cash and cash equivalents disposed	(7.3)	(10.6)	(0.4)	(18.3)	(1.0)	(1.0)
Disposal-related costs paid during the period	(1.1)	-	-	(1.1)	(0.7)	(5.9)
Net cash (outflow)/inflow on disposal	(5.9)	1.0	0.6	(4.3)	6.8	1.9

6. 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.

AWE Management Limited and Northern Rail Holdings Limited are the only joint ventures which are material to the Group. Dividends of £9.8m (six months ended 30 June 2014: £9.0m; year ended 31 December 2014: £16.8m) and £2.0m (six months ended 30 June 2014: £2.9m; year ended 31 December 2014: £8.9m) respectively were received from these companies in the period.

Summarised financial information of the Group's material joint ventures, being AWE Management Limited and Northern Rail Holdings Limited, and an aggregation of the other joint ventures in which the Group has an interest is as follows:

30 June 2015

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures £m	Group portion of other joint venture arrangements £m	Total £m
Revenue	499.4	278.9	135.5	305.9	58.0	363.9
Operating profit	26.3	4.2	11.1	10.9	5.0	15.9
Net investment income/(finance costs)	0.2	0.1	(0.8)	0.1	(0.3)	(0.2)
Income tax expense	(2.6)	-	(1.7)	(0.9)	(0.9)	(1.8)
Profit from continuing operations	23.9	4.3	8.6	10.1	3.8	13.9
Other comprehensive income/(expense)	-	4.8	(1.0)	2.4	(0.8)	1.6
Total comprehensive income	23.9	9.1	7.6	12.5	3.0	15.5
Non-current assets	590.3	10.2	51.6	201.9	17.1	219.0
Current assets	331.0	88.2	85.8	154.4	35.7	190.1
Current liabilities	(319.9)	(92.5)	(78.5)	(152.8)	(33.6)	(186.4)
Non-current liabilities	(590.0)	(8.2)	(57.1)	(200.8)	(20.5)	(221.3)
Net assets/(liabilities)	11.4	(2.3)	1.8	2.7	(1.3)	1.4
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	3.8	(1.1)	(1.3)	2.7	(1.3)	1.4

31 December 2014

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures £m	Group portion of other joint venture arrangements £m	Total £m
Revenue	989.3	577.5	397.0	618.5	179.8	798.3
Operating profit	54.9	17.7	23.8	27.2	10.7	37.9
Net investment revenue/(finance costs)	0.3	0.4	(1.4)	0.3	(0.6)	(0.3)
Income tax expense	(4.6)	(5.1)	(7.0)	(4.1)	(3.5)	(7.6)
Profit from continuing operations	50.6	13.0	15.4	23.4	6.6	30.0
Other comprehensive income/(expense)	-	0.8	(4.3)	0.4	(2.3)	(1.9)
Total comprehensive income	50.6	13.8	11.1	23.8	4.3	28.1
Non-current assets	583.7	10.5	44.9	199.8	18.1	217.9
Current assets	246.5	72.9	74.4	118.6	31.5	150.1
Current liabilities	(230.1)	(83.5)	(65.7)	(118.4)	(29.4)	(147.8)
Non-current liabilities	(583.3)	(6.0)	(51.1)	(197.5)	(21.1)	(218.6)
Net assets/(liabilities)	16.8	(6.1)	2.5	2.5	(0.9)	1.6
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	5.5	(3.0)	(0.9)	2.5	(0.9)	1.6

6. Joint Ventures (continued)

30 June 2014

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures £m	Group portion of other joint venture arrangements £m	Total £m
Revenue	519.0	297.6	205.6	321.8	93.7	415.5
Operating profit	29.4	4.0	10.5	11.8	4.9	16.7
Net investment revenue/(finance costs)	0.3	0.2	(0.9)	0.2	(0.4)	(0.2)
Income tax expense	(3.0)	(1.8)	(1.9)	(1.9)	(0.8)	(2.7)
Profit from continuing operations	26.7	2.4	7.7	10.1	3.7	13.8
Other comprehensive income/(expense)	-	(1.0)	0.9	(0.5)	0.4	(0.1)
Total comprehensive income	26.7	1.4	8.6	9.6	4.1	13.7
Non-current assets	457.2	12.4	49.6	158.6	20.2	178.8
Current assets	193.5	91.8	90.7	110.4	39.9	150.3
Current liabilities	(177.9)	(100.0)	(79.3)	(109.3)	(35.7)	(145.0)
Non-current liabilities	(456.9)	(10.8)	(48.0)	(157.7)	(19.3)	(177.0)
Net assets/(liabilities)	15.9	(6.6)	13.0	2.0	5.1	7.1
Proportion of Group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	5.3	(3.3)	5.1	2.0	5.1	7.1

7. Exceptional Items

Exceptional items are non-recurring items of financial performance that are outside of normal practice and material to the results of the Group either by virtue of size or nature. We believe 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

A description of net (loss)/profit on disposal of subsidiaries and operations is included in Note 5.

Other Exceptional Operating Items

	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Costs associated with UK Government reviews	-	(5.7)	(9.2)
UK frontline clinical health contract provisions	-	(3.9)	(16.1)
Restructuring costs	(9.6)	(14.5)	(32.7)
Provision for settlement relating to DLR pension deficit funding dispute	-	(7.5)	(35.6)
Other provision for legal claims	-	-	(20.1)
Impairment and related charges of Australian rail business	-	-	(37.2)
Impairment of other businesses transferred to assets held for sale	(70.1)	-	(39.2)
Impairment of goodwill	-	-	(466.0)
Other exceptional operating items	(79.7)	(31.6)	(656.1)

In the six months ended 30 June 2015, a charge of £9.6m has arisen in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, provisions and other

charges relating to the exit of the UK private sector BPO business, and external advisory fees and other incremental costs.

In the six months ended 30 June 2015, there was a £70.1m impairment in the carrying value of assets held for sale. This impairment reflects the indicative offers received in the period, together with movements of the assets held for sale since the prior balance sheet date. The impairment would have been £12.7m lower if depreciation and amortisation had been charged on these assets during the period.

Exceptional Finance Costs

As previously indicated at the time of the rights issue and associated refinancing, as a result of the need to delay the delivery of the 31 December 2014 covenant test costs were incurred in the six months ended 30 June 2015 to preserve the existing finance facilities. In addition, payments were made to the US PP Noteholders as a result of early settlement following the Group refinancing. The total charges of £32.8m have been treated as exceptional items as they are outside of the normal financing arrangements of the Group and are significant in size.

Tax on Exceptional Items

The tax impact of these exceptional items was a tax credit of £0.3m (six months ended 30 June 2014 £4.2m; year ended 31 December 2014: £18.0m).

8. Investment Income

	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Interest receivable on other loans and deposits	1.8	1.3	3.1
Net interest receivable on retirement benefit obligations	2.5	1.5	3.1
	4.3	2.8	6.2

9. Finance Costs

	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Interest payable on non recourse loans	-	0.4	0.8
Interest payable on obligations under finance leases	1.4	1.9	3.2
Interest payable on other loans	15.1	15.7	29.4
Facility fees and other charges	3.5	1.9	9.5
Movement in discount on provisions and deferred consideration	2.9	0.1	-
	22.9	20.0	42.9

10. Tax

The effective tax rate on profit before exceptional items is 38% (six months to 30 June 2014: 14.9%). The principal reasons for a higher tax rate than the UK rate of 20.25% are higher rate of tax on profits arising in the international divisions (namely the Americas at circa 40%, Australia at circa 30% and India at circa 34%) and the absence of any deferred tax credit for charges incurred in the UK.

The effective tax rate on exceptional items is less than 1% (six months to 30 June 2014: 14.3%). This rate is driven primarily by UK charges incurred in the period and goodwill impairment for which no deferred tax credit has been recognised.

At as 30 June 2015, the total deferred tax asset recognised in respect of UK losses is £10.5m (30 June 2014: £29.6m; 31 December 2014: £10.5m).

11. Dividends

	Six months ended 30 June 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2014 of nil per share (2014: 487.4 million ordinary shares)	-	36.4	36.4
Interim dividend for the year ended 31 December 2014 of 3.10p per share on 538.4 million ordinary shares	-	-	16.7
	-	36.4	53.1

No interim dividend has been declared for year ended 31 December 2015 (2014: interim dividend of 3.10p per ordinary share on 538.4 million shares, representing a payment of £16.7m).

A dividend waiver is effective for those shares held on behalf of the Company by its Employee Share Ownership Trust.

12. Earnings per Share

Basic and diluted earnings per ordinary 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:

Number of shares

	Six months ended 30 June 2015 (unaudited) Millions	Six months ended 30 June 2014 (restated*) (unaudited) Millions	Year ended 31 December 2014 (restated*) (audited) Millions
Weighted average number of ordinary shares for the purpose of basic EPS	886.2	632.6	655.1
Effect of dilutive potential ordinary shares: share options	-	15.4	-
Weighted average number of ordinary shares for the purpose of diluted EPS	886.2	648.0	655.1

*Restatement of earnings per share reflects adjustments associated with the rights issue.

	Six months ended 30 June 2015		Six months ended 30 June 2014 (restated*)		Year ended 31 December 2014 (restated*)	
Earnings per share	Earnings (unaudited) £m	Per share amount (unaudited) Pence	Earnings (unaudited) £m	Per share amount (unaudited) Pence	Earnings (audited) £m	Per share amount (audited) Pence
EPS						
Earnings for the purpose of basic EPS	(91.5)	(10.32)	9.0	1.42	(1,347.3)	(205.66)
Effect of dilutive potential ordinary shares	-	-	-	(0.03)	-	-
Diluted EPS	(91.5)	(10.32)	9.0	1.39	(1,347.3)	(205.66)

Basic EPS Excluding Exceptional Items

Earnings for the purpose of basic EPS	(91.5)	(10.32)	9.0	1.42	(1,347.3)	(205.66)
Add back exceptional operating items	84.6	9.54	29.4	4.65	661.5	100.98
Add back exceptional finance costs	32.8	3.70	-	-	-	-
Add back tax on exceptional items	(0.3)	(0.03)	(4.2)	(0.66)	(18.0)	(2.75)
Earnings excluding exceptional items for the purpose of basic EPS	25.6	2.89	34.2	5.41	(703.8)	(107.43)

*Restatement of earnings per share reflects adjustments associated with the rights issue

At 30 June 2015, options over 8,058,314 (30 June 2014: 1,348,062; 31 December 2014: 1,855,924) 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.

A further 25.4m shares are potentially dilutive but are not included in the above calculation due to the loss making position in the period.

13. Goodwill

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

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

There were no indicators of goodwill impairment as at 30 June 2015 as trading and cash are materially consistent with those forecast during the most recent impairment review, and there has been no significant change in discount rates as a result of the impact of the rights issue changing our debt to equity ratio.

14. Analysis of Net Debt

	Cash and cash equivalents £m	Loans receivable £m	Non-recourse loans £m	Other loans £m	Obligations under finance leases £m	Total £m
At 1 January 2014 (audited)	125.1	5.8	(20.3)	(788.0)	(68.0)	(745.4)
Cash flow	97.5	(0.3)	1.4	48.5	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	5.5	(21.5)	(722.3)	(63.3)	(580.8)
Cash flow	(23.4)	0.1	(5.1)	(29.7)	9.0	(49.1)
Reclassified as held for sale	(22.4)	-	24.0	0.8	37.1	39.5
Acquisitions*	1.3	-	-	-	-	1.3
Exchange differences	3.8	-	-	(49.7)	(0.1)	(46.0)
Non-cash movements	-	(4.6)	2.6	3.6	(9.2)	(7.6)
At 31 December 2014 (audited)	180.1	1.0	-	(797.3)	(26.5)	(642.7)
Cash flow	(4.7)	(0.2)	-	393.2	5.1	393.4
Reclassified as held for sale	(14.4)	-	-	-	(0.1)	(14.5)
Disposals	(0.4)	-	-	-	-	(0.4)
Exchange differences	(3.5)	(0.1)	-	(6.7)	0.2	(10.1)
Non cash movements	-	0.2	-	(1.6)	(0.2)	(1.6)
At 30 June 2015 (unaudited)	157.1	0.9	-	(412.4)	(21.5)	(275.9)

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

15. Provisions

	Employee Related & Restructuring £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2014 (audited)	15.7	5.3	25.9	14.2	61.1
Recognised on acquisition of subsidiary	-	0.1	-	-	0.1
Charged to income statement - exceptional	4.5	2.2	5.5	7.5	19.7
Charged to income statement - other	1.9	0.2	6.5	1.5	10.1
Released to income statement	(0.2)	(0.4)	(3.5)	(3.7)	(7.8)
Utilised during the year	(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
Reclassified from trade and other receivables*	-	-	(3.9)	-	(3.9)
Recognised on acquisition of subsidiary	0.2	-	-	-	0.2
Charged to income statement - exceptional	4.3	-	13.9	50.2	68.4
Charged to income statement - other	17.9	14.9	450.2	40.0	523.0
Released to income statement	-	0.3	-	(0.5)	(0.2)
Utilised during the year	(6.3)	(0.9)	(26.3)	(3.0)	(36.5)
Transferred to trade payables	-	-	-	(8.2)	(8.2)
Assets held for sale	(1.7)	-	(21.5)	(6.8)	(30.0)
Exchange differences	0.5	0.7	(6.4)	2.0	(3.2)
At 31 December 2014 (audited)	35.1	21.5	430.4	90.9	577.9
Charged to income statement – exceptional	1.9	-	-	0.1	2.0
Charged to income statement - other	4.0	0.2	14.4	6.8	25.4
Released to income statement – exceptional	(1.0)	-	(0.3)	-	(1.3)
Released to income statement	(0.4)	(0.2)	(9.3)	(6.6)	(16.5)
Utilised during the year	(5.6)	(1.6)	(68.7)	(1.2)	(77.1)
Assets held for sale	(7.1)	-	(4.0)	-	(11.1)
Unwinding of discount	-	0.1	2.8	-	2.9
Exchange differences	(0.6)	0.2	(8.9)	(0.4)	(9.7)
At 30 June 2015 (unaudited)	26.3	20.2	356.4	89.6	492.5
Analysed as:					
Current	4.6	5.5	80.6	56.5	147.2
Non current	21.7	14.7	275.8	33.1	345.3

*£3.9m has been reclassified from accrued income in 2014.

Total provisions held by the Group at 30 June 2015 amount to £527.9m (30 June 2014: £68.3m; 31 December 2014: £607.9m) and include £492.5m (30 June 2014: £68.3m; 31 December 2014: £577.9m) shown above and £35.4m (30 June 2014: £nil; 31 December 2014: £30.0m) included within amounts held for sale on the balance sheet.

Contract provisions relate to loss making onerous contracts. The present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the life of the contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material.

There remains a level of uncertainty over the amount and timing of the related cash flows and the judgements relating to the onerous contract provisions are being reassessed every six months. In the six months to 30 June 2015 there have been four contract where the provisions have been increased and two where provisions have been released.

Employee related provisions are for long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts. There are also amounts included in relation to restructuring.

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the

future. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due.

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.

16. 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 2015, are considered to fall into Level 2. 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 2015 (unaudited) £m	Fair value - Level 2 6 months ended 30 June 2015 (unaudited) £m	Level 2 6 months ended 30 June 2015 (unaudited) £m	Amortised cost Year ended 31 December 2014 (audited) £m	Fair value - Level 2 Year ended 31 December 2014 (audited) £m	Level 2 Year ended 31 December 2014 (audited) £m
Financial assets - current						
Cash and bank balances	157.1	-	157.1	180.1	-	180.1
Derivatives designated as FVTPL						
Forward foreign exchange contracts	-	2.2	-	-	5.6	-
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	1.2	-	-	0.1	-
Forward foreign exchange contracts	-	-	-	-	0.2	-
Trade receivables	201.1	-	201.1	146.8	-	146.8
Loan receivables	0.9	-	0.9	1.0	-	1.0
Security deposits	0.2	-	0.2	0.2	-	0.2
Amounts owed by joint ventures	0.1	-	0.1	0.1	-	0.1
Financial assets – non-current						
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	3.3	-	-	7.0	-
Other investments	3.4	-	3.4	3.9	-	3.9
Amounts owed by joint ventures	8.6	-	8.6	9.0	-	9.0
Financial liabilities - current						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	-	(3.3)	-	-	(17.3)	-
Derivative instruments in designated hedge accounting relationships:						
Cross currency swaps	-	(0.1)	-	-	(0.3)	-
Forward foreign exchange contracts	-	(10.9)	-	-	(0.1)	-
Trade payables	(89.9)	-	(89.9)	(99.8)	-	(99.8)
Loans	(34.9)	-	(35.2)	(43.9)	-	(43.9)
Obligations under finance leases	(9.0)	-	(9.0)	(9.6)	-	(9.6)
Financial liabilities – non-current						
Loans	(377.5)	-	(369.4)	(753.4)	-	(762.9)
Obligations under finance leases	(12.5)	-	(12.5)	(16.9)	-	(16.9)

16. Financial instruments (continued)

	Carrying amount (measurement basis)	Comparison fair value
	Fair value - Amortised cost 6 months ended 30 June 2014 (unaudited) £m	Level 2 6 months ended 30 June 2014 (unaudited) £m
Financial assets - current		
Cash and bank balances	220.8	220.8
Forward foreign exchange contracts designated as FVTPL	-	-
Derivative financial instruments in designated hedge accounting relationships:		
Cross currency swaps	-	-
Trade receivables	244.3	244.3
Loan receivables	2.4	2.4
Security deposits	0.1	0.1
Amounts owed by joint ventures	0.1	0.1
Financial assets – non-current		
Derivative financial instruments in designated hedge accounting relationships:		
Cross currency swaps	-	-
Loan receivables	3.1	3.1
Other investments	0.6	0.6
Amounts owed by joint ventures	9.3	9.3
Financial liabilities - current		
Forward foreign exchange contracts designated as FVTPL	-	-
Derivative instruments in designated hedge accounting relationships:		
Cross currency swaps	-	-
Forward foreign exchange contracts	-	-
Trade payables	(160.9)	(160.9)
Loans	(34.8)	(36.4)
Obligations under finance leases	(15.2)	(15.2)
Financial liabilities – non-current		
Derivative instruments in designated hedge accounting relationships:		
Cross currency swaps	-	-
Forward foreign exchange contracts	-	-
Loans	(709.0)	(715.1)
Obligations under finance leases	(48.1)	(48.1)

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.

17. Defined Benefit Schemes

The cost included in operating profit in the period is £7.0m (30 June 2014: £12.5m, 31 December 2014: £24.6m). Included in investment income and finance costs is a credit of £2.5m (30 June 2014: £1.5m, 31 December 2014: £3.1m) 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 2015 was approximately £9.0m (30 June 2014: £2.0m; 31 December 2014: £5.0m). 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 2015 (unaudited)			
Fair value of scheme assets	30.3	1,327.4	1,357.7
Present value of scheme liabilities	(33.5)	(1,204.9)	(1,238.4)
Net retirement benefit (obligation)/asset	(3.2)	122.5	119.3
Analysed as:			
Retirement benefit obligations	(3.2)	(11.3)	(14.5)
Retirement benefit assets	-	133.8	133.8
	Contract specific £m	Non-contract specific £m	Total £m
At 31 December 2014 (audited)			
Fair value of scheme assets	134.4	1,361.8	1,496.2
Present value of scheme liabilities	(161.3)	(1,231.3)	(1,392.6)
Net amount recognised	(26.9)	130.5	103.6
Franchise adjustment	22.9	-	22.9
Net retirement benefit (obligation)/asset	(4.0)	130.5	126.5
Analysed as:			
Retirement benefit obligations	(4.0)	(13.4)	(17.4)
Retirement benefit assets	-	143.9	143.9
	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

17. Defined Benefit Schemes (continued)

	At 30 June 2015 (unaudited) %	At 31 December 2014 (audited) %	At 30 June 2014 (unaudited) %
Main assumptions:			
Rate of salary increases	2.70	2.70	3.00
Rate of increase in pensions in payment (CPI)	2.10	2.00	2.30
Rate of increase in pensions in payment (RPI)	3.10	3.00	3.30
Rate of increase in deferred pensions (CPI)	2.20	2.10	2.40
Rate of increase in deferred pensions (RPI)	3.20	3.10	3.40
Inflation assumption (CPI)	2.20	2.10	2.40
Inflation assumption (RPI)	3.20	3.10	3.30
Discount rate	3.80	3.60	4.30
	At 30 June 2015 (unaudited) Years	At 31 December 2014 (audited) Years	At 30 June 2014 (unaudited) Years
Post-retirement mortality:			
Current pensioners at 65 – male	22.5	22.5	22.5
Current pensioners at 65 – female	25.0	25.0	25.0
Future pensioners at 65 – male	24.3	24.3	24.3
Future pensioners at 65 – female	27.0	27.0	27.0

Pension assumption sensitivities

Assumption	Change in assumption	Change in present value of scheme liabilities 30 June 2015	Change in present value of scheme Liabilities 31 December 2014	Change in present value of scheme liabilities 30 June 2014
Discount rate	3.8%	+0.5% (0.5%)	(8%) +9%	(8%) +9%
Inflation	3.2% (RPI) and 2.2% (CPI)	+0.5% (0.5%)	+8% (8%)	+9% (8%)
Rate of salary increase	2.7%	+0.5% (0.5%)	+1% (1%)	+1% (1%)
Mortality	22.5 – 27.0	Increase by one year	+2%	+2%

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

18. Contingent Liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £25.7m (30 June 2014; £26.5m; 31 December 2014: £26.2m). The actual commitment outstanding at 30 June 2015 was £20.9m (30 June 2014: £22.7m; 31 December 2014: £21.4m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 30 June 2015 was £196.6m (30 June 2014: £224.8m; 31 December 2014: £192.1m).

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.

On 31 May 2011, a claim was filed with the Authority for Advance Rulings to seek to confirm that Serco was not required to withhold Indian income tax from the purchase price on the acquisition of Intelenet. The AAR declined to rule on the matter. Serco has therefore filed a claim with the High Court to decide on the matter or direct the AAR to rule on the matter. The High Court has currently reserved judgment. Should the matter be decided against Serco, it would be liable for unprovided tax of £27m together with accrued

interest to 30 June 2015 of £12.5m. Having taken appropriate professional advice, Serco considers it likely that it will ultimately be successful in this matter.

19. Notes to the Consolidated Cash Flow Statement

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Six months ended 30 June 2015 Before Exceptional Items (unaudited) £m	Six months ended 30 June 2015 Exceptional Items (unaudited) £m	Six months ended 30 June 2015 Total (unaudited) £m	Six months ended 30 June 2014 Before Exceptional Items (restated) (unaudited) £m	Six months ended 30 June 2014 Exceptional Items (unaudited) £m	Six months ended 30 June 2014 Total (restated) (unaudited) £m
Operating profit/(loss) for the year	59.8	(84.6)	(24.8)	57.5	(29.4)	28.1
Adjustments for:						
Share of profits in joint ventures	(13.9)	-	(13.9)	(13.8)	-	(13.8)
<i>Non cash items:</i>						
Share-based payment expense	4.1	-	4.1	3.1	-	3.1
Exceptional impairment of assets held for sale	-	70.7	70.7	-	-	-
Exceptional impairment of property, plant and equipment	-	0.8	0.8	-	4.6	4.6
Impairment of property, plant and equipment - other	1.6	-	1.6	-	-	-
Exceptional impairment of other intangibles	-	0.4	0.4	-	-	-
Depreciation of property, plant and equipment	10.8	-	10.8	22.8	-	22.8
Amortisation of intangible assets	14.5	-	14.5	19.1	-	19.1
Exceptional loss/(profit) on disposal of subsidiaries and operations	-	4.9	4.9	-	(2.2)	(2.2)
Impairment of loan receivable	(0.2)	-	(0.2)	-	-	-
Loss/(profit) on disposal of property, plant and equipment	0.2	-	0.2	(0.2)	-	(0.2)
Loss on disposal of intangible assets	0.6	-	0.6	0.1	-	0.1
(Decrease)/increase in provisions	(53.3)	(18.5)	(71.8)	0.2	11.3	11.5
Other non cash movements	14.5	-	14.5	(19.6)	-	(19.6)
Total non cash items	(7.2)	58.3	51.1	25.5	13.7	39.2
Operating cash inflow/(outflow) before movements in working capital	38.7	(26.3)	12.4	69.2	(15.7)	53.5
Increase in inventories	(3.9)	-	(3.9)	(3.6)	-	(3.6)
Increase in receivables	(96.9)	3.4	(93.5)	(68.7)	-	(68.7)
Increase/(decrease) in payables	29.3	(18.6)	10.7	74.8	(1.1)	73.7
Movements in working capital	(71.5)	(15.2)	(86.7)	2.5	(1.1)	1.4
Cash generated by operations	(32.8)	(41.5)	(74.3)	71.7	(16.8)	54.9
Tax (paid)/repaid	(7.7)	-	(7.7)	4.1	-	4.1
Non cash R&D expenditure credit	(0.3)	-	(0.3)	-	-	-
Net cash (outflow)/inflow from operating activities	(40.8)	(41.5)	(82.3)	75.8	(16.8)	59.0

19. Notes to the Consolidated Cash Flow Statement (continued)

	Year ended 31 December 2014 Before Exceptional Items (audited) £m	Year ended 31 December 2014 Exceptional Items (audited) £m	Year ended 31 December 2014 Total (audited) £m
Operating loss for the year	(655.8)	(661.5)	(1,317.3)
Adjustments for:			
Share of profits in joint ventures	(30.0)	-	(30.0)
<i>Non cash items:</i>			
Share-based payment expense	5.4	-	5.4
Exceptional impairment of goodwill	-	466.0	466.0
Exceptional impairment of property, plant and equipment	-	18.6	18.6
Exceptional impairment of intangible assets	-	6.0	6.0
Impairment and write down of intangible assets - other	38.6	-	38.6
Impairment of property, plant and equipment - other	22.1	-	22.1
Depreciation of property, plant and equipment	41.8	-	41.8
Amortisation of intangible assets	38.7	-	38.7
Exceptional loss on disposal of subsidiaries and operations	-	0.8	0.8
Exceptional impairment of loan receivable	-	4.6	4.6
Loss on disposal of intangible assets	0.2	-	0.2
Increase in provisions	472.6	85.5	558.1
Increase in deferred consideration in relation to prior year acquisition	4.0	-	4.0
Impairment of working capital items (non-cash)	148.8	-	148.8
Total non cash items	772.2	581.5	1,353.7
Operating cash inflow/(outflow) before movements working capital	86.4	(80.0)	6.4
Increase in inventories	(1.4)	-	(1.4)
Decrease in receivables	8.7	18.8	27.5
Increase in payables	9.7	20.8	30.5
Movements in working capital	17.0	39.6	56.6
Cash generated by operations	103.4	(40.4)	63.0
Tax repaid	0.6	-	0.6
Non cash R&D expenditure credit	(0.5)	-	(0.5)
Net cash inflow/(outflow) from operating activities	103.5	(40.4)	63.1

20. 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 2015 (unaudited) £m	Six months ended 30 June 2014 (unaudited) £m	Year ended 31 December 2014 (audited) £m
Royalties and management fees receivable	1.6	0.9	1.7
Dividends receivable	15.8	14.7	34.8
	17.4	15.6	36.5

The following receivable balances were held relating to joint ventures:

	At 30 June 2015 (unaudited) £m	At 30 June 2014 (unaudited) £m	At 31 December 2014 (audited) £m
Current:			
Loans and other receivables	0.1	0.1	0.1
Non-current:			
Loans and other receivables	8.6	9.3	9.0

21. Assets Held For Sale

As part of the Strategic Review, certain assets and liabilities have been designated as non-core and are held for sale. As at 30 June 2015, the following businesses have been disclosed as held for sale: the UK environmental and leisure businesses, the offshore private sector BPO business and the majority of the UK private sector BPO business.

While a significant portion of the Global Services CGU has been transferred to held for sale, as it does not represent the whole of a separate line of business, it is not appropriate to treat as a discontinued operation.

	At 30 June 2015 £m	At 31 December 2014 £m
Assets		
Goodwill	206.8	279.1
Other intangible assets	24.9	5.0
Property, plant and equipment	74.3	94.5
Deferred tax assets	10.4	11.0
Other non current assets	18.6	26.8
Inventories	1.1	2.7
Current tax	-	4.2
Cash and cash equivalents	18.9	22.4
Other current assets	118.3	119.0
Assets classified as held for sale	473.3	564.7
Liabilities		
Other current liabilities	(72.5)	(96.1)
Current tax liabilities	(21.9)	(21.8)
Provisions	(35.4)	(30.0)
Obligations under finance leases	(33.3)	(37.1)
Loans	-	(24.8)
Deferred tax liabilities	(2.5)	(2.5)
Other non current liabilities	(0.5)	(7.6)
Liabilities directly associated with assets classified as held for sale	(166.1)	(219.9)

22. Post Balance Sheet Events

On 20 July 2015, a termination agreement was signed with Thurrock Council, under the terms of which both parties are working towards a termination date of 30 November 2015 and Thurrock Council will pay £9.9m compensation for asset impairments, stranded and committed costs and lost future profits. The impact of the settlement will be reflected when the transition has been completed, after taking into account the transfer of the obligations under the related defined benefit pension scheme.

Directors' responsibilities

Sir Roy Gardner	Non-Executive Chairman
Rupert Soames OBE	Group Chief Executive
Edward J Casey, Jr	Group Chief Operating Officer
Angus Cockburn	Group Chief Financial Officer
Mike Clasper CBE	Senior Independent Director and Non-Executive Director
Ralph D Crosby, Jr	Non-Executive Director
Tamara Ingram	Non-Executive Director
Rachel Lomax	Non-Executive Director
Angie Risley	Non-Executive Director
Malcolm Wyman	Non-Executive Director

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.