Stock Exchange Announcement

2021 half year results

5 August 2021

Very strong trading and cash. £4bn of order intake. Order book increases to £14bn. First interim dividend since 2014.

Six months ended 30 June	2021	2020	Change at reported currency	Change at constant currency
Revenue(1)	£2,168m	£1,822m	+19%	+20%
Underlying Trading Profit (UTP)(2)	£123m	£78m	+58%	+62%
Reported Operating Profit (i.e. after exceptional items)(2)	£116m	£89m	+31%	
Underlying Earnings Per Share (EPS), diluted(3)	6.75p	3.86p	+75%	
Reported EPS (i.e. after exceptional items), diluted	18.77p	5.66p	+232%	
Dividend Per Share	0.8p	-		
Free Cash Flow(4)	£130m	£81m	+61%	
Adjusted Net Debt(5)	£225m	£143m	+58%	
Reported Net Debt(6)	£651m	£503m	+29%	

Highlights

- **Revenue**(1) grew by 19% to £2.2bn, with organic growth of 15%, a 5% uplift from acquisitions and a 1% FX drag.
- **Underlying Trading Profit**(2) increased by 58% to £123m; 8%, or £6m, contributed by acquisitions of Facilities First in Australia and WBB in North America.
- **Group Margin** strengthened from 4.3% to 5.7%.
- **Reported Operating Profit** increased by 31%.
- **Diluted Underlying EPS** increased by 75%, reflecting the growth in Underlying Trading Profit, unchanged finance costs and a lower effective tax rate. Reported EPS benefits from one-off credit of £155m on recognition of an increased UK tax asset.
- **Free Cash Flow(4)** up 61% to £130m, supported by strong cash collections and some favourable timing effects.
- **Adjusted Net Debt(5)** increased by £82m to £225m in the last 12 months, despite spend of £249m on acquisitions and £40m on share buy-backs. Covenant leverage 1.0x EBITDA (2020: 0.7x).
- **Interim dividend** of 0.8p per share, the first interim dividend since 2014.
- **Order Intake** was extremely strong at £4.1bn, 190% book-to-bill. Approximately 60% of the order intake related to new work and 40% contracts being rebid. Pipeline of £5.8bn up 40% year-on-year, and largely rebuilt since the start of the year despite exceptionally strong order intake.
- **Order Book** increased from £13.5bn at the end of 2020 to £14.1bn.

Rupert Soames, Serco Group Chief Executive, said:

“These are very strong results, with revenue up 19%, Underlying Trading Profit up 58%, and Free Cash Flow up 61%. We have had extremely strong order intake, and the book-to-bill ratio was 190%, which bodes well for the future. Our three largest divisions – Asia Pacific, North America and UK & Europe – all delivered good growth, and this reflects both the trust our government customers have shown in us during the pandemic, and Serco’s ability to respond to their requirements with speed and at scale.

Serco has grown very rapidly in the past two years, made possible by the investment we have made since 2014 in transforming our culture, systems and processes, re-gaining the trust of our customers, and building a strong and experienced management team. Over 60% of our profits now come from outside the UK, which reflects the success we have had in developing our businesses around the world. We now employ 83,000 people, which is around 21,000, or a third, more than we did a year ago; notwithstanding this rapid expansion, we have delivered an extremely strong operational performance. In the last six months we have completed two acquisitions, mobilised and trained thousands of people for new contracts, de-mobilised others, and responded with agility to constantly changing customer requirements. At the same time colleagues have had to deal with challenges and sometimes tragedies in their personal lives. For too many, home-life has provided little respite from the pressures of work-life. My respect and admiration for them all is unbounded.

About 17% of our first half revenues were directly associated with the critical work of supporting governments in their response to Covid-19. These revenues will fall away as the pandemic fades; for all our sakes, the sooner the better.

In the meantime, our job is to deliver great service and value to governments on these contracts while they are needed, and to wind them down in an orderly manner when they are not. This work, whilst temporary in nature, will leave an enduring legacy for Serco and make it an even stronger company. It has shown our customers that they can trust us to respond at speed and scale to extremely demanding requirements; it has enabled us to invest in the development of systems, processes and skills which will further strengthen what is already a powerful proprietary platform for delivering complex government services. We believe that as a result of Covid-19 related contracts our skills and capabilities will be greater and our reputation with governments will be enhanced. We take the £4bn of order intake we have won in the first half as encouraging early evidence of this, and it will certainly help to cushion the impact of the inevitable wind-down of Covid-19 related work.

For the year as a whole, we expect to deliver Underlying Trading Profit of around £200m, or nearly 30% growth in constant currency. Profits in the year will be weighted to the first half, and will include contributions from the WBB and FFA acquisitions, which will enable us to partially offset the impact of the end of the AWE contract in June, the mobilisation costs of the recently-signed DWP contract, an expected reduction in Covid-19 related activities, and investments in our operating platform."

Our guidance for 2021 remains unchanged from that stated in our Pre-Close Update on 30 June 2021, except for cash and net debt, which has been updated following the very strong first half performance.

	Prior guidance	**Latest guidance**
Revenue	~£4.3bn	~£4.3bn
Organic sales growth	~6%	~6%
Underlying Trading Profit	~£200m	~£200m
Net Finance Costs	~£28m	~£28m
Underlying effective tax rate	~25%	~25%
Free Cash Flow	~£100m	~£120m
Adjusted Net Debt	~£275m	~£250m

Notes: The guidance uses an average GBP:USD exchange rate of 1.39 in 2021 and GBP:AUD of 1.82.

For further information please contact Serco:
Paul Checketts, Head of Investor Relations, tel: +44 (0) 7718 195 074 or email: paul.checketts@serco.com
Marcus De Ville, Head of Media Relations; tel +44 (0) 7738 898 550 or email: marcus.deville@serco.com

Presentation:
A virtual presentation for institutional investors and analysts will be held today starting at 10.00am. 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) 207 192 8338 (USA: +1 646 741 3167) with participant pin code 3376269.

Notes to summary table of financial results:

(1) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Organic revenue growth is the change at constant currency after adjusting to exclude the impact of relevant acquisitions or disposals. Change at constant currency is calculated by translating non-sterling values for the six months ended 30 June 2021 into sterling at the average exchange rates for the six months ended 30 June 2020.

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

Six months ended 30 June £m	**2021**	**2020**
Underlying Trading Profit	**122.7**	**77.6**
Include: non-underlying items		
Contract & Balance Sheet Review adjustments	2.9	2.9
Trading Profit	**125.6**	**80.5**
Amortisation of intangibles arising on acquisition	(6.6)	(5.0)
Operating Profit Before Exceptional Items	119.0	75.5
Operating Exceptional Items	(2.7)	13.6
Reported Operating Profit (after exceptional items)	**116.3**	**89.1**

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

(4) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Condensed Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid, the capital element of lease payments, net capital expenditure on tangible and intangible asset purchases and share purchases used to satisfy share awards.

(5) Adjusted Net Debt is an additional non-IFRS Alternative Performance Measure (APM) used by the Group. This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities.

(6) Reported Net Debt includes all lease liabilities. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:

As at £m	**30 June 2021**	**30 June 2020**	**31 Dec 2020**
Adjusted Net Debt	**225.2**	**142.9**	**57.8**
Include: all lease liabilities	425.7	359.9	402.6
Reported Net Debt	**650.9**	**502.8**	**460.4**

(7) Represents percentage of Group Underlying Trading Profit before corporate costs. Underlying Trading Profit before corporate costs in the first half of 2021 was £145.4m.

Forward looking statements:

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

LEI code: 549300PT2CIHYN5GWJ21

Chief Executive's Review

Summary of financial performance

Revenue, Underlying Trading Profit and Underlying Earnings Per Share

Revenue increased by 19%, or £345m, to £2,168m (2020: £1,822m). Of the growth, 15% (£282m) was organic, acquisitions contributed 5% (£86m) and currency movements were a drag of 1% (-£23m). The high level of organic growth was driven by very strong performances from our UK and Australian businesses. About £365m of our global revenues were from services supporting governments' response to Covid-19, which compares to £130m in the first half of 2020.

Underlying Trading Profit (UTP) increased by 58%, or £45m, to £123m (2020: £78m). Excluding the adverse currency movement of £3m, growth at constant currency was 62%. Acquisitions added 8%, or £6m, of the growth, with the rest being organic. The organic growth arose from continued strong demand for our Covid-19 work and growth in a range of other contracts, notably in Justice & Immigration and Citizens Services. Our core operating platform was able to respond efficiently to the additional demand, illustrated by the fact that Group administrative expenses increased year-on-year by 8%, whilst revenues increased by 19%. As a consequence, most of our regions improved their Underlying Trading Profit margins as revenues increased, and this helped drive our UTP margin from 4.3% to 5.7%.

Diluted Underlying Earnings Per Share increased by 75% to 6.75p (2020: 3.86p). The percentage improvement was higher than the increase in UTP due to a broadly unchanged finance cost and a lower effective tax rate.

Cash flow and net debt

Free Cash Flow was very strong in the half at £130m (2020: £81m). The improvement was a result of the £45m increase in underlying profits and a working capital inflow of £44m, despite revenue growth of £345m. The working capital inflow was helped by the successful collection of some older receivables, efforts by governments to support their supply chains by ensuring prompt payments and favourable timing of receipts round the period end. Average working capital days were broadly unchanged with debtor days of 23 and creditor days of 24. We are proud to say that 89% of UK supplier invoices were paid in under 30 days (2020: 87%) and 95% were paid in under 60 days (2020: 96%). No working capital financing facilities were utilised in this or the prior year.

The closing Adjusted Net Debt of £225m (2020: £143m) compares to a daily average of £178m (2020: £283m) and a peak of £346m (2020: £356m). The relatively large range for these reflects the acquisition of WBB in May and the favourable timing of receipts and payments at the end of the period. We have not used any financing or efforts out of the ordinary to reduce period end net debt.

Our measure of Adjusted Net Debt excludes all lease liabilities, which now total £426m (31 December 2020: £403m) the majority relating to the AASC contract and aligns more closely with the measure used for covenants on our financing facilities. Adjusted Net Debt at 30 June 2021 increased to £225m (31 December 2020: £58m, 30 June 2020: £143m). The £167m increase since the year end includes spend on acquisitions of £249m, £17m of dividend payments and £40m of share purchases.

At the closing balance sheet date, our leverage for debt covenant purposes was 1.0x EBITDA (2020: 0.7x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

Dividends

The Board has decided to declare an interim dividend of 0.8p in respect of the first half of 2021. To put this into context, the Board decided, given the uncertainties last year, not to declare an interim dividend in 2020. We did, however, pay a final dividend of 1.4p per share in respect of 2020, and if the normal approach of paying about one-third of an expected annual dividend at the interim stage and two-thirds at the Final stage had been followed, it would have implied an interim in 2020 of about 0.7p. Indeed, an amount roughly equivalent to this was included in the calculation of the quantum of the share buyback programme announced in December 2020. In this context an interim dividend of 0.8p would represent an increase of around 15% on the 0.7p that was notionally foregone in 2020.

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

Contract awards, order book, rebids and pipeline

Contract awards

Order intake has been extremely strong in the first half of 2021 with £4.1bn of work won, moving our book-to-bill to 190% for the half, and approaching 130% for the rolling 12-months; since January 2017 and June 2021, we have had revenues of £15bn, and booked orders of £19bn – a book-to-bill ratio of 126%. There were 33 contract awards worth more than £10m each and 4 with a total contract value of more than £200m. Around 70% of order intake came from the UK & Europe, 25% from the Americas and the remaining 5% from customers of our AsPac and Middle East operations.

Of the order intake, approximately 60% was represented by the value of new business and 40% was rebids and extensions of existing work. This is the opposite of the position in the same period last year. The win rate by value for new work, which has averaged slightly less than 30% over the last five years, was unusually high at almost 70%. The win rate by value for securing existing work was approximately 70%, which is lower than the 80-90% we typically see, as a result of the loss of our Dubai Metro contract. Win rates by number of tenders were approximately 65% for new bids and over 90% for rebids and extensions.

VIVO Defence Services, our 50/50 joint venture with Engie, was successful in securing several contracts from the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO) as part of the Future Defence Infrastructure Services (FDIS) programme, the largest facilities management procurement currently running across Europe. In Lot 3, which awarded contracts to provide asset and facilities management services for the UK defence built estate, VIVO won the largest two regions of the four that were competed. These have an estimated total potential value to Serco of around £1.7bn over the initial seven-year period. VIVO also secured the largest two regions in Lot 2B, which provides repairs and maintenance work for Service Family Accommodation, with an estimated total potential value to Serco of around £200m. Also in the UK, we were awarded contracts by the Department of Work and Pensions as part of their Restart programme, which will help unemployed people back into work. We estimate that the combined value over the initial four and a half-year contract period will be around £350m, with the amount dependent on the number of people who find employment. The order intake also includes the £400m contract renewal to provide support services at the Canadian Forces Base in Goose Bay, Canada and our award to continue to provide services at Covid-19 testing centre locations in the UK.

Order book

The order book increased from £13.5bn at the start of the year to £14.1bn at the end of June. This is lower than might be expected when order intake has been so high as, consistent with our usual treatment of joint ventures, our order intake includes Serco's £1.9bn share of our VIVO joint venture with Engie but our order book does not. More widely, our order book definition gives our assessment of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods and the order book would be £1.2bn higher if option periods in our US business, which always tend to be exercised, were included.

Rebids

In our portfolio of existing work, we have around 70 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2023. Excluding our NHS Test & Trace contracts, which are short-term in nature and we expect the work to come to a natural finish, contracts which will either end or need to be extended in 2021 have an annual contract value of around £400m. A significant part of this is the Australian Immigration services contract, where the customer has recently informed us they propose extending for the maximum two years to December 2023 and will enter into discussions to finalise the terms of this. In each of 2022 and 2023 the annual value of contracts ending or requiring extension is approximately £500m.

Pipeline

Our measure of pipeline is probably more narrowly defined than is common in our industry. It includes only opportunities for new business that have an estimated annual contract value (ACV) of at least £10m and which we expect to bid and to be adjudicated within a rolling 24-month timeframe. We cap the total contract value (TCV) of individual opportunities at £1bn, to lessen the impact of single large opportunities. The definition does not include rebids and extension opportunities, and in the case of framework, or call-off, contracts such as 'ID/IQ' (Indefinite Delivery / Indefinite Quantity contracts), which are common in the US, we only take the value of individual task orders into our Pipeline as the customer confirms them. Our published Pipeline is thus a relatively small proportion of the total universe of opportunities, many of which have annual revenues less than £10m, are likely to be decided beyond the next 24 months, or are rebids and extensions.

Our Pipeline was £6.4bn at the end of 2020. We have seen £4.1bn of orders secured in the half, and we are pleased that, despite this, we have managed to largely replenish the Pipeline, which stood at £5.8bn at 30 June. The Pipeline currently consists of just over 25 bids that have an ACV averaging approximately £30m and a contract length averaging seven years. The pipeline of opportunities for new business that have an estimated ACV of less than £10m has remained stable at £1.7bn.

As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and when they come in and out of the pipeline they can have a material effect on reported values.

Market outlook

Our approach to strategy planning is to conduct annual planning exercises, updating the previous year's five-year forward plans, using internal resources, so that at any time we have a reasonably current five-year view. Every four to five years we conduct a more detailed root-and-branch review, with external help, of our markets. The last such review was in 2017, and in our 2018 Annual Report, we set out our views on our markets. We had planned to conduct our usual annual planning process in 2020, but as soon as Covid-19 struck we told those people who would normally do this work to focus on managing the business. However, in early 2021 we restarted our normal strategy planning cycle, and we will update markets on our latest views on the market in a Capital Markets Day later in the year.

Pending that event, below are some of our reflections on our market and in particular the impact of Covid-19. Some of this repeats what we said in both our 2020 Interim and Final Reports, but if something has stayed the same, we see no harm in saying it again.

- Covid-19 will probably amplify the underlying drivers of demand in our market – which in 2014 we described as the "Four Forces". They are: relentlessly increasing demand for public services; expectations of higher service quality; structural fiscal deficits; electoral resistance to tax increases. These forces will continue to encourage governments to seek innovative ways to deliver more services, of higher quality, and at lower cost (what we call 'More and Better for Less'). We believe that Covid-19 has reconnected hundreds of millions of people worldwide with government services and reminded them of the value of well organised service delivery. This will make government more confident in promoting services to citizens, and politicians more aware that voters may make decisions on their future based on their personal experience of the quality of public services. But the fact is that deficits and levels of government debt have increased to levels not seen outside the aftermath of the last two World Wars, and governments will be as focused on delivering the "for Less" as on the "More" and the "Better". This is positive for our market.
- When faced by Covid-19, governments worldwide were, we believe, surprised by two things. First, how little resilience there was in many critical self-provided government services, and second by how well the private sector was able to respond to an existential crisis. From developing vaccines in previously undreamt-of timescales, to building vast new hospitals in weeks, to manufacturing tens of thousands of ventilators, to standing up test and tracing services on a scale never before seen, governments asked the private sector to respond, and has, I suggest, been pleasantly surprised at how responsive and capable the private sector has proved to be.
- Procurement processes have become increasingly protracted over the last 18 months. During the first and second lockdowns, a certain amount of momentum kept in-flight procurements going, but since December, and in particular in the UK and North America, contracting authorities have struggled to keep to timescales. In the US alone, we have over $2.5bn of tenders awaiting adjudication, and the flow of new requests has slowed up; so the pattern may be expressed as a backlog of awards and delays in new tenders, but as a consequence many current contracts are being extended. This pattern tends to favour incumbents. A peculiarly US phenomenon is the ritual of many contract awards being challenged, and now with appeals taking longer to adjudicate, incumbents have an even greater incentive to appeal awards where they have lost. It will take some time for the normal tempo of bids to be restored.
- We think that governments will reflect that they need to be more diligent about how they plan for crises, and put in place supply-chains and procurement processes that allow for the swift mobilisation of the private sector.
- Our customers do not see clearly how the pandemic will play out over the next few months. All they can do is to have on hand capacity they can flex up and down as the needs of the moment dictate, and this is what most governments have done. And if they don't know how it will play out, neither can we. What we do know is that over the next year or so the volumes of our Covid-19 related work will reduce and in the meantime, our job is to deliver great service and value to governments on these contracts while they are needed, and to wind them down in an orderly manner when they are not. Whilst temporary in nature, this work will leave an enduring legacy for Serco and make it an even stronger company. It has shown our customers that they can trust us to respond at speed and scale to extremely demanding requirements; it has enabled us to invest in the development of systems, processes and skills which will further strengthen what is already a powerful proprietary platform for delivering complex government services. We believe that as a result of Covid-19 related contracts our skills and capabilities will be greater and our reputation with governments will be enhanced. We take the £4.1bn of order intake we have won in the first half as encouraging early evidence of this, and it will certainly help to cushion the impact of the inevitable wind-down of Covid-19 related work.

Guidance for 2021

Revenue: We expect revenue of around £4.3bn in 2021, more than 10% higher than the £3.9bn reported in 2020, with organic growth of approximately 6%. Whilst it is not possible to accurately forecast Covid-19 related revenues, given the constantly evolving situation, our expectation is that these revenues will reduce in the remainder of the year, and will have as their prior-year comparator a full six months of intense Covid effort, rather than the three months of the first half of 2020. This and the cessation of our Dubai Metro contract mean that we expect year-on-year revenue growth to be markedly lower in the second half than in the first, but still positive and around or above our 5% long-term ambition.

Underlying Trading Profit: We expect UTP of around £200m for the year, up around 23% on the prior year. Given the strong first half, this implies a first half weighting of profits. The second half will have a number of factors weighing on performance: the ending of contracts such as AWE and Dubai Metro will together have a ~£10m impact half-on-half; we booked £3m of profit on sale from the divestment of our US parking business in the first half, which will not recur; we will spend £8m-£10m mobilising the DWP Restart contract that we won in the first half. In addition, we are taking the opportunity of the strong performance to accelerate investments in our systems and processes, which will cost about £10m in the second half. They include: further development of our HR system, bringing our European business onto our core SAP platform, investment in cyber defences, and building our "UK SOX" platform, which will put us in a good position to implement the mooted changes to UK Audit & Corporate Governance. Although the time and precise nature of these regulatory changes is not decided, the direction of travel is set and we want to be ahead of this particular curve. We also expect that during the second half, demand for our Covid-19 related services will decline. All these drags on performance will be partially offset by WBB and FFA, both acquired in the first half, and improved performance in businesses seriously impacted by Covid-19, such as our UK Leisure, Health and Transport businesses. The aggregate effect will be to reduce profits in in the second half of the year, relative to both H1 2021 and H2 2020.

Net finance costs and tax: Net finance costs are expected to be around £28m. This is modestly higher than 2020 as we are carrying a higher level of debt following the acquisitions of WBB and FFA, and because this year will see us paying interest on both our US private placement notes that were issued in October 2020 and the notes that mature this year which last year's placement was designed to refinance. The underlying effective tax rate is expected to continue at around 25%. The tax rate is expected to be higher in the second half than the first as a result of the geographic mix of our profit and because the first half benefited from a revision of our tax provision estimates.

Financial position: We expect adjusted net debt to be around £250m at the end of December and leverage towards the bottom end of our target range of 1-2x net debt : EBITDA. Full year net debt is expected to be higher than at the half year as the exceptional cash flow we saw in the first six months is likely to normalise. The second half should see lower profitability than the first six months, the reversal of favourable timing of receipts round the half year period end, an extra "53rd week" payroll period in North America, customers who had expedited payment terms to support their supply chains through Covid-19 reverting to more normal terms, and the repayment of deferred payroll taxes in North America.

Concluding thoughts

We expect 2021 to be an exceptional year for Serco, not only in terms of financial performance, where we expect to deliver revenue growth of over 10%, profits growth of around 23%, and strong cash conversion, but also outstanding operational delivery in the context of a pandemic. This outcome has not happened by accident: it is the product of seven years' work transforming Serco into a company which is trusted and valued by governments, with an agile and scalable operating platform. That, coupled with an experienced and motivated management team and a "Loose-Tight" management philosophy, which allows for rapid response without losing control or prejudicing governance, is what has made this outcome possible.

The shape of the year is unusual, with a second half markedly weaker than the first as a result of the drags on profit described in the outlook above. However, in 2022, some of these effects will reverse, as we reap the rewards of the £4.1bn of order intake in H1 21; in particular the DWP contract will move into profit, and DIO contracts will start to contribute to profits. And while the Covid contracts will inevitably wind down over the next 12 months, their legacy will be to leave Serco an even more competitive, well-financed, agile, and capable international supplier of government services.

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

Divisional Reviews

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

Six months ended 30 June 2021 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**1,038.5**	**528.6**	**457.9**	**142.5**	**-**	**2,167.5**
Change	+33%	(2%)	+38%	(13%)		+19%
Change at constant currency	+33%	+6%	+29%	(7%)		+20%
Organic change at constant currency	+33%	0%	+12%	(7%)		+15%
UTP	**56.1**	**57.1**	**25.0**	**7.2**	**(22.7)**	**122.7**
Margin	5.4%	10.8%	5.5%	5.1%	n/a	5.7%
Contract & Balance Sheet Review adjustments	2.9	-	-	-	-	2.9
Trading Profit/(Loss)	**59.0**	**57.1**	**25.0**	**7.2**	**(22.7)**	**125.6**
Amortisation of intangibles arising on acquisition	(0.4)	(4.5)	(1.7)	-	-	(6.6)
Operating profit/(loss) before exceptionals	**58.6**	**52.6**	**23.3**	**7.2**	**(22.7)**	**119.0**

Six months ended 30 June 2020 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**783.6**	**542.1**	**332.0**	**164.5**	**-**	**1,822.2**
UTP	**26.5**	**53.4**	**13.3**	**7.0**	**(22.6)**	**77.6**
Margin	3.4%	9.9%	4.0%	4.3%	n/a	4.3%
Contract & Balance Sheet Review adjustments	2.9	-	-	-	-	2.9
Trading Profit/(Loss)	**29.4**	**53.4**	**13.3**	**7.0**	**(22.6)**	**80.5**
Amortisation of intangibles arising on acquisition	(1.5)	(3.5)	-	-	-	(5.0)
Operating profit/(loss) before exceptionals	**27.9**	**49.9**	**13.3**	**7.0**	**(22.6)**	**75.5**

Year ended 31 December 2020 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	**Total**
Revenue	**1,777.4**	**1,064.3**	**718.9**	**324.2**	**-**	**3,884.8**
UTP	**57.0**	**100.8**	**32.6**	**13.9**	**(41.2)**	**163.1**
Margin	3.2%	9.5%	4.5%	4.3%		4.2%
Contract & Balance Sheet Review adjustments	5.8	-	-	-	-	5.8
Other one-time items	6.8	-	-	-	-	6.8
Trading Profit/(Loss)	**69.6**	**100.8**	**32.6**	**13.9**	**(41.2)**	**175.7**
Amortisation of intangibles arising on acquisition	(2.0)	(7.0)	-	-	-	(9.0)
Operating profit/(loss) before exceptionals	**67.6**	**93.8**	**32.6**	**13.9**	**(41.2)**	**166.7**

The trading performance and outlook for each division are described on the following pages. Reconciliations and further detail of financial performance are included in the Finance Review on pages 13-30. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The Condensed Consolidated Financial Statements and accompanying notes are on pages 33-65.

UK & Europe (48% of revenue, 39% of Underlying Trading Profit[(7)])

Six months ended 30 June £m	2021	2020	Growth
Revenue	**1038.5**	**783.6**	**33%**
Organic change	33%	19%	
Acquisitions	0%		
Currency	0%		
Underlying Trading Profit	**56.1**	**26.5**	**112%**
Organic change	112%		
Acquisitions	0%		
Currency	0%		
Margin	**5.4%**	**3.4%**	

Revenue grew by 33% to £1,039m (2020: £784m), with the increase all being organic. Amongst the sectors, Citizen Services, Justice & Immigration, Transport and Health all grew revenues; Defence fell slightly. Growth in Citizen Services was particularly strong due to a full six months delivering Covid-19 related services, as opposed to about three months in the prior year. Covid-19 related work included providing support services for over 200 Covid-19 regional, local and mobile test centres as well as for the UK Tracing programme. Across Testing and Tracing, we delivered over 12 million hours of services in the first half, roughly equivalent to 14,500 full-time people. Justice & Immigration also increased revenues, in part because of a full six months of the new Prisoner Escorting Contract, and also a result of increased numbers of asylum seekers under our care.

Underlying Trading Profit increased to £56m (2020: £27m), representing a margin of 5.4% (2020: 3.4%); this is the first time in the last eight years that our UK & Europe business has achieved margins around our long-term Group target. Increased volumes and efficient scaling of platform costs enabled nearly all business units to improve their margins, and those parts of our business that were badly affected in 2020 by Covid-19 – notably Leisure, Transport and Health – started to show modest signs of improvement.

Trading Profit includes the profit contribution of joint ventures and associates, from which interest and tax have already been deducted. If the proportional share of revenue from joint ventures and associates was included and the share of interest and tax cost was excluded, the overall divisional margin would have been 4.7% (2020: 2.9%). The joint venture and associate profit contribution was lower at £6.4m (2020: £7.6m), as a result of the negative impact on Merseyrail of Covid-19. We successfully executed our exit from the AWE contract on 30 June to our customer's satisfaction.

The UK & Europe division's order intake was extremely strong at around £3.0bn, slightly more than 70% of the total for the Group overall. Agreements signed included a number of contracts from the Defence Infrastructure Organisation (DIO) awarded to our VIVO JV with Engie, which we estimate will have a value in aggregate to Serco of £1.9bn over their initial seven-year term. The contracts include the maintenance of some 200 military sites, 19,000 buildings and around 20,000 homes. The order intake also includes our DWP Restart contract, which has an estimated value of £350m and our Covid-19 Testing Centres contract award, which we value at £190m.

Despite such a strong period for order intake, the Pipeline remains healthy, with both new opportunities and rebids particularly across Defence, Maritime, Space and facilities management, and in new prison operations in Justice & Immigration.

Looking ahead to the second half, the UK&E business will face a number of factors which will serve to reduce profits and margins. Notably, we will have no income from AWE, which contributed £7.9m to Underlying Trading Profit in the first half; we expect to see a substantial reduction in revenues from NHS Test & Trace in the second half, although the degree of reduction is subject to considerable uncertainty as the contract is designed to be flexible, allowing services to be flexed up and down at short notice based on demand. We will have a charge of around £8m as we mobilise the DWP restart contract, and we also plan to make meaningful investments in the rollout of Workforce Management and other IT infrastructure, as well as in organisational changes to improve efficiency. The benefits of these investments will arise in 2022 and beyond.

Americas (24% of revenue, 39% of Underlying Trading Profit[(7)])

Six months ended 30 June £m	2021	2020	Growth
Revenue	**528.6**	**542.1**	**-2%**
Organic change	0%	19%	
Acquisitions	5%		
Currency	-8%		
Underlying Trading Profit	**57.1**	**53.4**	**7%**
Organic change	10%		
Acquisitions	6%		
Currency	-9%		
Margin	**10.8%**	**9.9%**	

Revenue in constant currency increased by 6% but an 8% adverse translational effect of currency more than offset the growth; as a consequence, reported revenues reduced by 2% to £529m (2020: £542m). Most of the 6% constant currency growth was due to the acquisition of WBB, which contributed £30m to revenues from completion on 27 April. Outwith WBB, Defence and Citizen Services, the two main segments for our Americas business, were both broadly stable in the first half, against a tough comparator in 2020 and continued delays in the award of new contracts. As at 30 June, the North American business had over $2.5bn of tenders awaiting award.

Margins increased from 9.9% to 10.8%, meaning that Underlying Trading Profit increased by 7% to £57m (2020: £53m) despite the lack of organic revenue growth. Excluding the adverse currency movement of £5m, UTP growth at constant currency was 16%. The increase was driven by the WBB business, acquired in April 2021, which contributed around £3m of the growth, along with improved profit contribution from contracts in the defence and transport sectors and £3m of profit on sale from the divestment of our US parking business.

Order intake was around £1.0bn, approximately 25% of the total for the Group. We successfully rebid our contract to provide support services at the 5 Wing Canadian Forces Base in Goose Bay, Canada, with an estimated ceiling value of around C$700m or £400m. We also successfully rebid our Anti-Terrorism / Force Protection (ATFP) framework contract for US Naval Facilities, which we estimate will be worth approximately £110m over eight years. New business wins totalled in the region of £250m, across a range of contracts, primarily in the defence sector.

The pipeline of major new bid opportunities due for decision within the next 24 months in the Americas is now the largest of our regions, due to the combination of new opportunities joining the pipeline and award decisions being delayed due to Covid-19. Defence makes up the bulk of our pipeline, with a broad spread of types of work, and Citizen Services opportunities represent the remainder.

We expect to see a step up in organic revenue growth in the second half of the year, and we will see a full six months' contribution from WBB, which will enable the division to deliver strong year-on-year profit growth in the last six months of the year.

Asia Pacific (21% of revenue, 17% of Underlying Trading Profit[(7)])

Six months ended 30 June £m	2021	2020	Growth
Revenue	**457.9**	**332.0**	**38%**
Organic change	12%	25%	
Acquisitions	17%		
Currency	9%		
Underlying Trading Profit	**25.0**	**13.3**	**88%**
Organic change	52%		
Acquisitions	23%		
Currency	13%		
Margin	**5.5%**	**4.0%**	

Revenue increased by 38% to £458m (2020: £332m). Organic growth was 12% of the increase, with nearly all sectors showing growth. There was particularly strong growth in Justice & Immigration, with increased demand for our immigration services partly as a result of Covid-19 response, and the increased revenues from Clarence Correctional Centre, where operations commenced in July 2020. The acquisition of Facilities First added 17% or £57m to revenues, having completed at the beginning of January. Currency movements added 9% to reported revenue growth.

Underlying Trading Profit increased by 88% to £25m (2020: £13m), representing a margin of 5.5% (2020: 4.0%). Excluding the favourable currency movement of £2m, growth at constant currency was 74%. Facilities First generated margins in line with expectations in the first six months of our ownership; our Justice & Immigration business increased both volumes and margins, as did Hong Kong.

Order intake was £0.1bn, just 3% of the Group total. Having had significant success in recent years, it was a quiet period for securing new work and no rebids were due in the period. We did however extend our contracts to provide contact centre services to the Australian Tax Office and to Services Australia to July 2022, and we are delighted to say that our Immigration Services customer has notified us that, subject to agreement on terms, they propose extending our contract for another two years from December 2021.

Our pipeline for new business is strong, with opportunities to provide facilities management services to Frankston Hospital in Victoria, as part of a project to redevelop and extend the hospital, and to participate in a concession to provide Vehicle Registration and Licencing in the State of Victoria.

The high growth seen in the first half will not recur in the second, in part because of a very strong performance in H2 of 2020, particularly in our Immigration business, which we do not expect to repeat, although we will see the inorganic benefit of the Facilities First acquisition.

Middle East (7% of revenue, 5% of Underlying Trading Profit[7])

Six months ended 30 June £m	**2021**	**2020**	**Growth**
Revenue	**142.5**	**164.5**	**-13%**
Organic change	-7%	-1%	
Acquisitions	0%		
Currency	-6%		
Underlying Trading Profit	**7.2**	**7.0**	**3%**
Organic change	0%		
Acquisitions	0%		
Currency	3%		
Margin	**5.1%**	**4.3%**	

Revenue fell by 13% to £143m (2020: £165m). Adverse currency moves contributed 6% of the decline, with the remaining 7% being an organic contraction. The organic decline was a result of a full six months impact of the significant reduction in activity we experienced last year due to Covid-19 in the transport, Citizen Services and healthcare sectors. Unlike in the UK, we have had limited Covid-19 response work to act as a counterbalance, although we have recently started work for a government in the region providing tracing services.

Despite the revenue contraction, Underlying Trading Profit increased by 3% to £7.2m (2020: £7.0m), representing a margin of 5.1% (2020: 4.3%). Excluding a small favourable currency movement, growth at constant currency was 1%. This increase was driven by a strong performance in defence and good cost control in the areas where we experienced subdued demand.

Order intake was less than £0.1bn, or 1% of the total for the Group. This was nearly all new business and included services at Dubai Airport, where demand is increasing following its reopening.

Our pipeline of major new bid opportunities in the Middle East includes work in the Transport and Citizen Services sectors.

The Middle East business will see a sharp contraction in revenues in the second half, reflecting the loss of the Dubai Metro contract, which ends in September. However, a meaningful proportion of the Metro revenues were low margin procurement of spares, so the profit impact will be less dramatic. Nonetheless, profits in the second half are likely to be lower than those in the first.

Corporate costs

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

Corporate costs only increased by £0.1m to £22.7m (2020: £22.6m), despite the high organic growth and having made two acquisitions in the period.

Dividend calendar

Ex-dividend date: 16 September 2021
Record date: 17 September 2021
Interim dividend payable: 12 October 2021

Finance Review

For the six months ended 30 June 2021	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	2,167.5	-	2,167.5	-	2,167.5	-	2,167.5
Cost of sales	(1,936.6)	2.9	(1,933.7)	-	(1,933.7)	-	(1,933.7)
Gross profit	230.9	2.9	233.8	-	233.8	-	233.8
Administrative expenses	(114.6)	-	(114.6)	-	(114.6)	-	(114.6)
Other exceptional operating items	-	-	-	-	-	(2.7)	(2.7)
Other expenses	-	-	-	(6.6)	(6.6)	-	(6.6)
Share of profits in joint ventures and associates, net of interest and tax	6.4	-	6.4	-	6.4	-	6.4
Profit before interest and tax	122.7	2.9	125.6	(6.6)	119.0	(2.7)	116.3
Margin	*5.7%*		*5.8%*		*5.5%*		*5.4%*
Net finance costs	(12.6)	-	(12.6)	-	(12.6)	-	(12.6)
Profit before tax	110.1	2.9	113.0	(6.6)	106.4	(2.7)	103.7
Tax (charge)/credit	(25.6)	155.1	129.5	1.2	130.7	0.7	131.4
Effective tax rate	*23.3%*		*(114.6%)*		*(122.8%)*		*(126.7%)*
Profit for the period	84.5	158.0	242.5	(5.4)	237.1	(2.0)	235.1
Minority interest	-		-		-		-
Earnings per share (EPS) – basic (pence)	*6.86*		*19.68*		*19.24*		*19.08*
Earnings per share (EPS) – diluted (pence)	*6.75*		*19.36*		*18.93*		*18.77*

For the six months ended 30 June 2020	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	1,822.2	-	1,822.2	-	1,822.2	-	1,822.2
Cost of sales	(1,645.9)	2.9	(1,643.0)	-	(1,643.0)	-	(1,643.0)
Gross profit	176.3	2.9	179.2	-	179.2	-	179.2
Administrative expenses	(105.7)	-	(105.7)	-	(105.7)	-	(105.7)
Exceptional profit on disposal of subsidiaries and operations	-	-	-	-	-	11.0	11.0
Other exceptional operating items	-	-	-	-	-	2.6	2.6
Other expenses	-	-	-	(5.0)	(5.0)	-	(5.0)
Share of profits in joint ventures and associates, net of interest and tax	7.0	-	7.0	-	7.0	-	7.0
Profit before interest and tax	77.6	2.9	80.5	(5.0)	75.5	13.6	89.1
Margin	*4.3%*		*4.4%*		*4.1%*		*4.9%*
Net finance costs	(12.7)	-	(12.7)	-	(12.7)	-	(12.7)
Profit before tax	64.9	2.9	67.8	(5.0)	62.8	13.6	76.4
Tax charge	(17.0)	10.4	(6.6)	0.9	(5.7)	(0.4)	(6.1)
Effective tax rate	*26.2%*		*9.7%*		*9.1%*		*8.0%*
Profit for the period	47.9	13.3	61.2	(4.1)	57.1	13.2	70.3
Minority interest	(0.1)		(0.1)		(0.1)		(0.1)
Earnings per share (EPS) – basic (pence)	*3.91*		*5.00*		*4.66*		*5.74*
Earnings per share (EPS) – diluted (pence)	*3.86*		*4.92*		*4.60*		*5.66*

For the year ended 31 December 2020	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	3,884.8	-	3,884.8	-	3,884.8	-	3,884.8
Cost of sales	(3,514.4)	12.6	(3,501.8)	-	(3,501.8)	-	(3,501.8)
Gross profit	370.4	12.6	383.0	-	383.0	-	383.0
Administrative expenses	(220.0)	-	(220.0)	-	(220.0)	-	(220.0)
Exceptional profit on disposal of subsidiaries and operations	-	-	-	-	-	11.0	11.0
Other exceptional operating items	-	-	-	-	-	1.5	1.5
Other expenses	-	-	-	(9.0)	(9.0)	-	(9.0)
Share of profits in joint ventures and associates, net of interest and tax	12.7	-	12.7	-	12.7	-	12.7
Profit before interest and tax	163.1	12.6	175.7	(9.0)	166.7	12.5	179.2
Margin	*4.2%*		*4.5%*		*4.3%*		*4.6%*
Net finance costs	(25.9)	-	(25.9)	-	(25.9)	-	(25.9)
Profit before tax	137.2	12.6	149.8	(9.0)	140.8	12.5	153.3
Tax charge	(31.2)	10.5	(20.7)	1.8	(18.9)	(0.4)	(19.3)
Effective tax rate	*22.7%*		*13.8%*		*13.4%*		*12.6%*
Profit for the period	106.0	23.1	129.1	(7.2)	121.9	12.1	134.0
Minority interest	0.2		0.2		0.2		0.2
Earnings per share (EPS) – basic (pence)	*8.61*		*10.49*		*9.90*		*10.89*
Earnings per share (EPS) – diluted (pence)	*8.43*		*10.28*		*9.70*		*10.67*

Alternative Performance Measures (APMs) and other related definitions

Overview

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

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

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

The methodology applied to calculating the APMs has not changed since 31 December 2020.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 33, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous period's results, reported revenue is recalculated by translating non-Sterling values for the six months ended 30 June 2021 into Sterling at the average exchange rates for the six months ended 30 June 2020.

For the six months ended 30 June	2021 £m
Reported revenue at constant currency	2,190.1
Foreign exchange differences	(22.6)
Reported revenue at reported currency	2,167.5

Organic Revenue at constant currency

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

There are two acquisitions excluded for the calculation of Organic Revenue in the period to 30 June 2021, which are the acquisitions of Facilities First Australia Holdings Pty Ltd and Whitney, Bradley & Brown, Inc which completed on 4 January 2021 and 27 April 2021 respectively. The acquisition of Mercurius Finance S.A. on 30 June 2021 had no impact for organic purposes.

The Group also disposed of its interest in its Viapath joint venture on 31 May 2020, however no adjustment is required to Organic Revenue since the joint venture results were accounted for on an equity accounting basis and therefore had no impact on Group revenue.

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

For the six months ended 30 June	2021 £m
Organic Revenue at constant currency	2,103.7
Foreign exchange differences	(24.0)
Organic Revenue at reported currency	2,079.7
Impact of relevant acquisitions or disposals	87.8
Reported revenue at reported currency	2,167.5

For the six months ended 30 June	2020 £m
Comparable Organic Revenue at reported currency	1,822.2
Impact of relevant acquisitions or disposals	-
Reported revenue at reported currency	1,822.2

Revenue plus share of joint ventures and associates

Reported revenue, as shown on the Group's Condensed Consolidated Income Statement on page 33, excludes the Group's share of revenue from joint ventures and associates, with Serco's share of profits in joint ventures and associates (net of interest and tax) consolidated within reported operating profit as a single line further down the Condensed Consolidated Income Statement. The alternative measure includes the share of joint ventures and associates for the benefit of reflecting the overall change in scale of the Group's ongoing operations, which is particularly relevant for evaluating Serco's presence in market sectors such as Defence and Transport. The alternative measure allows the performance of the joint venture and associate operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post-tax result.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Revenue plus share of joint ventures and associates	2,360.2	2,010.1	4,249.
Exclude share of revenue from joint ventures and associates	(192.7)	(187.9)	(365.1
Reported revenue	2,167.5	1,822.2	3,884.

Alternative profit measures

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Underlying Trading Profit	122.7	77.6	163.1
Non-underlying items:			
OCP charges and releases	0.4	2.9	5.8
Other Contract & Balance Sheet Review adjustments and one-time items	2.5	-	6.8
Total non-underlying items	2.9	2.9	12.6
Trading Profit	125.6	80.5	175.7
Operating exceptional items	(2.7)	13.6	12.5
Amortisation and impairment of intangibles arising on acquisition	(6.6)	(5.0)	(9.0)
Operating profit	116.3	89.1	179.2

Underlying Trading Profit (UTP)

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

Charges and releases on all Onerous Contract Provisions (OCPs) that arose during the 2014 Contract and Balance Sheet Review are excluded from UTP in the current and prior periods. Charges associated with the creation of new OCPs identified are included within UTP to the extent that they are not considered sufficiently material to require separate disclosure on an individual basis. During the period, charges on existing OCPs of £1.2m (six months to 30 June 2020: £2.3m) were taken within UTP. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual period. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £0.7m in 2021 (six months to 30 June 2020: £1.8m). The utilisation, which neutralises the in-period losses on previously identified onerous contracts, is lower than the same period in the prior year as the number of onerous contracts within the Group continued to reduce as they have ended or ceased to be onerous.

Revisions to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review and other one-time items are separately reported where the impact of an individual item is material. Items recorded in this category relate to releases of provisions held against possible contractual requirements that could have required settlement by the Group, but which have now exceeded the period during which such a claim against the Group can be made.

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

Underlying Trading Margin is calculated as UTP divided by statutory revenue.

The non-underlying column in the summary income statement on page 13 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Trading Profit

The Group uses Trading Profit as an alternative measure to operating profit, as shown on the Group's Condensed Consolidated Income Statement on page 33, by making two adjustments.

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

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

UTP at constant currency

UTP disclosed above has been translated at the average foreign exchange rates for the period. In order to provide a comparable movement on the previous period's results, UTP is recalculated by translating non-Sterling values for the six months to 30 June 2021 into Sterling at the average exchange rates for the six months ended 30 June 2020.

For the six months ended 30 June	2021 £m
Underlying Trading Profit at constant currency	125.7
Foreign exchange differences	(3.0)
Underlying Trading Profit at reported currency	122.7

Alternative Earnings per share (EPS) measures

	Six months ended 30 June 2021 pence	Six months ended 30 June 2020 pence	Year ended 31 December 2020 pence
Underlying EPS, basic	6.86	3.91	8.61
Net impact of non-underlying operating items, non-underlying tax and amortisation and impairment of intangibles arising on acquisition	12.38	0.75	1.29
EPS before exceptional items, basic	19.24	4.66	9.90
Impact of exceptional items	(0.16)	1.08	0.99
Reported EPS, basic	19.08	5.74	10.89

	Six months ended 30 June 2021 pence	Six months ended 30 June 2020 pence	Year ended 31 December 2020 pence
Underlying EPS, diluted	6.75	3.86	8.43
Net impact of non-underlying operating items, non-underlying tax and amortisation and impairment of intangibles arising on acquisition	12.18	0.74	1.27
EPS before exceptional items, diluted	18.93	4.60	9.70
Impact of exceptional items	(0.16)	1.06	0.97
Reported EPS, diluted	18.77	5.66	10.67

EPS before exceptional items

EPS, as shown on the Group's Condensed Consolidated Income Statement on page 33, includes exceptional items charged or credited to the income statement. EPS before exceptional items aids consistency with historical operating performance.

Underlying EPS

Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on page 13.

Alternative cash flow and Net Debt measures

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect net cash inflow from operating activities before exceptional items, which is the measure shown on the Condensed Consolidated Cash Flow Statement on page 38. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates, net interest paid, the capital element of lease payments, cash flows on the purchase of own shares to satisfy share awards and net capital expenditure on tangible and intangible asset purchases.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Free Cash Flow	129.9	80.9	134.9
Exclude dividends from joint ventures and associates	(9.6)	(12.4)	(19.8)
Exclude net interest paid	12.8	12.6	24.6
Exclude capitalised finance costs paid	0.6	-	0.9
Exclude capital element of lease repayments	60.0	52.8	100.8
Exclude proceeds received from exercise of share options	(0.1)	(0.1)	(0.1)
Exclude purchase of own shares to satisfy share awards	20.3	-	-
Exclude purchase of intangible and tangible assets net of proceeds from disposal	8.7	20.6	29.2
Cash flow from operating activities before exceptional items	222.6	154.4	270.5
Exceptional operating cash flows	(3.7)	(4.2)	(2.0)
Cash flow from operating activities	218.9	150.2	268.5

UTP cash conversion

FCF as defined above, includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UTP, Trading Cash Flow is derived from FCF by excluding tax and interest items. UTP cash conversion therefore provides a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Free Cash Flow	129.9	80.9	134.9
Add back:			
Tax paid	24.5	12.0	35.9
Non-cash R&D expenditure	-	-	0.1
Net interest paid	12.8	12.6	24.6
Capitalised finance costs paid	0.6	-	0.9
Trading Cash Flow	167.8	105.5	196.4
Underlying Trading Profit	122.7	77.6	163.1
Underlying Trading Profit cash conversion	137%	136%	120%

Net Debt and Adjusted Net Debt

We present an alternative measure to bring together the various funding sources that are included on the Group's Condensed Consolidated Balance Sheet on page 37 and the accompanying notes. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net Debt includes all lease liabilities, whilst Adjusted Net Debt is derived from Net Debt by excluding liabilities associated with leases.

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

	As at 30 June 2021 £m	As at 30 June 2020 £m	As at 31 December 2020 £m
Cash and cash equivalents	193.3	244.9	335.7
Loans payable	(411.8)	(390.4)	(388.8)
Lease liabilities	(425.7)	(359.9)	(402.6)
Derivatives relating to Net Debt	(6.7)	2.6	(4.7)
Net Debt	(650.9)	(502.8)	(460.4)
Add back: Lease liabilities	425.7	359.9	402.6
Adjusted Net Debt	(225.2)	(142.9)	(57.8)

Pre-tax Return on Invested Capital (ROIC)

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

Invested Capital excludes right of use assets recognised under IFRS16 *Leases.* This is because the Invested Capital of the company are those items within which resources are, or have been, committed, which is not the case for many leases which would have been classed as operating leases under IAS17 *Leases* where termination options exist and commitments for expenditure are in future years.

For the 12 months ended	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
ROIC excluding right of use assets			
Non current assets			
Goodwill	826.7	710.3	669.6
Other intangible assets - owned	159.6	91.3	80.6
Property, plant and equipment - owned	54.7	58.6	54.2
Interest in joint ventures and associates	18.5	19.6	19.2
Contract assets, trade and other receivables	25.4	25.1	25.3
Current assets			
Inventory	20.5	20.3	21.4
Contract assets, trade and other receivables	624.2	677.8	609.6
Total invested capital assets	1,729.6	1,603.0	1,479.9
Current liabilities			
Contract liabilities, trade and other payables	(630.8)	(635.0)	(576.2)
Non current liabilities			
Contract liabilities, trade and other payables	(60.8)	(66.3)	(56.9)
Total invested capital liabilities	(691.6)	(701.3)	(633.1)
Invested Capital	1,038.0	901.7	846.8
Two point average of opening and closing Invested Capital	969.9	813.6	855.5
Trading Profit, 12 months ended	220.8	163.3	175.7
ROIC%	22.8%	20.1%	20.5%
Underlying Trading Profit, 12 months ended	208.2	147.2	163.1
Underlying ROIC%	21.5%	18.1%	19.1%

Overview of financial performance

Revenue

Reported revenue increased by 18.9% to £2,167.5m when compared with the same six-month period in the prior year (2020: £1,822.2m), a 20.2% increase in constant currency. This is in line with the updated guidance issued on 30 June 2021 where revenue was expected to be £2.2bn for the six months then ended.

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

Trading Profit

Trading Profit in the six months was £125.6m (2020: £80.5m).

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

Underlying Trading Profit (UTP)

UTP was £122.7m (2020: £77.6m), up 58.1%. At constant currency, UTP was £125.7m, up 62.0%.

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

In the six months to 30 June 2021, excluded from UTP were net releases from OCPs of £0.4m (2020: net releases of £2.9m) following the detailed reassessment undertaken during the period. Also excluded from UTP were net releases and additional profits of £2.5m (2020: £nil) relating to items identified during the 2014 Contract & Balance Sheet Review and other one-time items.

The tax impact of items in UTP and other non-underlying tax items is discussed in the tax section below.

Reported operating profit

Reported operating profit of £116.3m (2020: £89.1m) was £9.3m lower than Trading Profit due to £6.6m (2020: £5.0m) of amortisation of intangibles arising on acquisition and £2.7m (2020: credit of £13.6m) of exceptional items which are mostly related to exceptional costs associated with the acquisitions of Facilities First Australia Holdings Pty Limited and Whitney, Bradley & Brown, Inc.

Joint ventures and associates – share of results

In 2021, the most significant joint ventures and associates in terms of scale of operations have been AWE Management Limited (AWEML) and Merseyrail Services Holding Company Limited (Merseyrail), with dividends received of £9.6m (2020: £9.1m) and £nil (2020: £1.5m) respectively. Total revenues generated by these businesses were £629.9m (2020: £539.0m) and £75.0m (2020: £75.7m) respectively.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWEML on 30 June 2021. The exit from the contract was in advance of the final milestones anticipated in the contract, and as a result, the operating performance includes judgements over the completion status of certain items which may subsequently be adjusted. The transaction included the sale of AWE plc from AWEML, however the Group continues to own 24.5% of AWEML which holds receivables and payables with AWE plc and these are expected to be settled as the negotiations regarding the termination and disposal conclude.

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

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Revenue	192.7	187.9	365.1
Operating profit	8.5	8.6	15.4
Net investment revenue	-	0.1	-
Income tax charge	(2.1)	(1.7)	(2.7)
Profit after tax	6.4	7.0	12.7
Dividends received from joint ventures and associates	9.6	12.4	19.8

The change in revenue and profits on the prior period is due to changes in the underlying operating performance of the Group's material joint ventures, with additional revenues at AWEML offset to an extent by the absence of revenue from Viapath following the latter's disposal on 31 May 2020. Whilst operating profit at AWEML has increased in line with operating volumes and revenue, and losses made by Viapath during its period of ownership in 2020 are no longer present, an increase in losses at Merseyrail has meant a reduction in the Group's share of operating profits from joint ventures since the prior period. The reduction at Merseyrail is due to the impact of reduced passenger volumes during the pandemic in the prior period only having an impact from early March 2020. The reduction in dividends is due to the absence of Viapath in the current period compared to a dividend receipt of £2.8m in the prior period and no dividend received from Merseyrail in 2021 for the reasons mentioned above. Future dividends received from the joint ventures are likely to take into consideration operating performance as a result of the pandemic and a requirement to maintain an appropriate level of cash resources within the entities given the impact of Covid-19, though most notably in respect of the Merseyrail joint venture.

Exceptional items

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

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Exceptional items arising			
Exceptional profit on disposal of subsidiaries and operations	-	11.0	11.0
Other exceptional operating items			
Restructuring costs	0.1	0.1	0.1
Costs associated with UK Government review	(0.3)	(1.2)	(1.3)
Movement in other provisions and other items	-	2.6	2.6
Reversal of impairment of interest in joint venture and related loan balances	-	2.5	2.5
Costs associated with the acquisition of Naval Systems Business Unit	-	(1.4)	(1.5)
Costs associated with the acquisition of Facilities First Australia	(0.5)	-	(0.9)
Costs associated with the acquisition of Whitney, Bradley & Brown, Inc.	(2.0)	-	-
Other exceptional operating items	(2.7)	2.6	1.5
Exceptional operating items	(2.7)	13.6	12.5
Exceptional tax	0.7	(0.4)	(0.4)
Total exceptional items net of tax	(2.0)	13.2	12.1

Other exceptional operating items

The Group completed the acquisition of Facilities First Australia Holdings Pty Limited (FFA) in 2021. The transaction and implementation costs incurred during the six months ended 30 June 2021 of £0.5m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2020.

The Group also completed the acquisition of Whitney, Bradley & Brown, Inc (WBB) in 2021. The transaction and implementation costs incurred during the six months ended 30 June 2021 of £2.0m have been treated as exceptional costs in line with the Group's accounting policy.

There were exceptional costs totalling £0.3m (2020: £1.2m) associated with the UK Government review and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2021. No significant further costs are expected to be incurred.

Exceptional Tax

Exceptional tax for the period was a tax credit of £0.7m (2020: charge of £0.4m) which arises on exceptional items within operating profit.

The exceptional items in the period were such that they either lead to a tax deduction in the period or are expected to lead to a tax deduction in a future period.

Finance costs and investment revenue

Net finance costs were £12.6m (2020: £12.7m) and net interest paid was £12.8m (2020: £12.6m).

Investment revenue of £1.3m (2020: £0.7m) consists primarily of interest accruing on net retirement benefit assets of £0.6m (2020: £0.6m), dividends received of £0.4m (2020: nil) and interest receivable of £0.3m (2020: £0.1m).

The finance costs of £13.9m (2020: £13.4m) include interest incurred on the US private placement loan notes and the revolving credit facility of £7.9m (2020: £7.4m) and lease interest payable of £4.1m (2020: £4.8m) as well as other financing related costs including the impact of foreign exchange on financing activities.

Tax

Tax charge

Underlying Tax

An underlying tax charge of £25.6m is recognised on Underlying Trading Profits after net finance costs. The effective tax rate (23.3%) is slightly lower than in 2020 (26.2%) but higher than the rate for the year ended 31 December 2020 (22.7%). The rate is higher than December 2020 primarily due to the recognition of the UK deferred tax assets discussed below which means that utilisation of losses brought forward to offset current year profits does not impact the tax rate in 2021 as it did in the prior year. This is offset by the impact of changes in the geographical location of where profits are made together with the impact of movements in provisions as part of our regular reassessment of tax exposures across the Group.

Pre-exceptional tax

A tax credit of £130.7m (2020: £5.7m charge) on pre-exceptional profits has been recognised which includes an underlying tax charge of £25.6m, the tax impact of amortisation of intangibles arising on acquisition of £1.2m and a £155.1m credit on non-underlying items.

Of the £155.1m credit on non-underlying items, £144.8m of the credit arises from the recognition of deferred tax assets in relation to the Group's UK operations which have not previously been recognised as assets. It is now considered that the UK business has returned to sustainable profitability, and there is sufficient certainty of future taxable profits against which these deductions can be utilised to enable the recognition of an increased deferred tax asset. £10.8m of the credit relates to the revaluation of the deferred tax asset at 1 January 2021, following the announcement in the UK Budget earlier this year that the tax rate in the UK is to increase in 2023 to 25%. The remaining £0.5m non-underlying tax charge relates to tax on non-underlying income that is taxable.

The rate change movement on the revaluation of the deferred tax liability held in connection with the Group's defined benefit pension schemes and foreign exchange hedges flows through the Statement of Comprehensive Income (SOCI). The rate change movement on the revaluation of all other elements of deferred tax such as other timing differences and recoverable losses is shown through the income statement.

The tax rate on profits before exceptional items at (122.8)% is lower than the UK standard corporation tax rate of 19.0%. This is mainly due to the impact of non-underlying credits discussed above. Other items which reduce the tax charge below the UK standard corporation tax rate are our joint ventures, whose post-tax results are included in our pre-tax profit, and the credit associated with a reduction in provisions for uncertain tax positions, made as part of our regular reassessment of tax exposures across the Group, which has led us to conclude that certain provisions are no longer likely to lead to an outflow of tax. The impact of this is partially offset by higher rates of tax on profits arising on our international operations.

Exceptional tax

An analysis of exceptional tax is provided within the exceptional items section above.

Deferred tax assets

At 30 June 2021 there is a net deferred tax asset of £177.9m (31 December 2020: £56.3m). This consists of a deferred tax asset of £225.8m (31 December 2020: £83.2m) and a deferred tax liability of £47.9m (31 December 2020: £26.9m).

A £167.0m UK tax asset is recognised on the Group's balance sheet at 30 June 2021 (31 December 2020: £30.6m) on the basis that improved performance in the underlying UK business indicates a sustained return to profitability which would enable accumulated tax losses within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long term contracts being entered into, as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business. £19.2m of the UK deferred tax asset of £186.2m recognised during the period has been used to offset profits arising in the six month period to 30 June 2021.

Taxes paid

Net corporate income tax of £24.5m was paid during the period, relating primarily to our operations in AsPac (£13.4m), North America (£10.3m), Middle East (£0.8m), UK (£0.1m) and Europe (£0.1m net refund).

The amount of tax paid (£24.5m) differs from the tax credit in the period (£131.4m) mainly due to the impact of the additional deferred tax assets recognised during the period. In addition, taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit, and there is a time lag on receipts of cash from joint ventures and associates for losses transferred to them resulting in a net tax inflow.

Dividends

During the six months to 30 June 2021, the Group has paid dividends of £16.8m (2020: £nil) in respect of the final dividend for the year ended 31 December 2020. As noted in the Chief Executive's Review, the Board has decided to declare an interim dividend of 0.8p per share in respect of the six months ended 30 June 2021 (2020: no interim dividend declared).

Share count and Earnings per share (EPS)

The weighted average number of shares for EPS purposes was 1,232.2m for the six months ended 30 June 2021 (2020: 1,226.5m) and diluted weighted average number of shares was 1,252.6m (2020: 1,244.7m). The increase in the weighted average number of shares is due to the full year impact of the 10,000,000 new shares issued to the Serco Group plc 1998 Employee Share Ownership Trust (ESOT) in March 2020, used to satisfy awards granted under the Group's share award schemes.

The number of Ordinary Shares in issue has reduced during the six months to 30 June 2021 as a result of the Serco Share repurchase programme (the Programme). At the end of 2020, the Group announced its intention to repurchase Ordinary Shares with a value of up to £40m, subject to a maximum of 122,338,063 Ordinary Shares being purchased, during the period 4 January 2021 to 11 June 2021. Through the Programme, the Group repurchased 30,721,849 Ordinary Shares for total consideration of £40.7m including fees.

On 28 June 2021, the Group announced that, of the Ordinary Shares repurchased and held in Treasury, 15,350,000 were transferred to the ESOT to be used to satisfy awards granted under the Group's share award schemes. The 15,371,849 Ordinary Shares remaining in Treasury were cancelled on 28 June 2021.

Basic EPS before exceptional items was 19.24p per share (2020: 4.66p); including the impact of exceptional items, Basic EPS was 19.08p (2020: 5.74p). Basic Underlying EPS was 6.86p (2020: 3.91p) which increased due to the movement in Underlying Trading Profit offset by the increase in the tax charge.

Diluted EPS before exceptional items was 18.93p (2020: 4.60p); including the impact of exceptional items, Diluted EPS was 18.77p (2020: 5.66p). Diluted Underlying EPS was 6.75p (2020: 3.86p).

Cash flows

The UTP of £122.7m (2020: £77.6m) converts into a trading cash inflow of £167.8m (2020: £105.5m). The improvement in 2021 trading cash inflows reflects the increase in profitability from revenue and profit growth. The Group has also benefitted from the lease arrangement entered into in respect of the PECS fleet for which payments to fund construction took place in 2020 and cash in-flows in respect of the arrangement were in the period 1 July 2020 to 30 June 2021, as well as working capital inflows across the Group of £43.6m (2020: £19.2m). These were offset by £20.3m spent on the repurchase of the Group's own shares to satisfy share awards. In some instances, working capital has benefitted from favourable payment terms being put in place by the Group's customers in order to ensure its key suppliers do not experience liquidity challenges as a result of the pandemic. It is expected that these will return to standard terms in future periods.

The table below shows the operating profit and Free Cash Flow (FCF) reconciled to movements in Net Debt. FCF for the period was an inflow of £129.9m compared to £80.9m in 2020. The improvement in FCF is largely as a result of improved trading cash inflows as discussed above offset by the higher tax payments including some as a result of Covid-19 related tax deferral schemes that were in operation in some jurisdictions in 2020. All tax payments deferred were repaid by December 2020 with the exception of the US tax deferrals for which there was no early repayment mechanism.

Adjusted Net Debt increased by £167.4m in the six months to 30 June 2021, a reconciliation of which is provided at the bottom of the following table.

The net cash outflow on acquisition and disposal of subsidiaries of £235.1m (2020: inflow of £7.4m) includes the purchase consideration for the acquisitions of Facilities First Australia Holdings Pty Limited, Whitney, Bradley & Brown, Inc and Mercurius Finance S.A.. The amount is net of the cash held by entities acquired in those transactions.

Exceptional cash outflows of £3.7m as shown below differ to the exceptional credit to the income statement of £2.7m due to the cash associated with certain acquisition related costs being paid during the current period despite the expense having been recognised in the prior year.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Operating profit	116.3	89.1	179.2
Remove exceptional items	2.7	(13.6)	(12.5)
Operating profit before exceptional items	119.0	75.5	166.7
Less: share of profits in joint ventures and associates	(6.4)	(7.0)	(12.7)
Movement in provisions	1.2	5.6	16.2
Depreciation, amortisation and impairment of owned property, plant and equipment and intangible assets	22.0	20.3	39.2
Depreciation, amortisation and impairment of leased property, plant and equipment and intangible assets	58.8	46.4	93.9
Other non-cash movements	8.9	6.4	8.5
Operating cash inflow before movements in working capital, exceptional items and tax	203.5	147.2	311.8
Working capital movements	43.6	19.2	(5.3)
Tax paid	(24.5)	(12.0)	(35.9)
Non-cash R&D expenditure	-	-	(0.1)
Cash flow from operating activities before exceptional items	222.6	154.4	270.5
Dividends received from joint ventures and associates	9.6	12.4	19.8
Interest received	0.3	0.1	0.3
Interest paid	(13.1)	(12.7)	(24.9)
Capital element of lease repayments	(60.0)	(52.8)	(100.8)
Capitalised finance costs paid	(0.6)	-	(0.9)
Purchase of intangible and tangible assets net of proceeds from disposals	(8.7)	(20.6)	(29.2)
Purchase of own shares to satisfy share awards	(20.3)	-	-
Proceeds received from exercise of share options	0.1	0.1	0.1
Free Cash Flow	129.9	80.9	134.9
Net cash (outflow)/inflow on acquisition and disposal of subsidiaries, joint ventures and associates	(235.1)	7.4	6.1
Net increase in debt items on acquisition and disposal of subsidiaries, joint ventures and associates	(14.3)	-	-
Dividends paid to shareholders	(16.8)	-	-
Purchase of own shares	(20.4)	-	-
Movements on other investment balances	0.3	-	0.5
Capitalisation and amortisation of loan costs	-	(0.6)	-
Exceptional items	(3.7)	(4.2)	(2.0)
Exceptional proceeds from loans receivable	-	1.2	1.2
Exceptional distribution from joint venture	-	-	1.9
Cash movements on hedging instruments	(5.9)	(0.9)	2.4
Foreign exchange (loss)/gain on Adjusted Net Debt	(1.4)	(12.2)	11.7
Movement in Adjusted Net Debt	(167.4)	71.6	156.7
Opening Adjusted Net Debt	(57.8)	(214.5)	(214.5)
Closing Adjusted Net Debt	(225.2)	(142.9)	(57.8)
Lease Liabilities	(425.7)	(359.9)	(402.6)
Closing Net Debt	(650.9)	(502.8)	(460.4)

Net Debt

	As at 30 June 2021 £m	As at 30 June 2020 £m	As at 31 December 2020 £m
Cash and cash equivalents	193.3	244.9	335.7
Loans payable	(411.8)	(390.4)	(388.8)
Lease liabilities	(425.7)	(359.9)	(402.6)
Derivatives relating to Net Debt	(6.7)	2.6	(4.7)
Net Debt	(650.9)	(502.8)	(460.4)
Exclude Lease liabilities	425.7	359.9	402.6
Adjusted Net Debt	(225.2)	(142.9)	(57.8)

Average Adjusted Net Debt as calculated on a daily basis for the six months ended 30 June 2021 was £178m (2020: £283m). Peak Adjusted Net Debt was £346m (2020: £356m).

Treasury operations and risk management

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

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

Liquidity and funding

As at 30 June 2021, the Group had committed funding of £665m (at 31 December 2020: £642m), comprising £295m of US private placement loan notes, a total of £120m of term loan facilities which were fully drawn and a £250m revolving credit facility (RCF) which was undrawn. Of the £120m of term loan facilities, £75m were entered into during the six months to 30 June 2021.

The Group's RCF provides £250m of committed funding for five years from the arrangement date in December 2018. The US private placement loan notes are repayable in bullet payments between 2021 and 2032.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our Treasury Policy requires us to maintain a minimum proportion of fixed rate debt as a proportion of overall Adjusted Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 30 June 2021, £294.6m of debt was held at fixed rates and Adjusted Net Debt was £225.2m.

Foreign exchange risk

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

Credit risk

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

Debt covenants

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

Following the refinancing in December 2018, the debt covenants have been amended to include the impact of IFRS15 *Revenue from Contracts with Customers*. The covenants continue to exclude the impact of IFRS16 *Leases* on the Group's results.

	12 months ended 30 June 2021 £m	12 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Operating profit before exceptional items	210.2	153.1	166.7
Remove: Amortisation and impairment of intangibles arising on acquisition	10.6	10.2	9.0
Trading Profit	220.8	163.3	175.7
Exclude: Share of joint venture post-tax profits	(12.1)	(21.0)	(12.7)
Include: Dividends from joint ventures	17.0	24.4	19.8
Add back: Net non-exceptional charges to OCPs	6.5	6.6	4.9
Add back: Net covenant OCP utilisation	(0.9)	-	(0.7)
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non-acquisition intangible assets	30.3	34.8	30.2
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets held under finance leases – in accordance with IAS17 Leases	3.7	5.7	4.3
Add back: Foreign exchange credit on investing and financing	(1.1)	(0.1)	(0.7)
Add back: Share based payment expense	13.4	11.9	11.2
Other covenant adjustments to EBITDA	(4.7)	(2.9)	(7.2)
Covenant EBITDA	272.9	222.7	224.8
Net finance costs	25.8	24.0	25.9
Exclude: Net interest receivable on retirement benefit obligations	1.2	1.6	1.2
Exclude: Movement in discount on other debtors	0.1	-	0.1
Exclude: Other dividends received	0.8	-	0.4
Exclude: Foreign exchange on investing and financing arrangements	(1.1)	(0.1)	(0.7)
Add back: Movement in discount on provisions	(0.2)	(0.1)	(0.2)
Other covenant adjustments to net finance costs resulting from IFRS16 *Leases*	(8.2)	(9.1)	(9.1)
Covenant net finance costs	18.4	16.3	17.6
Adjusted Net Debt	225.2	142.9	57.8
Obligations under finance leases – in accordance with IAS17 *Leases*	28.3	6.8	24.1
Recourse Net Debt	253.5	149.7	81.9
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	(3.8)	5.3	(1.7)
Covenant adjustment for average FX rates	9.8	(6.4)	21.3
CTNB	259.5	148.6	101.5
CTNB / covenant EBITDA (not to exceed 3.5x)	0.95x	0.67x	0.45x
Covenant EBITDA / covenant net finance costs (at least 3.0x)	14.8x	13.7x	12.8x

Net assets summary

	As at 30 June 2021 £m	As at 30 June 2020 £m	As at 31 December 2020 £m
Non current assets			
Goodwill	826.7	710.3	669.6
Other intangible assets	159.6	91.3	80.6
Property, plant and equipment	467.2	399.3	441.7
Contract assets, trade receivables and other current assets	43.9	44.8	44.5
Deferred tax assets	225.8	68.5	83.2
Retirement benefit assets	157.2	125.1	114.6
Total non current assets	1,880.4	1,439.3	1,434.2
Current assets			
Inventories	20.5	20.3	21.4
Contract assets, trade receivables and other current assets	625.8	682.1	614.1
Current tax assets	7.4	5.5	4.9
Cash and cash equivalents	193.3	244.9	335.7
Total current assets	847.0	952.8	976.1
Total assets	2,727.4	2,392.1	2,410.3
Current liabilities			
Contract liabilities, trade payables and other current liabilities	(639.3)	(636.5)	(585.5)
Current tax liabilities	(16.7)	(20.5)	(21.6)
Provisions	(69.5)	(56.9)	(62.1)
Lease obligations	(130.2)	(86.8)	(109.3)
Loans	(61.9)	(176.7)	(89.7)
Total current liabilities	(917.6)	(977.4)	(868.2)
Non current liabilities			
Contract liabilities, trade payables and other non current	(60.8)	(66.3)	(57.0)
Deferred tax liabilities	(47.9)	(31.1)	(26.9)
Provisions	(107.8)	(112.6)	(115.9)
Lease obligations	(295.5)	(273.1)	(293.3)
Loans	(349.9)	(213.7)	(299.1)
Retirement benefit obligations	(30.1)	(34.7)	(34.9)
Total non current liabilities	(892.0)	(731.5)	(827.1)
Total liabilities	(1,809.6)	(1,708.9)	(1,695.3)
Net assets	917.8	683.2	715.0

At 30 June 2021, the balance sheet had net assets of £917.8m, a movement of £202.8m from the closing net asset position of £715.0m as at 31 December 2020. The movement in net assets is mainly due to the following movements:

- An increase in goodwill of £157.1m due to additional goodwill on the acquisitions of Facilities First Australia Holdings Pty Limited (FFA) and Whitney, Bradley & Brown, Inc (WBB), partially offset by an adverse foreign exchange movement.
- An increase in other intangible assets of £79.0m due to the combined intangibles recognised on the FAA and WBB acquisitions, offset by amortisation charged in the period.
- Deferred tax assets have increased by £142.6m owing to the Group's recognition of assets relating to historic losses in full. Previously, only losses likely to be utilised over a five-year period were recognised, whereas the Group's change in judgement, as discussed above, has increased the asset recognised.
- An increase in the net retirement benefit asset of £47.4m due to the return on assets held by the various pension schemes in which the Group is involved exceeding the increase in the associated defined benefit liabilities arising from changes in actuarial assumptions and other liability-impacting factors.
- Cash and cash equivalents have decreased by £142.4m. Since the year end, the Group has generated cash

inflows of £222.6m from its operations before exceptional items, including £43.6m from movements in working capital. Net spend on tangible and intangible assets has been £8.7m and the capital element of lease repayments during the six months was £60.0m. Including associated costs, the spend on shares repurchased in the period totals £40.7m and dividends totalling £16.8m have been paid. The other significant cash outflow is the spend on acquisitions which, inclusive of costs but net of cash received, totalled £235.1m.

- Contract liabilities, trade payables and other liabilities have increased by £57.6m, primarily due to £34.7m brought on with the acquisitions of FFA and WBB. The remainder of the increase is in trade and other payables caused by the increase in operating levels and other increases related to deferred revenue balances which have increased as new contracts have been won and phase-in revenues are deferred.
- Net loan balances have increased by £23.0m as the repayment of £46.5m of the Group's US private placement loan notes have been more than offset by £75.0m of additional loans taken to fund the acquisition of WBB. The remaining difference is driven by the impact of moving exchange rates on the Group's debt. In addition to these movements, the Group acquired £14.3m of loans with the acquisition of FFA all of which were fully repaid during the period as well as drawing down and repaying £35.0m on the revolving credit facility.

Acquisitions

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited (FFA), for consideration of AU Dollars $52.2m (£29.6m) in cash, on a cash free, debt free basis, subject to standard working capital and completion adjustments. At the same time, the Group transferred AU Dollars $25.2m (£14.3m) to allow FFA to settle existing debt and debt-like balances. FFA is a specialist provider of cleaning, facility maintenance and management services in Australia.

On 27 April 2021, the Group acquired 100% of the issued share capital of Whitney, Bradley & Brown, Inc for $295.0m (£211.7m) which will increase the scale, breadth and capability of Serco's North American Defence business and will give Serco a strong platform from which to address all major segments of the US Defence services market.

On 30 June 2021, the Group acquired 100% of the issued share capital of Mercurius Finance S.A., the holding company of Clemaco Trading N.V., Clemaco Contracting N.V. and Targets N.V. (together Clemaco), for €1.0m (£0.8m). Clemaco specialises in the support and maintenance of ships for the Belgian Navy, enabling Serco to provide additional value to existing Serco and Clemaco customers and expanding Serco's existing activities with the Belgian Navy.

Pensions

Serco's pension schemes are in a strong funding position, and show an accounting surplus, before tax, of £127.1m (31 December 2020: £79.7m) on scheme gross assets of £1.6bn and gross liabilities of £1.4bn. The opening net asset position led to a net credit within net finance costs of £0.6m (2020: £0.6m). For the Group's main scheme, the Serco Pension and Life Assurance Scheme (SPLAS), the purchase of a bulk annuity from an insurer, which covers around half of all scheme members, has the effect of fully removing longevity, investment and accounting risks for those members; the gross liability remains recognised on our balance sheet, but there is an equal and opposite insurance asset reflecting the perfect hedge established by the annuity.

Covid-19

Coronavirus (Covid-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health organisation characterised the outbreak of Covid-19 as a global pandemic.

Most of the Group's contracts deliver critical services to governments and the delivery requirements of the vast majority of these have not been impacted by Covid-19. However, a small number of contracts within the Group have been impacted by; lower volumes or suspensions of its air traffic control contracts in the Middle East, lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset by additional services being delivered to assist governments with their management and recovery from the Covid-19 pandemic, additional volumes within its immigration contracts in the UK and Australia, and financial support from its customers. We estimate that about £365m of our global revenues were from services supporting governments' response to Covid-19, which compares to £130m in the first half of 2020. This estimate carries significant judgement as it becomes increasingly difficult to estimate what the baseline revenue would have been should the pandemic not have taken place. In addition, it is not possible to estimate the impact on new business or rebids, as it is possible that procurement of services by the Group's major customers has been delayed as a result of the pandemic due to Governments prioritising their management of Covid-19.

The Group's liquidity position continues to be strong with £665m of committed credit facilities and committed headroom of £439m. This is as a result of the stronger underlying operating performance and cash management, with customers meeting their obligations and paying for services in accordance with the terms of the arrangements.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and, therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

Information on other contingent liabilities can be found in note 14 to the Condensed Consolidated Financial Statements.

Nigel Crossley

Group Chief Financial Officer

4 August 2021

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK;

- the interim management report includes a fair review of the information required by:

    - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

    - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board:

Rupert Soames	Nigel Crossley
Group Chief Executive	Group Chief Financial Officer

INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the Group were prepared in accordance with International Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

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

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

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

John Luke
for and on behalf of KPMG LLP
15 Canada Square
London
E14 5GL
4 August 2021

Financial Statements

Condensed Consolidated Income Statement

	Six months ended 30 June 2021 (unaudited) £m	Six months ended 30 June 2020 (unaudited) £m	Year ended 31 December 2020 (audited) £m
Revenue	2,167.5	1,822.2	3,884.8
Cost of sales	(1,933.7)	(1,643.0)	(3,501.8)
Gross profit	233.8	179.2	383.0
Administrative expenses	(114.6)	(105.7)	(220.0)
Exceptional profit on disposal of subsidiaries and operations	-	11.0	11.0
Other exceptional operating items	(2.7)	2.6	1.5
Other expenses - amortisation and impairment of intangibles arising on acquisition	(6.6)	(5.0)	(9.0)
Share of profits in joint ventures and associates, net of interest and tax	6.4	7.0	12.7
Operating profit	116.3	89.1	179.2
Operating profit before exceptional items	119.0	75.5	166.7
Investment revenue	1.3	0.7	1.9
Finance costs	(13.9)	(13.4)	(27.8)
Total net finance costs	(12.6)	(12.7)	(25.9)
Profit before tax	103.7	76.4	153.3
Profit before tax and exceptional items	106.4	62.8	140.8
Tax on profit before exceptional items	130.7	(5.7)	(18.9)
Exceptional tax	0.7	(0.4)	(0.4)
Tax credit/(charge)	131.4	(6.1)	(19.3)
Profit for the period	235.1	70.3	134.0
Attributable to:			
Equity owners of the Company	235.1	70.4	133.8
Non controlling interest	-	(0.1)	0.2
Earnings per share (EPS)			
Basic EPS	19.08p	5.74p	10.89p
Diluted EPS	18.77p	5.66p	10.67p

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2021 (unaudited) £m	Six months ended 30 June 2020 (unaudited) £m	Year ended 31 December 2020 (audited) £m
Profit for the period	235.1	70.3	134.0
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in joint ventures and associates	2.5	1.4	2.7
Remeasurements of post-employment benefit obligations*	47.1	29.4	18.2
Actuarial (loss)/gain on reimbursable rights*	(2.1)	3.0	3.9
Income tax relating to these items*	(16.3)	(8.0)	(5.9)
Items that may be reclassified subsequently to profit or loss:			
Net exchange (loss)/gain on translation of foreign operations**	(18.6)	37.9	7.9
Fair value gain/(loss) on cash flow hedges during the period**	-	0.3	(0.2)
Income statement items reclassified	0.1	-	-
Tax relating to items that may be reclassified**	4.0	-	-
Total other comprehensive income for the period	16.7	64.0	26.6
Total comprehensive income for the period	251.8	134.3	160.6
Attributable to:			
Equity owners of the Company	251.8	134.3	160.4
Non controlling interest	-	-	0.2

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

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Treasury shares £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non controlling interest £m
At 1 January 2020 (audited)	24.5	462.9	0.1	165.9	(151.8)	72.2	(4.4)	-	(28.0)	541.4	1.5
Total comprehensive income for the period	-	-	-	71.7	24.4	-	-	-	38.2	134.3	-
Issue of share capital	0.2	-	-	-	-	-	(0.2)	-	-	-	-
Shares transferred to award holders on exercise of share awards	-	-	-	-	-	(2.1)	2.2	-	-	0.1	-
Expense in relation to share based payments	-	-	-	-	-	5.9	-	-	-	5.9	-
At 30 June 2020 (unaudited)	24.7	462.9	0.1	237.6	(127.4)	76.0	(2.4)	-	10.2	681.7	1.5
Total comprehensive income for the period	-	-	-	64.8	(8.2)	-	-	-	(30.5)	26.1	0.2
Issue of share capital	-	0.2	-	-	-	-	-	-	-	0.2	-
Shares transferred to award holders on exercise of share awards	-	-	-	-	-	(0.3)	0.3	-	-	-	-
Expense in relation to share based payments	-	-	-	-	-	5.3	-	-	-	5.3	-
At 31 December 2020 (audited)	24.7	463.1	0.1	302.4	(135.6)	81.0	(2.1)	-	(20.3)	713.3	1.7

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity (continued)

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Treasury shares £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non controlling interest £m
At 31 December 2020 (audited)	24.7	463.1	0.1	302.4	(135.6)	81.0	(2.1)	-	(20.3)	713.3	1.7
Total comprehensive income for the period	-	-	-	237.7	28.7	-	-	-	(14.6)	251.8	-
Income statement items reclassified	-	-	-	-	-	-	-	-	0.1	0.1	-
Dividends paid	-	-	-	(16.8)	-	-	-	-	-	(16.8)	-
Shares purchased and held in Treasury	-	-	-	-	-	-	-	(40.7)	-	(40.7)	-
Cancellation of shares held in Treasury	(0.3)	-	0.3	(20.4)	-	-	-	20.4	-	-	-
Shares transferred from Treasury to Own shares reserve	-	-	-	(20.0)	-	-	(0.3)	20.3	-	-	-
Shares transferred to award holders on exercise of share awards	-	-	-	-	-	(0.6)	0.6	-	-	-	-
Expense in relation to share based payments	-	-	-	-	-	8.1	-	-	-	8.1	-
Tax credit on items taken directly to equity	-	-	-	-	-	0.3	-	-	-	0.3	-
At 30 June 2021 (unaudited)	24.4	463.1	0.4	482.9	(106.9)	88.8	(1.8)	-	(34.8)	916.1	1.7

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

	As at 30 June 2021 (unaudited) £m	As at 30 June 2020 (unaudited) £m	As at 31 December 2020 (audited) £m
Non current assets			
Goodwill	826.7	710.3	669.6
Other intangible assets	159.6	91.3	80.6
Property, plant and equipment	467.2	399.3	441.7
Interests in joint ventures and associates	18.5	19.6	19.2
Contract assets	3.4	-	-
Trade and other receivables	22.0	25.1	25.3
Derivative financial instruments	-	0.1	-
Deferred tax assets	225.8	68.5	83.2
Retirement benefit assets	157.2	125.1	114.6
	1,880.4	1,439.3	1,434.2
Current assets			
Inventories	20.5	20.3	21.4
Contract assets	285.9	325.2	296.1
Trade and other receivables	338.3	352.6	313.5
Current tax assets	7.4	5.5	4.9
Cash and cash equivalents	193.3	244.9	335.7
Derivative financial instruments	1.6	4.3	4.5
	847.0	952.8	976.1
Total assets	2,727.4	2,392.1	2,410.3
Current liabilities			
Contract liabilities	(50.1)	(62.3)	(42.3)
Trade and other payables	(580.7)	(572.7)	(533.9)
Derivative financial instruments	(8.5)	(1.5)	(9.3)
Current tax liabilities	(16.7)	(20.5)	(21.6)
Provisions	(69.5)	(56.9)	(62.1)
Lease obligations	(130.2)	(86.8)	(109.3)
Loans	(61.9)	(176.7)	(89.7)
	(917.6)	(977.4)	(868.2)
Non current liabilities			
Contract liabilities	(55.0)	(51.4)	(47.5)
Trade and other payables	(5.8)	(14.9)	(9.4)
Derivative financial instruments	-	-	(0.1)
Deferred tax liabilities	(47.9)	(31.1)	(26.9)
Provisions	(107.8)	(112.6)	(115.9)
Lease obligations	(295.5)	(273.1)	(293.3)
Loans	(349.9)	(213.7)	(299.1)
Retirement benefit obligations	(30.1)	(34.7)	(34.9)
	(892.0)	(731.5)	(827.1)
Total liabilities	(1,809.6)	(1,708.9)	(1,695.3)
Net assets	917.8	683.2	715.0
Equity			
Share capital	24.4	24.7	24.7
Share premium account	463.1	462.9	463.1
Capital redemption reserve	0.4	0.1	0.1
Retained earnings	482.9	237.6	302.4
Retirement benefit obligations reserve	(106.9)	(127.4)	(135.6)
Share based payment reserve	88.8	76.0	81.0
Own shares reserve	(1.8)	(2.4)	(2.1)
Hedging and translation reserve	(34.8)	10.2	(20.3)
Equity attributable to owners of the Company	916.1	681.7	713.3
Non controlling interest	1.7	1.5	1.7
Total equity	917.8	683.2	715.0

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2021 (unaudited) £m	Six months ended 30 June 2020 (unaudited) £m	Year ended 31 December 2020 (audited) £m
Net cash inflow from operating activities before exceptional items	222.6	154.4	270.5
Exceptional items	(3.7)	(4.2)	(2.0)
Net cash inflow from operating activities	218.9	150.2	268.5
Investing activities			
Interest received	0.3	0.1	0.3
(Increase)/decrease in other investments	(0.1)	-	0.1
Dividends received from joint ventures and associates	9.6	12.4	19.8
Exceptional distribution from joint ventures	-	-	1.9
Other dividends received	0.4	-	0.4
Proceeds from disposal of property, plant and equipment	6.5	0.1	20.9
Net cash inflow on disposal of subsidiaries and operations	-	11.0	11.0
Acquisition of subsidiaries, net of cash acquired	(235.1)	(3.6)	(4.9)
Proceeds from loans receivable	-	1.2	1.2
Purchase of other intangible assets	(3.8)	(3.7)	(8.3)
Purchase of property, plant and equipment	(11.4)	(17.0)	(41.8)
Net cash (outflow)/inflow from investing activities	(233.6)	0.5	0.6
Financing activities			
Interest paid	(13.1)	(12.7)	(24.9)
Capitalised finance costs paid	(0.6)	-	(0.9)
Advances of loans	110.0	292.0	447.9
Repayments of loans	(95.5)	(223.5)	(348.5)
Capital element of lease repayments	(60.0)	(52.8)	(100.8)
Cash movements on hedging instruments	(5.9)	(0.9)	2.4
Dividends paid to shareholders	(16.8)	-	-
Own shares repurchased	(40.7)	-	-
Proceeds received from exercise of share options	0.1	0.1	0.1
Net cash (outflow)/inflow from financing activities	(122.5)	2.2	(24.7)
Net (decrease)/increase in cash and cash equivalents	(137.2)	152.9	244.4
Cash and cash equivalents at beginning of period	335.7	89.5	89.5
Net exchange (loss)/gain	(5.2)	2.5	1.8
Cash and cash equivalents at end of period	193.3	244.9	335.7

The notes on pages 39 to 65 form part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. General information, accounting policies and going concern

The financial information herein for the year ended 31 December 2020 does not constitute the Company's statutory accounts as defined in section 434 of the Companies Act 2006, but is derived from those accounts. The auditor's report on the 2020 accounts contained no emphasis of matter and did not contain statements under S498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

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

In the six months ended 30 June 2021, 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 with one exception. The Group, following a review of its accounting policies, has updated its accounting policy for modifications to contracts with customers which do not result in the provision of distinct goods or services. Previously, it was stated that if the pricing in the new contract was not commensurate with the stand-alone selling prices for the goods or services and the new goods and services were not distinct from those in the original contract, that any historic adjustments would be recognised through opening retained earnings. This is not the case, and the Group would recognise any adjustments as an adjustment to revenue in the period of the modification. No such modifications have occurred either during the year ended 31 December 2020 or in the six month period to 30 June 2021.

Going concern

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2021, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

At 30 June 2021, the Group's principal debt facilities comprised a £250m revolving credit facility, acquisition term loan facilities totalling £120m and £295m of US private placement loan notes, giving £665m of committed credit facilities and committed headroom of £439m. As at June 2021, the Group's leverage ratio is below both its covenant of 3.5x and the Group's target range of 1x-2x at 0.95x.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, key uncertainties and sensitivities, including the ongoing and potential future impacts of Covid-19 on the Group's future performance. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved budget, updated to take account of known changes since, including the impact of the Group's results for the six months to 30 June 2021. The budget is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions. When the budget was set covering 2021 and 2022, consideration was given to the known impacts of Covid-19, though most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been materially impacted. Where situations have evolved, these have been reflected in the Group's most recent forecasts and thus are included within the assessment process outlined below.

The Directors have considered the ongoing impact of Covid-19 on the Group's operations. The key impacts which the Group has felt are lower passenger volumes on the Group's train operating contracts, lower volumes within its air traffic control business within the Middle East, higher costs within the Health portfolio and lower usage of the Group's UK leisure centres. In a severe downside scenario, the Directors have modelled the negative financial impact of Covid-19 as experienced during the year to 31 December 2020 through another three-month lockdown during the assessment period. In this downside scenario, the Group continues to have sufficient covenant and liquidity headroom.

Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Directors believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test shows that, even after assuming that the US private placement loan notes of $88m due to mature before 31 December 2022 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants without a requirement for any mitigating actions.

In respect of win rates, rebids have a more significant impact on the Group's revenue than new business wins during the assessment period, as contracts accounting for c.45% of total revenues are expected to be rebid in the next three years. The Group's rebid win rate excluding COMPASS SNI and Viapath, neither of which contributed to the Group's profitability, has been in excess of 85% over the last two years, therefore a reduction of 50% to the budgeted win rates and rebid rates is not considered plausible. These rebids have been excluded because the Group does not generally bid for contracts at margins below its target range and where there is a significant increase in price, there is more likelihood of the Group not being successful.

In respect to margin reduction, due to the diversified nature of the Group's portfolio of long term contracts and the fact that the Group has met or exceeded its full year guidance for the last five years, a reduction in margin of 50bps (c.£20m) versus the Group's budget is not considered plausible within the assessment period combined with a 50% reduction in win rates for new business and rebids.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the condensed set of financial statements and therefore have prepared the financial statements on a going concern basis.

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in the Group's Annual Report and Accounts for the year ended 31 December 2020, and modified as noted in note 1 above, Management has made the following judgements that have the most significant effect on the amounts recognised in the Condensed Consolidated Financial Statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustment to the carrying amounts of onerous contract provisions within the next financial reporting period. This includes the potential recognition of onerous contract provisions for contracts which the Directors have assessed do not require a provision as at 30 June 2021.

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

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels;
- Volume driven revenue and costs being within the expected ranges;
- The outcome of open claims made by or against a customer regarding contractual performance or contractual negotiations taking place where there is expected to be a positive outcome from the Group's perspective;
- The ability of suppliers to deliver their contractual obligations on time and on budget; and
- The potential impact of any longer term impacts of Covid-19 on contract performance such as the performance and usage of leisure centres or passenger volumes in the UK and the risk that this may be impacted by any

future wave of the virus which requires a subsequent lock down period, or as-yet unknown shifts in customer behaviours, in the absence of any customer support.

In the current period, an amount of £1.2m was charged to historic provisions, and releases of £0.4m have been made. All of these revisions have resulted from triggering events in the current period, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates, Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements.

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

The individual provisions are discounted where the impact is assessed to be significant. When used, discount rates are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS37 *Provisions, Contingent Liabilities & Contingent Assets*. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. As at 30 June 2021, the provision recognised in respect of this portfolio of contracts is £8.5m (31 December 2020: £8.5m).

Onerous contract provisions totalling £6.1m are estimated for individual contracts, based on the specific characteristics of the contract including possible contract variations, estimates of transaction price such as variable revenues and forecast costs to fulfil those contracts. As noted above, the Group also holds a balance of £8.5m in respect of the portfolio risk associated with operating a large number of long-term contracts, giving a total onerous contract provision of £14.6m (see note 13). Management has considered the nature of the estimate for onerous contract provisions and concluded that it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could, in aggregate, require a material adjustment to the onerous contract provision. However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of these condensed consolidated financial statements.

Impairment of assets

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

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

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or cash generating unit (CGU) to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from latest approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. As was the case at the end of 2020, the budgeting process is required to estimate the ongoing impact of Covid-19, and whilst this remains a source of uncertainty, the Group's understanding of the potential impacts continues to improve. As a result of known and anticipated impacts of Covid-19 being included in Management's forecasts, no additional specific adjustments have been made to the cash flows used in assessing the value in use of assets.

Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates is performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS36 *Impairment of Assets* we calculate a pre tax rate based on post tax targets.

A key area of focus in recent years has been in the impairment testing of goodwill as a result of the pressure on the results of the Group. No impairment indicators relating to goodwill were noted in the six months to 30 June 2021 and there continues to be significant headroom across all CGUs.

Current tax

Liabilities for tax contingencies require Management judgement and estimates to be made in respect of tax audits and tax exposures in each of the jurisdictions in which we operate. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences that arise as a consequence of different accounting and tax treatments. Key judgement areas include the correct allocation of profits and losses between the countries in which we operate and the pricing of intercompany services. Where Management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the current information available including the specific circumstances of each case and external advice where appropriate. Given the number of geographies in which we operate and the associated number of inherent uncertainties, there is a broad range of potential outcomes. Management therefore do not consider that disclosing a potential range of outcomes would provide meaningful additional information to a reader of the accounts.

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

Retirement benefit obligations

Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme. The Group's retirement benefit obligations are covered in note 16.

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

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

- The asset recognised for the Serco Pension and Life Assurance Scheme is equal to the full surplus that will ultimately be available to the Group as a future refund.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.

No pension assets are invested in the Group's own financial instruments or property.

Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Critical accounting judgements

Covid-19 related impacts

Coronavirus (Covid-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health organisation characterised the outbreak of Covid-19 as a global pandemic.

Most of the Group's contracts deliver critical services to governments and the delivery requirements of the vast majority of these have not been impacted by Covid-19. However, a small number of contracts within the Group have been impacted by; lower volumes or suspensions of its air traffic control contracts in the Middle East, lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset by additional services being delivered to assist governments with their management and recovery from the Covid-19 pandemic, additional volumes within its immigration contracts in the UK and Australia, and financial support from its customers. We estimate that about £365m of our global revenues were from services supporting governments' response to Covid-19, which compares to £130m in the first half of 2020. This estimate carries significant judgement as it becomes increasingly difficult to estimate what the baseline revenue would have been should the pandemic not have taken place. In addition, it is not possible to estimate the impact on new business or rebids, as it is possible that procurement of services by the Group's major customers has been delayed as a result of the pandemic due to Governments prioritising their management of Covid-19.

The Group's liquidity position continues to be strong with £665m of committed credit facilities and committed headroom of £439m. This is as a result of the stronger underlying operating performance and cash management, with customers meeting their obligations and paying for services in accordance with the terms of the arrangements.

Leases

The Group makes use of leases both in assisting with the operational delivery of contracts and within support functions. Operational leases include, but are not limited to, accommodation for asylum seekers, vehicles used in the transport of service users and properties used to deliver services or administrative functions. Within the Group's support functions, the most prevalent leases are those associated with properties and the company car fleet.

The majority of the Group's operational leases are entered into either for the duration of the contract to which they relate, or with a termination option included, allowing the Group the option to exit the lease if it so desires. As a result, the most significant judgement that is made in relation to leases, is the derivation of the lease term at the outset of the lease. Extension and cancellation options included in leases, where the Group has the unilateral option to exercise, are included when assessing the lease term only to the extent that it is more likely than not they will be exercised. This assessment is revisited whenever the circumstances of a contract change, or more frequently if Management become aware of a change in the probability of exercising such options.

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS1 *Presentation of Financial Statements* requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material and outside of the normal operating practice of the Company to be suitable for separate presentation. There is a level of judgement required in determining which items are exceptional on a consistent basis and require separate disclosure. Further details can be seen in note 6.

The segmental analysis in note 3 includes the additional performance measure of Trading Profit on operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those we consider material and outside of the normal operating practice of the Company to be suitable of separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgments about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice. The Group's Chief Operating Decision Maker (CODM) reviews the segmental analysis for operations.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

Deferred tax

Deferred tax assets are recognised on tax deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Significant Management judgement is required to determine the amount of deferred tax assets that should be recognised, based upon the likely timing, geography and the level of future taxable profits. Since a significant portion of the deductible temporary differences relate to historic tax losses, there has been historic evidence that future taxable profits may not be available.

A £167.0m UK tax asset is recognised on the Group's balance sheet at 30 June 2021 (31 December 2020: £30.6m) on the basis that structural changes in the underlying UK business indicate a sustained return to profitability which would enable future tax deductions within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long term contracts being entered into as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business. £19.2m of the UK deferred tax asset of £186.2m recognised during the period has been used to offset profits arising in the six month period to 30 June 2021.

Further details on taxes are disclosed in note 9.

3. Segmental information

The Group's operating segments reflecting the information reported to the Board in the six months ended 30 June 2021 under IFRS8 *Operating Segments* are as set out below.

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

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

Revenue disaggregation

An analysis of the Group's revenue from its key market sectors is as follows:

Six months ended 30 June 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	99.4	357.3	74.0	14.9	545.6
Justice & Immigration	201.3	-	185.0	-	386.3
Transport	70.6	40.5	3.5	87.0	201.6
Health	132.1	-	117.3	3.1	252.5
Citizen Services	535.1	130.8	78.1	37.5	781.5
	1,038.5	528.6	457.9	142.5	2,167.5

Six months ended 30 June 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	100.8	363.8	64.2	13.4	542.2
Justice & Immigration	179.3	-	140.9	-	320.2
Transport	71.9	42.2	3.8	100.4	218.3
Health	121.5	-	50.0	5.5	177.0
Citizen Services	310.1	136.1	73.1	45.2	564.5
	783.6	542.1	332.0	164.5	1,822.2

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	196.6	725.2	133.3	27.0	1,082.1
Justice & Immigration	393.7	-	328.1	-	721.8
Transport	143.6	84.7	7.7	194.2	430.2
Health	245.9	-	101.4	10.0	357.3
Citizen Services	797.6	254.4	148.4	93.0	1,293.4
	1,777.4	1,064.3	718.9	324.2	3,884.8

Information about major customers

The Group has four major governmental customers which each represent more than 5% of Group revenues. The customers' revenues were £913.2m (2020: £654.1m) for the UK Government within the UK & Europe segment, £434.2m (2020: £470.5m) for the US Government within the Americas segment, £423.0m (2020: £326.3m) for the Australian Government within the AsPac segment and £109.1m (2020: £118.6m) for the Government of the United Arab Emirates within the Middle East segment.

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

Six months ended 30 June 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,038.5	528.6	457.9	142.5	-	2,167.5
Result						
Trading Profit/(Loss) from operations*	59.0	57.1	25.0	7.2	(22.7)	125.6
Amortisation and impairment of intangibles arising on acquisition	(0.4)	(4.5)	(1.7)	-	-	(6.6)
Operating profit/(loss) before exceptional items	58.6	52.6	23.3	7.2	(22.7)	119.0
Other exceptional operating items**	0.1	(2.0)	(0.5)	-	(0.3)	(2.7)
Operating profit/(loss)	58.7	50.6	22.8	7.2	(23.0)	116.3
Investment revenue						1.3
Finance costs						(13.9)
Profit before tax						103.7
Tax credit						130.7
Tax on exceptional items						0.7
Profit for the period						235.1

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

** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within exceptional operating items are total acquisition related costs of £2.5m.

Six months ended 30 June 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	6.8	-	-	-	(0.4)	6.4
Depreciation of plant, property and equipment	(42.8)	(10.8)	(6.4)	(3.3)	(4.6)	(67.9)
Impairment of plant, property and equipment	-	-	-	-	-	-
Total depreciation and impairment of plant, property and equipment	(42.8)	(10.8)	(6.4)	(3.3)	(4.6)	(67.9)
Amortisation of intangible assets arising on acquisition	(0.4)	(4.5)	(1.7)	-	-	(6.6)
Amortisation of other intangible assets	(0.5)	(0.5)	(1.7)	(0.1)	(3.5)	(6.3)
Total amortisation and impairment of intangible assets	(0.9)	(5.0)	(3.4)	(0.1)	(3.5)	(12.9)
Segment assets						
Interests in joint ventures and associates	18.0	-	0.1	0.4	-	18.5
Other segment assets***	757.5	887.2	331.0	95.0	210.1	2,280.8
Total segment assets	775.5	887.2	331.1	95.4	210.1	2,299.3
Unallocated assets						428.1
Consolidated total assets						2,727.4
Segment liabilities						
Segment liabilities***	(663.8)	(202.7)	(223.4)	(66.8)	(168.0)	(1,324.7)
Unallocated liabilities						(484.9)
Consolidated total liabilities						(1,809.6)

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

The depreciation charge in the UK&E segment has increased to £42.8m (2020: £30.0m) due to additional property leases together with the timing of renewals on existing leases on the Asylum Accommodation and Support Services Contract (AASC).

Six months ended 30 June 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	783.6	542.1	332.0	164.5	-	1,822.2
Result						
Trading Profit/(Loss) from operations*	29.4	53.4	13.3	7.0	(22.6)	80.5
Amortisation and impairment of intangibles arising on acquisition	(1.5)	(3.5)	-	-	-	(5.0)
Operating profit/(loss) before exceptional items	27.9	49.9	13.3	7.0	(22.6)	75.5
Exceptional profit on disposal of subsidiaries and operations	11.0	-	-	-	-	11.0
Other exceptional operating items**	1.0	1.6	-	-	-	2.6
Operating profit/(loss)	39.9	51.5	13.3	7.0	(22.6)	89.1
Investment revenue						0.7
Finance costs						(13.4)
Profit before tax						76.4
Tax charge						(5.7)
Tax on exceptional items						(0.4)
Profit for the period						70.3

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within exceptional operating items are total acquisition related costs of £1.4m.

Six months ended 30 June 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	7.0	-	-	-	-	7.0
Depreciation of plant, property and equipment	(30.0)	(11.5)	(4.4)	(4.0)	(4.1)	(54.0)
Impairment of plant, property and equipment	(0.2)	-	-	-	-	(0.2)
Total depreciation and impairment of plant, property and equipment	(30.2)	(11.5)	(4.4)	(4.0)	(4.1)	(54.2)
Amortisation of intangible assets arising on acquisition	(1.5)	(3.5)	-	-	-	(5.0)
Amortisation of other intangible assets	(0.2)	(0.3)	(1.4)	(0.2)	(5.4)	(7.5)
Total amortisation and impairment of intangible assets	(1.7)	(3.8)	(1.4)	(0.2)	(5.4)	(12.5)
Segment assets						
Interests in joint ventures and associates	19.1	-	0.1	0.4	-	19.6
Other segment assets***	680.5	796.4	267.7	131.3	173.3	2,049.2
Total segment assets	699.6	796.4	267.8	131.7	173.3	2,068.8
Unallocated assets						323.3
Consolidated total assets						2,392.1
Segment liabilities						
Segment liabilities***	(558.6)	(224.1)	(189.2)	(95.7)	(197.8)	(1,265.4)
Unallocated liabilities						(443.5)
Consolidated total liabilities						(1,708.9)

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

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,777.4	1,064.3	718.9	324.2	-	3,884.8
Result						
Trading Profit/(Loss) from operations*	69.6	100.8	32.6	13.9	(41.2)	175.7
Amortisation and impairment of intangibles arising on acquisition	(2.0)	(7.0)	-	-	-	(9.0)
Operating profit/(loss) before exceptional items	67.6	93.8	32.6	13.9	(41.2)	166.7
Exceptional profit on disposal of subsidiaries and operations	11.0	-	-	-	-	11.0
Other exceptional operating items**	1.0	1.4	(0.8)	-	(0.1)	1.5
Operating profit/(loss)	79.6	95.2	31.8	13.9	(41.3)	179.2
Investment revenue						1.9
Finance costs						(27.8)
Profit before tax						153.3
Tax charge						(18.9)
Tax on exceptional items						(0.4)
Profit for the year						134.0

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
** Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within exceptional operating items are total acquisition related costs of £2.4m.

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	12.7	-	-	-	-	12.7
Depreciation of plant, property and equipment	(61.6)	(22.5)	(9.6)	(7.6)	(8.1)	(109.4)
Impairment of plant, property and equipment	(0.7)	-	-	-	-	(0.7)
Total depreciation and impairment of plant, property and equipment	(62.3)	(22.5)	(9.6)	(7.6)	(8.1)	(110.1)
Amortisation of intangible assets arising on acquisition	(2.0)	(7.0)	-	-	-	(9.0)
Amortisation of other intangible assets	(0.7)	(0.6)	(3.0)	(0.4)	(9.3)	(14.0)
Total amortisation and impairment of intangible assets	(2.7)	(7.6)	(3.0)	(0.4)	(9.3)	(23.0)
Segment assets						
Interests in joint ventures and associates	18.7	-	0.1	0.4	-	19.2
Other segment assets***	750.9	675.3	274.4	87.9	174.3	1,962.8
Total segment assets	769.6	675.3	274.5	88.3	174.3	1,982.0
Unallocated assets						428.3
Consolidated total assets						2,410.3
Segment liabilities						
Segment liabilities***	(626.6)	(185.0)	(200.0)	(66.7)	(170.3)	(1,248.6)
Unallocated liabilities						(446.7)
Consolidated total liabilities						(1,695.3)

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

4. Joint ventures and associates

AWE Management Limited (AWEML) and Merseyrail Services Holding Company Limited (MSHCL) were the only equity accounted entities which were material to the Group during the six months ended 30 June 2021 or comparative periods. Dividends of £9.6m (2020: £9.1m) and £nil (2020: £1.5m) respectively were received from these companies in the period. The only significant movement in dividends received relates to the absence of a dividend from MSHCL where passenger volumes in particular were negatively impacted by Covid-19.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWEML on 30 June 2021. The exit from the contract was in advance of the final milestones anticipated in the contract, and as a result, the operating performance includes judgements over the completion status of certain items which may subsequently be adjusted. The transaction included the sale of AWE plc from AWEML, however the Group continues to own 24.5% of AWEML which holds receivables and payables with AWE plc and these are expected to be settled as the negotiations regarding the termination and disposal conclude.

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

30 June 2021

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	629.9	75.0	191.8	0.9	192.7
Operating profit/(loss)	43.3	(4.3)	8.5	-	8.5
Net investment finance costs	-	(0.1)	-	-	-
Income tax (charge)/credit	(10.2)	0.9	(2.1)	-	(2.1)
Profit/(loss) from operations	33.1	(3.5)	6.4	-	6.4
Other comprehensive income	-	4.9	2.5	-	2.5
Total comprehensive income	33.1	1.4	8.9	-	8.9
Non current assets	-	16.5	8.2	0.2	8.4
Current assets	167.8	41.0	61.7	2.0	63.7
Current liabilities	(149.6)	(25.6)	(49.4)	(1.1)	(50.5)
Non current liabilities	-	(6.1)	(3.1)	-	(3.1)
Net assets	18.2	25.8	17.4	1.1	18.5
Proportion of Group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment	4.5	12.9	17.4	1.1	18.5

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

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	114.9	25.4	40.9	0.7	41.6
Current financial liabilities excluding trade and other payables and provisions	(0.6)	(5.3)	(2.8)	-	(2.8)
Non current financial liabilities excluding trade and other payables and provisions	-	(5.9)	(3.0)	-	(3.0)
Depreciation and amortisation	-	(2.9)	(1.4)	-	(1.4)
Interest income	-	-	-	-	-
Interest expense	-	(0.1)	-	-	-

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

The Group's share of liabilities within joint ventures and associates is £53.6m (31 December 2020: £224.5m). Of this, £nil (31 December 2020: £163.1m) relates to a defined benefit pension obligation against which Serco is fully indemnified. As a result of the Ministry of Defence's termination of the Management & Operations contract at AWE, the Pensions Contract was also terminated, and hence AWEML had no obligations under the Pensions Contract from 30 June 2021. The remaining liabilities include £5.1m of lease obligations (31 December 2020: £6.2m) and the balance is trade and other payables which arise as part of the day to day operations carried out by those entities. Other than liabilities associated with leases, the Group has no material exposure to third party debt or other financing arrangements within any of its joint ventures and associates. Of the amount included within AWEML's current assets and liabilities is a cash amount of £98m, which as at 30 June 2021 belonged to AWE plc but was in the bank account of AWEML. The amount was repaid in full on 1 July 2021.

30 June 2020

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	539.0	75.7	169.9	18.0	187.9
Operating profit/(loss)	37.4	(0.8)	8.8	(0.2)	8.6
Net investment revenue	0.3	-	0.1	-	0.1
Income tax (charge)/credit	(7.1)	0.3	(1.6)	(0.1)	(1.7)
Profit/(loss) from operations	30.6	(0.5)	7.3	(0.3)	7.0
Other comprehensive income	-	2.9	1.4	-	1.4
Total comprehensive income/(expense)	30.6	2.4	8.7	(0.3)	8.4
Non current assets	489.5	21.9	130.9	0.2	131.1
Current assets	188.8	51.8	72.1	3.6	75.7
Current liabilities	(171.2)	(37.1)	(60.5)	(1.4)	(61.9)
Non current liabilities	(488.7)	(11.2)	(125.3)	-	(125.3)
Net assets	18.4	25.4	17.2	2.4	19.6
Proportion of Group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment	4.5	12.7	17.2	2.4	19.6

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

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	77.3	36.7	37.3	1.9	39.2
Current financial liabilities excluding trade and other payables and provisions	(0.7)	(5.4)	(2.9)	(0.5)	(3.4)
Non current financial liabilities excluding trade and other payables and provisions	-	(10.3)	(5.2)	-	(5.2)
Depreciation and amortisation	-	(3.0)	(1.5)	(0.4)	(1.9)
Interest income	0.3	0.1	0.1	-	0.1
Interest expense	-	(0.1)	(0.1)	-	(0.1)

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

31 December 2020

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,106.8	150.7	346.5	18.6	365.1
Operating profit/(loss)	75.0	(5.7)	15.5	(0.1)	15.4
Net investment revenue/(finance cost)	0.3	(0.1)	-	-	-
Income tax (charge)/credit	(14.0)	1.5	(2.7)	-	(2.7)
Profit/(loss) from operations	61.3	(4.3)	12.8	(0.1)	12.7
Other comprehensive income/(expense)	-	5.3	2.7	-	2.7
Total comprehensive income/(expense)	61.3	1.0	15.5	(0.1)	15.4
Non current assets	668.1	19.1	173.3	0.1	173.4
Current assets	191.4	43.2	68.5	1.8	70.3
Current liabilities	(169.2)	(29.6)	(56.3)	(0.8)	(57.1)
Non current liabilities	(665.9)	(8.5)	(167.4)	-	(167.4)
Net assets	24.4	24.2	18.1	1.1	19.2
Proportion of Group ownership	24.5%	50.0%	-	-	-
Carrying amount of investment	6.0	12.1	18.1	1.1	19.2

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

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	119.8	22.5	40.6	0.8	41.4
Current financial liabilities excluding trade and other payables and provisions	(0.6)	(5.5)	(2.9)	0.1	(2.8)
Non current financial liabilities excluding trade and other payables and provisions	-	(7.7)	(3.8)	-	(3.8)
Depreciation and amortisation	-	(6.1)	(3.1)	(0.4)	(3.5)
Interest income	0.3	0.1	0.1	-	0.1
Interest expense	-	(0.2)	(0.1)	-	(0.1)

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

5. Acquisitions

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited (FFA), for consideration of AU Dollars $52.2m (£29.6m) in cash, on a cash free, debt free basis, subject to standard working capital and completion adjustments. At the same time, the Group transferred AU Dollars $25.2m (£14.3m) to allow FFA to settle existing debt and debt-like balances. FFA is a specialist provider of cleaning, facility maintenance and management services in Australia. The operating results, assets and liabilities have been recognised effective 4 January 2021.

The total annual revenue of FFA in 2021 is expected to be around AU Dollars $250m (£138m) and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to be around AU Dollars $11m (£6m).

On 27 April 2021, the Group acquired 100% of the issued share capital of Whitney, Bradley & Brown, Inc (WBB) for $295.0m (£211.7m) which will increase the scale, breadth and capability of Serco's North American Defence business and will give Serco a strong platform from which to address all major segments of the US Defence services market. The operating results, assets and liabilities have been recognised effective 27 April 2021.

The total annual revenue of WBB in 2021 is expected to be around $230m (£165m) and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to be around $28m (£20m).

On 30 June 2021, the Group acquired 100% of the issued share capital of Mercurius Finance S.A., the holding company of Clemaco Trading N.V., Clemaco Contracting N.V. and Targets N.V. (together Clemaco), for €1.0m (£0.8m). Clemaco specialises in the support and maintenance of ships for the Belgian Navy, enabling Serco to provide additional value to existing Serco and Clemaco customers and expanding Serco’s existing activities with the Belgian Navy. The operating results, assets and liabilities have been recognised effective 30 June 2021.

The amounts shown below in respect of the assets and liabilities acquired in material transactions remain provisional and are therefore subject to change, until the Group has finalised the associated acquisition accounting.

	Provisional fair values		
	FFA £m	**WBB £m**	**Total £m**
Goodwill	29.0	137.9	166.9
Acquisition related intangible assets	19.8	70.0	89.8
Property, plant and equipment	4.0	3.2	7.2
Retirement benefit assets	1.3	-	1.3
Inventories	0.1	-	0.1
Trade and other receivables	14.9	23.1	38.0
Cash and cash equivalents	2.0	5.0	7.0
Deferred tax assets	-	7.1	7.1
Trade and other payables	(19.2)	(15.5)	(34.7)
Provisions	(1.7)	-	(1.7)
Retirement benefit obligations	(2.5)	-	(2.5)
Loans	(14.3)	-	(14.3)
Corporation tax liabilities	(0.6)	-	(0.6)
Deferred tax liabilities	(0.9)	(19.0)	(19.9)
Lease liabilities	(2.3)	(0.1)	(2.4)
Acquisition date fair value of consideration transferred	29.6	211.7	241.3
Satisfied by:			
Cash	29.6	211.7	241.3
Total consideration	29.6	211.7	241.3

The net cash outflow as a result of acquisitions made during the year was £238.2m made up of £29.6m consideration paid on the acquisition of FFA, £211.7m consideration paid on the acquisition of WBB, £0.8m consideration paid on the acquisition of Clemaco, combined acquisition related costs of £3.1m and £7.0m of cash acquired.

Goodwill on the acquisitions of FFA and WBB represents the premium associated with expanding the Group's capabilities in the relevant sectors and geographical locations in which the acquired companies operate. For FFA, this represents scale within facilities management in Australia, whilst for WBB it relates to the increased presence in the US defence market as well as considerable expertise in complementary areas. No tax deductions related to the goodwill arising on either transaction are available. The acquisition related intangibles represent customer relationships which have been valued using our best estimate of forecast cashflows discounted to present value and, in the case of WBB, certain software related assets and the brand names associated with them.

Based on estimates made of the full year impact of the acquisition of WBB, had the acquisition taken place on 1 January 2021, Group revenue and operating profit before exceptional items for the period would have increased by approximately £54m and £8m respectively, taking total Group revenue to £2,222m and total Group operating profit before exceptional items to £127m. Due to the date of acquisition of FFA, the annualised impact is not considered to be materially different to the results already included in the financial statements for the six months to 30 June 2021.

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

	£m
Net cash outflow on acquisition of FFA	27.6
Net cash outflow on acquisition of WBB	206.7
Net cash outflow on acquisition of Clemaco	0.8
Net cash outflow arising in the year on acquisitions	235.1
Exceptional acquisition related costs – FFA	1.1
Exceptional acquisition related costs – WBB	2.0
Net cash impact in the year on acquisitions	238.2

Costs associated with the acquisitions of both FFA and WBB are shown as exceptional costs in the Condensed Consolidated Income Statement for the period. The total acquisition related costs recognised in exceptional items for the six months ended 30 June 2021 was £2.5m. There were no material costs associated with the acquisition of Clemaco during the period.

6. Exceptional items

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

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Exceptional items arising			
Exceptional profit on disposal of subsidiaries and operations	-	11.0	11.0
Other exceptional operating items			
Restructuring costs	0.1	0.1	0.1
Costs associated with UK Government review	(0.3)	(1.2)	(1.3)
Movement in other provisions and other items	-	2.6	2.6
Reversal of impairment of interest in joint venture and related loan balances	-	2.5	2.5
Costs associated with the acquisition of Naval Systems Business Unit	-	(1.4)	(1.5)
Costs associated with the acquisition of Facilities First Australia	(0.5)	-	(0.9)
Costs associated with the acquisition of Whitney, Bradley & Brown, Inc.	(2.0)	-	-
Other exceptional operating items	(2.7)	2.6	1.5
Exceptional operating items	(2.7)	13.6	12.5
Exceptional tax	0.7	(0.4)	(0.4)
Total exceptional items net of tax	(2.0)	13.2	12.1

The Group completed the acquisition of Facilities First Australia Holdings Pty Limited (FFA) in 2021. The transaction and implementation costs incurred during the six months ended 30 June 2021 of £0.5m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2020.

The Group also completed the acquisition of Whitney, Bradley & Brown, Inc (WBB) in 2021. The transaction and implementation costs incurred during the six months ended 30 June 2021 of £2.0m have been treated as exceptional costs in line with the Group's accounting policy.

There were exceptional costs totalling £0.3m (2020: £1.2m) associated with the UK Government review and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2021. No significant further costs are expected to be incurred.

Exceptional tax for the period was a tax credit of £0.7m (2020: £0.4m charge) which arises on exceptional items within operating profit.

7. Investment revenue

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Interest receivable on other loans and deposits	0.3	0.1	0.2
Net interest receivable on retirement benefit obligations (note 16)	0.6	0.6	1.2
Other dividends received	0.4	-	0.4
Movement in discount on other debtors	-	-	0.1
	1.3	0.7	1.9

8. Finance costs

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Interest payable on lease liabilities	4.1	4.8	9.5
Interest payable on other loans	7.9	7.4	15.3
Facility fees and other charges	1.3	1.0	2.1
Movement in discount on provisions	-	-	0.2
	13.3	13.2	27.1
Foreign exchange on financing activities	0.6	0.2	0.7
	13.9	13.4	27.8

9. Tax

The tax charge for the six months ended 30 June 2021 is calculated using the full year forecasted effective tax rate by territory in which the Group has derived its profits and then applying this to the actual profit for the period in each territory. The tax impacts of items specific to the period are then included to provide the half year actual tax charge.

A tax credit of £130.7m (2020: £5.7m charge) on pre-exceptional profits has been recognised which includes an underlying tax charge of £25.6m, the tax impact of amortisation of intangibles arising on acquisition of £1.2m and a £155.1m credit on non-underlying items.

In relation to the £155.1m credit on non-underlying items, £144.8m of the credit relates to recognition of deferred tax assets in relation to the Group's UK operations which have not previously been recognised as assets. It is now considered that the UK business has returned to sustainable profitability, and there is sufficient certainty of future taxable profits against which these deductions can be utilised to enable the recognition of an increased deferred tax asset. £10.8m of the credit relates to the revaluation of the deferred tax asset at 1 January 2021, following the announcement in the UK Budget earlier this year that the tax rate in the UK is to increase in 2023 to 25%. The remaining £0.5m non-underlying tax charge relates to tax on non-underlying income that is taxable.

The rate change movement on the revaluation of the deferred tax liability held in connection with the Group's defined benefit pension schemes and foreign exchange hedges flows through the Statement of Comprehensive Income (SOCI). The rate change movement on the revaluation of all other elements of deferred tax such as other timing differences and recoverable losses is shown through the income statement.

The tax rate on profits before exceptional items at (122.8)% is lower than the UK standard corporation tax rate of 19.0%. This is mainly due to the impact of non-underlying credits discussed above. Other items which reduce the tax charge below the UK standard corporation tax rate are our joint ventures, whose post-tax results are included in our pre-tax profit, and the credit associated with a reduction in provisions for uncertain tax positions, made as part of our regular reassessment of tax exposures across the Group, which has led us to conclude that certain provisions are no longer likely to lead to an outflow of tax. The impact of this is partially offset by higher rates of tax on profits arising on our international operations.

A £167.0m UK tax asset is recognised on the Group's balance sheet at 30 June 2021 (31 December 2020: £30.6m) on the basis that structural changes in the underlying UK business indicate a sustained return to profitability which would enable future tax deductions within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long term contracts being entered into, as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business.

10. Earnings per share

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

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

Number of shares	Six months ended 30 June 2021 millions	Six months ended 30 June 2020 millions	Year ended 31 December 2020 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,232.2	1,226.5	1,229.1
Effect of dilutive potential ordinary shares: Shares under award	20.4	18.2	25.2
Weighted average number of ordinary shares for the purpose of diluted EPS	1,252.6	1,244.7	1,254.3

Basic EPS	Earnings 30 June 2021 £m	Per share amount 30 June 2021 pence	Earnings 30 June 2020 £m	Per share amount 30 June 2020 pence	Earnings 31 December 2020 £m	Per share amount 31 December 2020 pence
Earnings for the purpose of basic EPS	235.1	19.08	70.4	5.74	133.8	10.89
Effect of dilutive potential ordinary shares		(0.31)		(0.08)		(0.22)
Diluted EPS	235.1	18.77	70.4	5.66	133.8	10.67
Basic EPS excluding exceptional items						
Earnings for the purpose of basic EPS	235.1	19.08	70.4	5.74	133.8	10.89
Add back exceptional items	2.7	0.22	(13.6)	(1.11)	(12.5)	(1.02)
Add back tax on exceptional items	(0.7)	(0.06)	0.4	0.03	0.4	0.03
Earnings excluding exceptional items for the basis of basic EPS	237.1	19.24	57.2	4.66	121.7	9.90
Effect of dilutive potential ordinary shares		(0.31)		(0.06)		(0.20)
Excluding exceptional items, diluted	237.1	18.93	57.2	4.60	121.7	9.70

The weighted average number of shares for EPS purposes was 1,232.2m for the six months ended 30 June 2021 (2020: 1,226.5m) and diluted weighted average number of shares was 1,252.6m (2020: 1,244.7m). The increase in the weighted average number of shares is due to the full year impact of the 10,000,000 new shares issued to the

Serco Group plc 1998 Employee Share Ownership Trust (ESOT) in March 2020, used to satisfy awards granted under the Group's share award schemes.

The number of Ordinary Shares in issue has reduced during the six months to 30 June 2021 as a result of the Serco Share repurchase programme (the Programme). At the end of 2020, the Group announced its intention to repurchase Ordinary Shares with a value of up to £40m, subject to a maximum of 122,338,063 Ordinary Shares being purchased, during the period 4 January 2021 to 11 June 2021. Through the Programme, the Group repurchased 30,721,849 Ordinary Shares for total consideration of £40.7m including fees.

On 28 June 2021, the Group announced that, of the Ordinary Shares repurchased and held in Treasury, 15,350,000 were transferred to the ESOT to be used to satisfy awards granted under the Group's share award schemes. The 15,371,849 Ordinary Shares remaining in Treasury were cancelled on 28 June 2021.

11. Goodwill

Goodwill is stated at cost less any provision for impairment and is compared against the associated recoverable amount at least annually. The value of each cash generating unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions and key risks. These forecasts include an estimate of new business wins and an assumption that the final year forecast continues on into perpetuity at a CGU specific growth rate.

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

There have been no indicators of impairment since the full impairment test undertaken for the 2020 year-end. Consistent with the approach adopted at 30 June 2020, specific consideration has been given to whether there are any indicators of impairment across the Group's cash generating units (CGUs) relating to the ongoing impact of the Covid-19 pandemic. The pandemic itself is not an impairment indicator, however economic shocks resulting from the pandemic could be considered to be indicators which otherwise would not have existed. In assessing for potential indicators of impairment, the Group has gathered information at both macro and micro levels, globally and on the basis of the individual geographies in which the Group operates.

The Group has not been impacted in a manner which would indicate the existence of impairment indicators and will prepare a full goodwill assessment at the end of the year. When considering the potential existence of both internal and external impairment indicators, the Group assessed certain key measures and other sources of available information which included, but were not limited to, in particular the absence of:

- Any obsolescence indicators within the Group's physical assets;
- Any plans to dispose of CGUs;
- Indicators of worse than expected performance to an extent that would have caused an impairment had they been known at the time of the latest full impairment review;
- Net operating cash outflows or operating losses;
- A significant decline in market value; or
- Carrying amounts of net assets in excess of market capitalisation.

The potential indicator with the largest possible impact was the increase in market interest rates globally which impact on the Group's discount rates and reduce the present value of future cash flows. Following rises throughout most of 2020, the discount rates observed by the Group have decreased across all CGU operating locations since 31 December 2020.

Following all of the above analysis undertaken, no indicators of impairment have been identified.

12. Analysis of Net Debt

30 June 2021

	As at 1 January 2021 £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non-cash movements** £m	As at 30 June 2021 £m
Loans payable	(388.8)	(14.5)	(14.3)	5.8	-	(411.8)
Lease obligations	(402.6)	60.0	(2.4)	1.8	(82.5)	(425.7)
Liabilities arising from financing activities	(791.4)	45.5	(16.7)	7.6	(82.5)	(837.5)
Cash and cash equivalents	335.7	(144.2)	7.0	(5.2)	-	193.3
Derivatives relating to Net Debt	(4.7)	-	-	(2.0)	-	(6.7)
Net Debt	(460.4)	(98.7)	(9.7)	0.4	(82.5)	(650.9)

* Acquisitions represent the net cash/(debt) acquired on acquisition
** Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

30 June 2020

	As at 1 January 2020 £m	Cash flow £m	Exchange differences £m	Non-cash movements* £m	As at 30 June 2020 £m
Loans payable	(305.0)	(68.5)	(16.3)	(0.6)	(390.4)
Lease obligations	(369.9)	52.8	(6.9)	(35.9)	(359.9)
Liabilities arising from financing activities	(674.9)	(15.7)	(23.2)	(36.5)	(750.3)
Cash and cash equivalents	89.5	152.9	2.5	-	244.9
Derivatives relating to Net Debt	1.0	-	1.6	-	2.6
Net Debt	(584.4)	137.2	(19.1)	(36.5)	(502.8)

* Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

31 December 2020

	As at 1 January 2020 £m	Cash flow £m	Exchange differences £m	Non-cash movements* £m	As at 31 December 2020 £m
Loans payable	(305.0)	(99.4)	15.6	-	(388.8)
Lease obligations	(369.9)	100.8	0.9	(134.4)	(402.6)
Liabilities arising from financing activities	(674.9)	1.4	16.5	(134.4)	(791.4)
Cash and cash equivalents	89.5	244.4	1.8	-	335.7
Derivatives relating to Net Debt	1.0	-	(5.7)	-	(4.7)
Net Debt	(584.4)	245.8	12.6	(134.4)	(460.4)

* Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

13. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
As at 1 January 2021	83.2	15.7	14.5	64.6	178.0
Arising on acquisition	1.7	-	-	-	1.7
Charged to income statement – other	7.6	1.2	1.2	4.9	14.9
Released to income statement – exceptional	(0.1)	-	-	-	(0.1)
Released to income statement – other	(3.6)	(1.2)	(0.4)	(5.2)	(10.4)
Transfer from accruals	1.5	-	-	1.2	2.7
Utilised during the period	(4.5)	(0.3)	(0.7)	(0.9)	(6.4)
Exchange differences	(2.9)	(0.1)	-	(0.1)	(3.1)
As at 30 June 2021	82.9	15.3	14.6	64.5	177.3
Analysed as:					
Current	28.8	4.5	14.6	21.6	69.5
Non-current	54.1	10.8	-	42.9	107.8
	82.9	15.3	14.6	64.5	177.3

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

The majority of property provisions relate to leased properties and are associated with the requirement to return properties to either their original condition, or to enact specific improvement activities in advance of exiting leases. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in April 2039.

The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. Individual provisions are only discounted where the impact is assessed to be significant. Currently, no contract provisions are discounted. When used, discount rates are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period, in respect of past events. These costs are based on past experience of similar items and other known factors and represent Management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next 12 months or over a longer period with the majority expected to be settled by 30 June 2023.

14. Contingent liabilities

The Company has guaranteed overdrafts, leases and bonding facilities of its joint ventures and associates up to a maximum value of £3.8m (31 December 2020: £3.8m). The actual commitment outstanding at 30 June 2021 was £3.8m (31 December 2020: £3.8m).

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 2021 was £244.9m (31 December 2020: £247.9m).

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

The Group is in discussion with HMRC regarding the application of certain employer duties from April 2017. The Group has received strong legal opinion that a court is likely to find in the Group's favour and therefore no provision has been recorded on the balance sheet in respect of the matter. Due to the range of subjective outcomes it is not possible to disclose any meaningful quantitative amount associated with any liability where a cost to the Group of £nil continues to be the most likely outcome.

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

15. Financial risk management

The vast majority of financial instruments are held at amortised cost. 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: Inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 30 June 2021 and the comparison fair values for loans and leases, are all considered to fall into Level 2. There are no Level 3 items. As at 30 June 2021, the Group held Level 2 derivative instruments in designated hedge relationships or designated as fair value through the P&L made up of financial assets of £1.6m (31 December 2020: £4.5m) and financial liabilities of £8.5m (31 December 2020: £9.4m).

There have been no transfers between levels in the six months to 30 June 2021.

16. Defined benefit schemes

Characteristics

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of SPLAS was undertaken as at 5 April 2018 and completed in June 2019. The exercise to value the scheme as at 5 April 2021 is underway with completion anticipated during the first half of 2022. The actuarially assessed deficit for funding purposes at 5 April 2018 was £26.0m. A summary valuation was also undertaken as at 30 June 2021 when the estimated actuarial deficit of SPLAS was £20.0m (2020: £36.0m) on the funding basis, whereas the accounting valuation at 30 June 2021 resulted in an asset of £157.2m. The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions.

A revised schedule of contributions for SPLAS was agreed during 2019, with 30.8% of pensionable salaries due to be paid from 1 November 2019, changing to 30.3% from 1 November 2020. The schedule of contributions also determined that additional shortfall contributions were required – a total of £13.2m of these have already been made with further amounts of £1.7m per annum due for the years 2022 to 2028.

Values recognised in total comprehensive income

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

Recognised in the income statement	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Current service cost - employer	2.6	2.4	4.7
Administrative expenses and taxes	0.5	0.6	1.6
Recognised in arriving at operating profit before exceptional items	3.1	3.0	6.3
Interest income on scheme assets - employer	(11.0)	(14.6)	(29.3)
Interest on franchise adjustment	(0.1)	(0.1)	(0.1)
Interest cost on scheme liabilities - employer	10.5	14.1	28.2
Finance income	(0.6)	(0.6)	(1.2)

Included within the SOCI	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Actual return on scheme assets	(24.2)	152.9	216.8
Less: interest income on scheme assets	(11.0)	(14.7)	(29.4)
	(35.2)	138.2	187.4
Effect of changes in demographic assumptions	-	-	0.4
Effect of changes in financial assumptions	62.7	(114.0)	(173.6)
Effect of experience adjustments	19.6	5.2	4.0
Remeasurements	47.1	29.4	18.2
Change in franchise adjustment	(1.1)	1.9	2.5
Change in members' share	(1.0)	1.1	1.4
Actuarial (loss)/gain on reimbursable rights	(2.1)	3.0	3.9
Total pension gain recognised in the SOCI	45.0	32.4	22.1

Balance sheet values

The total assets and liabilities of all schemes are:

Scheme assets at fair value	As at 30 June 2021 £m	As at 30 June 2020 £m	As at 31 December 2020 £m
Equities	57.7	52.1	55.6
Bonds except LDIs	360.9	349.0	367.3
Pooled investment funds	77.4	61.8	62.8
LDIs	363.1	425.8	408.3
Property	1.7	1.8	1.6
Cash and other	8.7	8.8	14.7
Annuity policies	680.9	663.6	690.2
Fair value of scheme assets	1,550.4	1,562.9	1,600.5
Present value of scheme liabilities	(1,435.6)	(1,485.3)	(1,534.8)
Net amount recognised	114.8	77.6	65.7
Franchise adjustment*	7.4	7.7	8.4
Members' share of deficit	4.9	5.1	5.6
Net retirement benefit asset	127.1	90.4	79.7
Net pension liability	(30.1)	(34.7)	(34.9)
Net pension asset	157.2	125.1	114.6
Net retirement benefit asset	127.1	90.4	79.7
Deferred tax liabilities	(31.6)	(17.0)	(15.2)
Net retirement benefit asset (after tax)	95.5	73.4	64.5

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

The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets, assuming the full settlement of plan liabilities in the event of a plan wind-up. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Group either in the form of future refunds or, for plans still open to benefit accrual, in the form of possible reductions in future contributions.

Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which represents 90% of total liabilities and 94% of total assets of the defined benefit pension schemes in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.3% at 30 June 2021, reflecting a decrease in potential market distortions caused by RPI reform proposals. For CPI, the Group retained the assumed difference between the RPI and CPI by of an average of 0.6% per annum.

Main assumptions	30 June 2021 %	30 June 2020 %	31 December 2020 %
Rate of salary increases	2.80	2.40	2.50
Rate of increase in pensions in payment	2.70 (CPI) and 3.00 (RPI)	2.35 (CPI) and 2.70 (RPI)	2.40 (CPI) and 2.75 (RPI)
Rate of increase in deferred pensions	2.30 (CPI) and 3.20 (RPI)	1.90 (CPI) and 2.80 (RPI)	2.20 (CPI) and 2.80 (RPI)
Inflation assumption – pre-retirement	2.30 (CPI) and 3.20 (RPI)	1.90 (CPI) and 2.80 (RPI)	2.00 (CPI) and 2.90 (RPI)
Inflation assumption – post-retirement	2.80 (CPI) and 3.20 (RPI)	2.40 (CPI) and 2.80 (RPI)	2.40 (CPI) and 2.75 (RPI)
Discount rate	1.90	1.60	1.40

Post retirement mortality	30 June 2021 years	30 June 2020 years	31 December 2020 years
Current pensioners at 65 – male	21.7	21.6	21.6
Current pensioners at 65 – female	24.3	24.2	24.2
Future pensioners at 65 – male	23.9	23.8	23.9
Future pensioners at 65 – female	26.4	26.2	26.3

Sensitivity analysis

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 30 June 2021 where the Group's defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. The Group's defined benefit obligation as at 30 June 2021 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the Group's defined benefit obligation.

Increase/(decrease) in defined benefit obligation	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Discount rate - 0.5% increase	(114.3)	(119.9)	(125.3)
Discount rate - 0.5% decrease	129.5	136.1	142.4
Inflation - 0.5% increase	94.9	103.3	103.7
Inflation - 0.5% decrease	(87.9)	(91.6)	(96.6)
Rate of salary increase - 0.5% increase	3.6	3.6	3.7
Rate of salary increase - 0.5% decrease	(3.4)	(3.4)	(3.5)
Mortality - one-year age rating	55.2	55.6	59.8

17. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Group also enters into transactions with the Directors, however disclosure of such transactions is only made annually. Transactions between the Group and its joint venture undertakings and associates are disclosed below.

Transactions

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

	Transactions for the six months ended 30 June 2021 £m	Current Outstanding at 30 June 2021 £m	Non current Outstanding at 30 June 2021 £m
Sale of goods and services			
Associates	0.8	-	-
Other			
Dividends received – associates	9.6	-	-
Receivable from consortium for tax - joint ventures	-	2.0	0.1
Total	10.4	2.0	0.1

Joint venture receivable amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. No guarantees have been given or received.

	Transactions for the six months ended 30 June 2020 £m	Current Outstanding at 30 June 2020 £m	Non current Outstanding at 30 June 2020 £m
Sale of goods and services			
Joint ventures	0.1	-	-
Associates	1.2	0.1	-
Other			
Dividends received - joint ventures	2.3	-	-
Profit share received – joint ventures	2.9	-	-
Dividends received – associates	9.1	-	-
Receivable from consortium for tax - joint ventures	-	-	2.2
Total	15.6	0.1	2.2

	Transactions for the year ended 31 December 2020 £m	Current Outstanding at 31 December 2020 £m	Non current Outstanding at 31 December 2020 £m
Sale of goods and services			
Joint ventures	0.1	-	-
Associates	2.3	0.2	-
Other			
Dividends received – joint ventures	4.3	-	-
Dividends received – associates	15.5	-	-
Receivable from consortium for tax – joint ventures	(0.1)	2.0	0.1
Total	22.1	2.2	0.1

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWE Management Limited (AWEML) on 30 June 2021. The exit from the contract was in advance of the final milestones anticipated in the contract, and as a result, the operating performance includes judgements over the completion status of certain items which may subsequently be adjusted. The transaction included the sale of AWE plc from AWEML, however the Group continues to own 24.5% of AWEML which holds receivables and payables with AWE plc and these are expected to be settled as the negotiations regarding the termination and disposal conclude.

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together Viapath). As part of the transaction, the Group received an amount of £11.0m for its share in the net assets of the joint venture. At the same time as disposing of the Group's interest in Viapath, the Group recovered a loan into the joint venture of £1.2m and £2.9m of profit share which was previously considered to be irrecoverable.

18. Notes to the Condensed Consolidated Cash Flow Statement

Six months ended 30 June	2021 Before exceptional items £m	2021 Exceptional items £m	2021 Total £m	2020 Before exceptional items £m	2020 Exceptional items £m	2020 Total £m
Operating profit for the period	119.0	(2.7)	116.3	75.5	13.6	89.1
Adjustments for:						
Share of profits in joint ventures and associates	(6.4)	-	(6.4)	(7.0)	-	(7.0)
Share based payment expense	8.1	-	8.1	5.9	-	5.9
Impairment of property, plant and equipment - owned	-	-	-	-	-	-
Impairment of property, plant and equipment - leased	-	-	-	0.2	-	0.2
Depreciation of property, plant and equipment - owned	9.1	-	9.1	7.8	-	7.8
Depreciation of property, plant and equipment - leased	58.8	-	58.8	46.2	-	46.2
Amortisation of intangible assets – owned	12.9	-	12.9	12.5	-	12.5
Exceptional profit on disposal of subsidiaries and operations	-	-	-	-	(11.0)	(11.0)
Reversal of impairment on loans to JVs	-	-	-	-	(1.2)	(1.2)
(Profit)/loss on early termination of leases	(0.7)	-	(0.7)	0.1	-	0.1
Loss on disposal of property, plant and equipment	-	-	-	-	-	-
Loss on disposal of intangible assets	1.5	-	1.5	0.3	-	0.3
Exceptional transaction costs	-	-	-	-	-	-
Increase/(decrease) in provisions	1.2	(0.6)	0.6	5.6	(3.4)	2.2
Other non cash movements	-	-	-	0.1	-	0.1
Total non cash items	84.5	(0.6)	83.9	71.7	(15.6)	56.1
Operating cash inflow/(outflow) before movements in working capital	203.5	(3.3)	200.2	147.2	(2.0)	145.2
Decrease /(increase) in inventories	0.7	-	0.7	(1.2)	-	(1.2)
Decrease in receivables	34.1	-	34.1	7.5	-	7.5
Increase/(decrease) in payables	8.8	(0.4)	8.4	12.9	(2.2)	10.7
Movements in working capital	43.6	(0.4)	43.2	19.2	(2.2)	17.0
Cash generated by operations	247.1	(3.7)	243.4	166.4	(4.2)	162.2
Tax paid	(24.5)	-	(24.5)	(12.0)	-	(12.0)
Net cash inflow/(outflow) from operating activities	222.6	(3.7)	218.9	154.4	(4.2)	150.2

Year ended 31 December	2020 Before exceptional items £m	2020 Exceptional items £m	2020 Total £m
Operating profit for the year	166.7	12.5	179.2
Adjustments for:			
Share of profits in joint ventures and associates	(12.7)	-	(12.7)
Exceptional distribution from joint venture	-	(1.9)	(1.9)
Share based payment expense	11.2	-	11.2
Impairment of property, plant and equipment - owned	0.3	-	0.3
Impairment of property, plant and equipment - leased	0.4	-	0.4
Depreciation of property, plant and equipment - owned	15.9	-	15.9
Depreciation of property, plant and equipment - leased	93.5	-	93.5
Amortisation of intangible assets - owned	23.0	-	23.0
Exceptional profit on disposal of subsidiaries and operations	-	(11.0)	(11.0)
Reversal of impairment on loans to JVs	-	(1.2)	(1.2)
Profit on early termination of leases	(2.9)	-	(2.9)
Profit on disposal of property, plant and equipment	(0.4)	-	(0.4)
Loss on disposal of intangible assets	0.6	-	0.6
Increase/(decrease) in provisions	16.2	(4.0)	12.2
Total non cash items	145.1	(18.1)	127.0
Operating cash inflow/(outflow) before movements in working capital	311.8	(5.6)	306.2
Increase in inventories	(2.9)	-	(2.9)
Increase in receivables	(0.1)	-	(0.1)
(Decrease)/increase in payables	(2.3)	3.6	1.3
Movements in working capital	(5.3)	3.6	(1.7)
Cash generated by operations	306.5	(2.0)	304.5
Tax paid	(35.9)	-	(35.9)
Non cash R&D expenditure	(0.1)	-	(0.1)
Net cash inflow/(outflow) from operating activities	270.5	(2.0)	268.5