2023 half year results

Serco Group plc
3 August 2023

Partnering with governments to deliver positive impact drives growth in first half

Six months ended 30 June	2023	2022	Change at reported currency	Change at constant currency
Revenue[1]	£2,472m	£2,178m	13%	11%
Underlying operating profit[2]	£148m	£130m	14%	9%
Reported operating profit[2]	£188m	£123m	52%	
Underlying earnings per share (EPS), diluted[3]	9.40p	7.71p	22%	
Reported EPS (i.e. after exceptional items), diluted	12.96p	7.41p	75%	
Dividend per share (recommended)	1.14p	0.94p	21%	
Free cash flow[4]	£98m	£96m	3%	
Adjusted net debt[5]	£216m	£164m	32%	
Reported net debt[6]	£654m	£596m	10%	

Highlights

- **Revenue:** grew by 13% to £2.5bn, organic revenue growth of 6%
- **Underlying operating profit:** increased by 14% to £148m, a margin of 6.0%
- **Underlying earnings per share**: increased by 22% to 9.40p
- **Free cash flow**: strong at £98m, underlying operating profit cash conversion of 92%
- **Adjusted net debt**: better than previous guidance at £216m; covenant leverage of 0.9x EBITDA
- **Order intake:** at £2.1bn. New business pipeline of £7.9bn
- **Order book:** remains strong at £14.1bn
- **Dividend per share:** interim dividend per share of 1.14p, +21% year on year
- **£90m share buyback completed:** continued to return capital to shareholders as a result of strong trading and cash conversion consistent with our capital allocation priorities
- **Revisions to full year guidance:** stronger outcome on free cash flow and net debt now expected

Mark Irwin, Serco Group Chief Executive, said:

“We are making good progress to deliver profitable growth over the medium term and towards achieving our strategic ambition to be the partner of choice to governments globally. Our results over the last six months are a good measure of that progress with double-digit growth in revenue and profit, backed by excellent cash generation.

Our first half outcomes demonstrate the commitment and capabilities of my Serco colleagues, the value of our geographic and sector diversity as well as our agility to respond to demand across our key markets, all in support of our purpose to impact a better future.”

Guidance for 2023

Today we upgrade our guidance for 2023 versus our pre-close trading statement on 29 June, as we now expect a stronger outcome on free cash flow and net debt, as well as a small reduction in the underlying effective tax rate.

	2022 Actual	2023 Prior guidance 29 June 2023	2023 New guidance
Revenue	£4.5bn	At least £4.8bn	At least £4.8bn
Organic sales growth	(4%)	~4%	~4%
Underlying operating profit	£237m	~£245m	~£245m
Net finance costs	£20m	£25m	£25m
Underlying effective tax rate	22%	25%	23%
Free cash flow	£159m	~£130m	~£150m
Adjusted Net Debt	£204m	~£190m	~£170m

NB: The guidance uses an average GBP:USD exchange rate of 1.26 in 2023, GBP:AUD of 1.87 and GBP:EUR of 1.15. We expect a weighted average number of shares in 2023 of 1,111m for basic EPS and 1,130m for diluted EPS.

For further information please contact Serco:
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Presentation:

A presentation for institutional investors and analysts will be held at H/Advisors Maitland, 3 Pancras Square, London, N1C 4AG today starting at 10.00. The presentation will be webcast live at https://edge.media-server.com/mmc/p/sossz53w and subsequently available on demand. A dial-in facility is available on https://register.vevent.com/register/BI01becbf3511543ec85328a7d04f49447.

Notes to financial results summary table and highlights:

(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 2023 into sterling at the average exchange rates for the six months ended 30 June 2022.

(2) Underlying operating profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition and exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. A reconciliation of underlying operating profit to reported operating profit is as follows:

Six months ended 30 June £m	**2023**	**2022**
Underlying operating profit	**147.9**	**129.5**
Amortisation and impairment of intangibles arising on acquisition	(11.4)	(9.6)
Exceptional operating items	51.2	(0.9)
Other non-underlying items	-	4.2
Reported operating profit	**187.7**	**123.2**

(3) Underlying EPS is derived from the underlying operating profit measure after deducting pre-exceptional net finance costs and related tax effects.

(4) Free cash flow is the net cash flow from operating activities adjusted to remove the impact of non-underlying cash flows from operating activities, adding dividends we receive from joint ventures and associates and deducting net interest, net capital expenditure on tangible and intangible asset purchases and the purchase of own shares to satisfy share awards.

(5) Adjusted net debt is used by Serco as an additional non-IFRS Alternative Performance Measure (APM). 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 including those recognised under *IFRS 16 Leases*.

(6) Reported net debt includes all lease liabilities, including those recognised under *IFRS 16 Leases*. A reconciliation of adjusted net debt to reported net debt is as follows:

As at 30 June £m	**2023**	**2022**
Adjusted net debt	**215.7**	**163.6**
Include: all lease liabilities	438.4	432.5
Reported net debt	**654.1**	**596.1**

(7) Refers to non-UK Underlying Operating Profit as a proportion of Group Underlying Operating Profit before corporate costs. Our Underlying Operating Profit before corporate costs for six months ended 30 June 2023 was £170.2m.

(8) The currency rates used for our 2023 outlook, along with their estimated impact on revenue and underlying operating profit are:

Six months ended 30 June	**2023 outlook**	**2022 actual**	**2021 actual**
Average FX rates:			
US Dollar	1.26	1.24	1.38
Australian Dollar	1.87	1.78	1.83
Euro	1.15	1.18	1.16
Year-on-year impact:			
Revenue	~£(56)m	£175m	(£73m)
Underlying operating profit	~£(2)m	£15m	(£7m)

Reconciliations and further detail of financial performance are included in the Finance Review on pages 13-22. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The Condensed Consolidated Financial Statements and accompanying notes are on pages 26-42.

Chief Executive's update

Our purpose to impact a better future is at the heart of what we do. Every day our 50,000+ colleagues around the world drive measurable outcomes for our customers, enable the delivery of great public services and partner with governments to respond to the considerable challenges they face. Alignment to this purpose provides us with the opportunity to create value for all our stakeholders centred around deliberate, sustainable, and profitable growth.

As demonstrated by our results in the first half of 2023, we grew revenue by 13% to £2.5bn, including 6% organic growth, increased underlying operating profit by 14% to £148m, delivered free cash flow of £98m, representing cash conversion of 92%, and completed the £90m share buyback announced earlier in the year.

Growth in our North American business has been driven by robust demand for defence services and case management. The high order intake at the end of last year has continued into 2023 and sets the division up for another year where book-to-bill is expected to exceed 100%. In the UK and Europe, our international immigration services capability has allowed us to respond to high demand from national and local governments to provide accommodation and support services, which we deliver though a framework of dignity, care, and service quality. Our capability in the Space sector has earned us the opportunity to lead the implementation of a key element of the European Commission's flagship initiative Destination Earth (DestinE) Core Service Platform (DESP) as well as supporting its IRIDE space program. We have also seen recent growth momentum in our Middle East division with order intake of more than £100m in the period and further opportunities at the preferred bidder stage. Performance across our portfolio has more than offset results in our Asia-Pacific division, which has seen lower revenue and profit due to reductions in variable volume work in parts of the immigration network and broader operational challenges caused in part by ongoing labour shortages. Since the period end, we were pleased to be notified that our Immigration Detention Facilities and Detainee Services contract with the Australian Department of Home Affairs has been extended until December 2024.

As we look forward, growth in the second half of the year is expected to be lower than the first half, primarily because of our CMS contract, which always has more workflow in the first half and has moved into a new five-year contract agreement from July. In addition, we will incur further mobilisation investment for HMP Fosse Way, the new build prison in the UK, exit from contracts as disclosed in our 2022 results, as well as the potential variability on volumes of immigration work in the UK, Europe and Australia.

We have also made good progress in the first six months with our three strategic enablers - Customers, Colleagues and Capabilities - laid out at our 2022 full year results at the end of February.

For Customers, we are working on building stronger and broader relationships, allowing us to be involved earlier and at all stages of their response from discovery through to design and delivery. We are advancing opportunities, such as our new advisory-to-operate business in the Kingdom of Saudi Arabia, which is focussed on supporting the country in its development of sustainable future cities. With more than 100 advisory colleagues already active on the giga projects during the planning and construction phases, we are working to build the trust of our customers to contribute to delivery of the Kingdom's Vision 2030.

For Colleagues, our commitment to their safety and wellbeing is unwavering and we have seen measurable improvement in safety outcomes in the first half. We continue to explore new and better ways through people, process, and technology to assure the physical and mental health wellbeing of our colleagues. We are constantly evolving our employee value proposition which is purpose-led, values-driven and underpinned by a genuine commitment to diversity, equity and inclusion.

For Capabilities, we have begun to optimise existing IT platforms as well as selectively piloting artificial intelligence (AI) systems to enhance productivity. As we explore the positive impacts AI can have on our operations, we are mindful that AI is also enabling an expanded cyber threat landscape that requires adaptive risk and response management, and continuous vigilance throughout the business and into our supply chain.

With confidence in our strategic priorities, execution remains key to achieving our growth targets. As part of this we are increasing our focus on operational excellence, becoming relentless in our attention to exceptional contract delivery and driving efficient operations to improve productivity to enhance margins, while maintaining our track record of cash generation.

We are pleased with the progress we have made over the last six months and confident in our outlook for growth and shareholder value creation through 2023 and beyond.

Mark Irwin
Group Chief Executive
Serco – Impact A Better Future

Group review

Summary of financial performance

Revenue, underlying operating profit and underlying earnings per share
Revenue increased by 13%, or £294m, to £2,472m (2022: £2,178m). Organic revenue growth was 6% (£129m), acquisitions added 5% (£111m) and currency contributed 2% (£53m). We delivered this organic growth despite a £78m year-on-year reduction from Covid-related work in the UK, which fully concluded in the first half of 2022. This 4% drag was more than offset by growth in immigration services, defence and case management. ORS, the business we acquired in September 2022 to enter the European immigration services market, has traded ahead of expectations with robust underlying demand due to global migration patterns. It is also worth noting we exclude the revenue from our joint ventures, however, were this to be included it would add 6% to the Group's organic growth as our VIVO Defence Services work for the UK's Defence Infrastructure Organisation continues to ramp up with higher than expected volumes.

Underlying operating profit increased by 14%, or £18m, to £148m (2022: £130m). On a constant currency basis, excluding the 5%, or £6m, benefit from favourable currency movements, underlying operating profit increased by 9%. Strong demand for immigration services and the ramp up of contracts signed in prior years more than offset a 12% impact from Covid-related work as well as lower volumes in Asia-Pacific. Improved margins in the UK & Europe division broadly offset lower margins in the other regions, underlining the benefit of our geographic and sectoral diversity, and the overall resilience this brings to our business.

Six months ended 30 June 2023 £m	Americas	UK&E	AsPac	Middle East	Corporate costs	**Total**
Revenue	**701.0**	**1,218.5**	**449.5**	**103.1**	**-**	**2,472.1**
Change	*+13%*	*+23%*	*(5%)*	*+11%*		*+13.5%*
Change at constant currency	*+6%*	*+22%*	*(4%)*	*+5%*		*+11.0%*
Organic change at constant currency	*+6%*	*+11%*	*(4%)*	*+5%*		*+5.9%*
Underlying operating profit/(loss)	**79.4**	**69.9**	**13.9**	**7.0**	**(22.3)**	**147.9**
Margin	*11.3%*	*5.7%*	*3.1%*	*6.8%*	*(0.9%)*	*6.0%*
Change	*+5%*	*+86%*	*(56%)*	*(20%)*	*(7%)*	*+14.2%*
Amortisation of intangibles arising on acquisition	(8.1)	(1.5)	(1.8)	-	-	(11.4)
Exceptional operating items	-	9.9	-	-	41.3	51.2
Reported operating profit	**71.3**	**78.3**	**12.1**	**7.0**	**19.0**	**187.7**

Exceptional operating items of £51.2m resulted from the release of £41.3m of provisions held for indemnities provided on businesses disposed of in 2015, due to the claims period ending, and £9.9m compensation we received on the early termination of a contract.

Diluted underlying earnings per share increased by 22% to 9.40p (2022: 7.71p). The percentage improvement was higher than the increase in underlying operating profit due to a 7% reduction in the weighted average number of shares because of our share buyback.

The revenue and underlying operating profit performances are discussed in more detail in the Divisional Reviews.

Cash flow and net debt
Free cash flow at £98m was 3% better than the prior year (2022: £96m), which itself had been a particularly strong outcome, and represented 92% underlying operating profit cash conversion. The timing of dividends received from joint ventures meant the cash inflow was lower than profit in the period. Average working capital days remained at appropriate levels for a government contractor with debtor days of 21 (2022: 21 days) and creditor days of 22 (2022: 21 days). Of all UK supplier invoices, 93% were paid in under 30 days (2022: 85%) and 97% were paid in under 60 days (2022: 94%). No working capital financing facilities were utilised in this or the prior year.

Adjusted net debt was £216m at the end of June. This was an increase of only £12m since the year end (December 2022: £204m) despite £21m of dividend payments and £89m being spent on our share buyback programme.

The period end adjusted net debt compares to a daily average of £261m (2022: £201m) and a peak of £357m (2022: £258m). The variance resulted from the timing of working capital flows, dividends, share buyback activity, acquisition spend and currency fluctuations. Receipts towards the end of the period supported the lower closing balance and our revised full year guidance.

Our measure of adjusted net debt excludes lease liabilities, which aligns closely with the covenants on our financing facilities. Lease liabilities totalled £438m at the end of June (2022: £433m), the majority being leases on housing for asylum seekers under the AASC contract. The terms of these leases do not extend beyond the expected life of the contract we have with the customer.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.9x EBITDA (2022: 0.5x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

More detailed analysis of earnings, cash flow, financing and related matters is included in the Finance Review.

Capital allocation and returns to shareholders

We aim to have a strong balance sheet with our target financial leverage of 1x to 2x net debt to EBITDA, and, consistent with this, the Board's capital allocation priorities are to:

- Invest in the business to support organic growth.
- Increase ordinary dividends to reward shareholders with a growing and sustainable income stream.
- Selectively invest in strategic acquisitions that add capability, scale or access to new markets, enhance the Group's future potential organic growth and have attractive returns.
- Return any surplus cash to shareholders through share buybacks or other means.

We continued to deliver our capital allocation policy in 2023:

- **Invest to support organic growth**: significant investment has been put into business development, which has supported our healthy pipeline of new opportunities. In the Middle East, we have invested in developing an advisory business and this has generated good new business wins in the first half. The half has also seen us invest in new pilot programmes to partner with both start-up and established technology businesses, as well as academic and research institutions to create a broader capability ecosystem from which to deliver future growth.
- **Increase ordinary dividends**: we will be paying an interim dividend of 1.14p per share, 21% higher than the prior year, as we continue on our path to reduce dividend cover progressively towards 3x over the coming years.
- **Invest in acquisitions**: ORS, the business we acquired in September 2022 to enter the European immigration services market, has traded ahead of expectations so far in 2023. We continue to assess other opportunities that are aligned to our strategy and provide opportunities for future organic growth.
- **Return surplus cash to shareholders**: we completed a £90m share buyback in the first half.

Contract awards, order book, rebids and pipeline

Contract awards

Order intake in the half was £2.1bn, a book-to-bill rate of 83%. The low book-to-bill reflected the first six months of 2023 being relatively quiet in terms of contract award decisions, with a significant number of bids currently submitted and awaiting decision. Having dipped in the second half of 2022, our win rates on both new work and rebids and extensions moved back up to around the levels we have delivered on average over recent years.

There were approaching 30 contract awards worth more than £10m each. As in 2022, North America had the strongest book-to-bill at 181%, with robust new order intake in Defence and Citizen Services as well as the strategically important rebid of our Centers for Medicare & Medicaid Services (CMS) contract. Around £1.2bn, or 60%, of the order intake came from the Americas, £0.7bn, or approximately a third, from the UK & Europe, £0.1bn, or 6%, from the Middle East and the remainder from Asia Pacific.

Approximately 35% of the order intake value was new business and 65% was rebids and extensions of existing work. The win rate by value for new work was around 30% while the win rate by value for retaining existing work was approximately 90% in the first half.

New wins included a £140m, five-year contract with the Government of Ontario to assist job seekers develop their skills and match them to employment opportunities, a £78m, nine-year contract with the UK Home Office to run the Derwentside Immigration Removal Centre and a £50m, four-year contract to provide facilities management at a new hospital in the NEOM economic zone in Saudi Arabia. In the UK, increases in the numbers of service-users led to us securing additional immigration work that is expected to be worth an estimated £280m over approximately a year. The successful rebid of our CMS contract will see us continue to support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges. The 4-year and 7-month contract, which started on 1 July 2023, has a one-year base period and four option periods. The estimated total value to Serco, subject to workload volumes, is approximately $690m (£570m) if all option periods are exercised.

Order book
The order book remains high at £14.1bn at the end of June (30 June 2022: £14.6bn, 31 December 2022: £14.8bn). The reduction since the year-end reflected currency fluctuations and the first half being relatively quiet for contract award decisions. 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 £2.4bn (2022: £1.5bn) higher if option periods in our US business, which typically tend to be exercised, were included. If joint venture work was included this would add a further £1.8bn (2022: £2.2bn) to our order book.

Rebids
In our portfolio of existing work, we have around 75 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2025, with an aggregate annual revenue of £1.5bn. Contracts that will either need to be rebid or extended in 2023 have an annual contract value of around £0.2bn. The annual value of rebids is approximately £0.9bn in 2024, including our immigration services work in Australia, which following the recent extension is scheduled to end in December 2024. It reduces to around £0.4bn in 2025.

New business 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 £7.9bn at the end of June, slightly lower than the £8.4bn level at the end of 2022. The pipeline now consists of around 40 bids with an ACV averaging more than £30m and an average contract length of around seven years. The pipeline of opportunities for new business with an estimated ACV of less than £10m now totals £2.2bn, down from £2.5bn at the end of December.

Guidance for 2023

Our guidance for 2023 is updated from our pre-close trading statement on 29 June, as we now expect a stronger outcome on free cash flow guidance and net debt. We expect the known headwinds from Covid and some other contracts ending to be more than compensated for by growth in our immigration and defence businesses, increased contribution from newer contracts ramping up and improvement across the portfolio.

Revenue: We expect revenue of at least £4.8bn in 2023, 6% higher than the £4.5bn reported in 2022. Our organic revenue growth is expected to be in the region of 4%, acquisitions should contribute 3% and currency is expected to be a 1% drag. Revenue growth is expected to be driven by the defence and immigration sectors. Revenues in the second half are expected to be slightly lower than the first because of our CMS contract, which always has more workflow in the first half and moved into its new five-year contract agreement on 1 July, our exit from contracts as disclosed in our 2022 results, and the strengthening of sterling.

Underlying operating profit: Underlying operating profit is expected to be around £245m, slightly ahead of 2022. Organic growth on existing work plus the ramp up of newer contracts is more than offsetting the drag from Covid-related work and other contract attrition. The inflation protection in many of our contracts means we continue to expect no material impact from inflation on underlying operating profit. Profit is expected to be lower in the second half than the first because of the usual workflow cadence of our CMS contract and the commencement of the new agreement, our previously disclosed contract exits, the favourable contract settlement in the first half, and the strengthening of sterling.

Net finance costs and tax: Net finance costs are expected to be around £25m. This is higher than 2022 due to higher lease-related interest and higher interest rates on the portion of our debt that is floating. The underlying effective tax rate is expected to be around 23%, although this is sensitive to the geographic mix of our profit and any changes to current corporate tax rates.

Financial position: Free cash flow is expected to be around £150m in the year. This is lower than 2022, reflecting the timing of new contracts, but is consistent with our ongoing expectation of converting at least 80% of profit into cash. We expect adjusted net debt to end the year at around £170m.

Divisional Reviews

Serco's operations are reported as four regional divisions: the Americas; UK & Europe (UK&E); 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 operating profit.

Six months ended 30 June 2023 £m	Americas	UK&E	AsPac	Middle East	Corporate costs	**Total**
Revenue	**701.0**	**1,218.5**	**449.5**	**103.1**	**-**	**2,472.1**
Change	*+13%*	*+23%*	*(5%)*	*+11%*		*+13.5%*
Change at constant currency	*+6%*	*+22%*	*(4%)*	*+5%*		*+11.0%*
Organic change at constant currency	*+6%*	*+11%*	*(4%)*	*+5%*		*+5.9%*
Underlying operating profit/(loss)	**79.4**	**69.9**	**13.9**	**7.0**	**(22.3)**	**147.9**
Margin	*11.3%*	*5.7%*	*3.1%*	*6.8%*	*(0.9%)*	*6.0%*
Change	*+5%*	*+86%*	*(56%)*	*(20%)*	*(7%)*	*+14.2%*
Amortisation of intangibles arising on acquisition	(8.1)	(1.5)	(1.8)	-	-	(11.4)
Exceptional operating items	-	9.9	-	-	41.3	51.2
Other non-underlying items	-	-	-	-	-	-
Reported operating profit	**71.3**	**78.3**	**12.1**	**7.0**	**19.0**	**187.7**

Six months ended 30 June 2022 £m	Americas	UK&E	AsPac	Middle East	Corporate costs	**Total**
Revenue	**622.3**	**991.5**	**472.0**	**92.6**	**-**	**2,178.4**
Underlying operating profit	**75.7**	**37.5**	**31.6**	**8.7**	**(24.0)**	**129.5**
Margin	*12.2%*	*3.8%*	*6.7%*	*9.4%*	*(1.1%)*	*5.9%*
Amortisation of intangibles arising on acquisition	(7.4)	(0.4)	(1.8)	-	-	(9.6)
Exceptional operating items	(0.9)	-	0.1	-	(0.1)	(0.9)
Other non-underlying items	-	4.2	-	-	-	4.2
Reported operating profit/(loss)	**67.4**	**41.3**	**29.9**	**8.7**	**(24.1)**	**123.2**

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 13-22. 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 26-42. Included in note 2 to the Group's Consolidated Financial Statements are the Group's policies on recognising revenue across the various revenue streams associated with the diverse range of goods and services discussed within the Divisional Reviews. The various revenue recognition policies are applied to each individual circumstance as relevant, taking into account the nature of the Group's obligations under the contract with the customer and the method of delivering value to the customer in line with the terms of the contract.

Americas (28% of revenue, 47% of underlying operating profit[7])

Six months ended 30 June £m	2023	2022	Growth
Revenue	**701.0**	**622.3**	**13%**
Organic change	6%	3%	
Acquisitions	0%	8%	
Currency	6%	7%	
Underlying operating profit	**79.4**	**75.7**	**5%**
Organic change	(2%)	20%	
Acquisitions	0%	6%	
Currency	7%	7%	
Margin	**11.3%**	**12.2%**	**(84bps)**

Revenue grew by 13% to £701m (2022: £622m), with organic growth of 6% and a 6% favourable translational effect of currency. The two main sectors for our Americas business are Defence and Citizen Services, and both saw growth in the period. Our Defence business delivered organic revenue growth of 6% as the high level of new work secured in 2022 began to ramp up. Citizen Services also showed good progress with organic revenue growth driven by higher demand for our case management services and the start of our new employment services work in Canada. These contracts with the Government of Ontario were secured by leveraging the work we do in the UK for the Department of Work and Pensions.

Underlying operating profit increased by 5% to £79m (2022: £76m). Excluding the favourable currency movement of £5m, underlying operating profit reduced by 2%. The profit outcome was lower than revenue as good performance in case management was more than offset by new contracts being in a lower margin, mobilisation stage, and some defence IT management work transitioning from its more profitable installation phase to sustainment operations. Margins reduced from 12.2% to 11.3% as a result.

Order intake was strong at £1.3bn, around 60% of the total for the Group and a book-to-bill ratio of 1.8x. Of this, new business wins were around 25% of the order intake, continuing the strong momentum of 2022. The largest single new business win was in Canada. Following on from our success in 2022, we were again selected by the Government of Ontario to support part of their Employment Services Transformation program, which will help unemployed people back into work. The contract signed this year is expected to be worth around £140m over five years. It was an active period for rebids and extensions, and we were pleased to achieve a win rate of over 95% on these, above our usual 80-90% range. This included the successful rebid of our Centers for Medicare & Medicaid Services (CMS) contract, which will see us continue to support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges. The 4 year and 7-month contract, which started on 1 July 2023, has a one-year base period and four option periods. The estimated total value to Serco, subject to workload volumes, is approximately $690m (£570m) if all option periods are exercised.

The pipeline of major new bid opportunities due for decision within the next 24 months in the Americas has increased from £2.5bn at the end of 2022 to £2.9bn at the end of June. It is pleasing to see the pipeline at such a healthy level given the high order intake in both 2022 and the first six months of 2023. The Americas represents approximately 35% of the total Group pipeline. Defence makes up around three-quarters of the Americas pipeline, with a broad spread of types of work. Citizen Services, where we have been actively seeking to grow, represents the remainder of the pipeline.

UK & Europe (49% of revenue, 41% of underlying operating profit(7))

Six months ended 30 June £m	2023	2022	Growth
Revenue	**1,218.5**	**991.5**	**23%**
Organic change	11%	(5%)	
Acquisitions	11%	0%	
Currency	1%	(0%)	
Underlying operating profit	**69.9**	**37.5**	**86%**
Organic change	64%	(34%)	
Acquisitions	20%	1%	
Currency	2%	(0%)	
Margin	**5.7%**	**3.8%**	**195bps**

Revenue increased by 23% to £1,219m (2022: £992m), with 11% organic growth, an 11% contribution from acquisitions and a 1% favourable translational effect of currency. ORS, the business we acquired in September 2022 to enter the European immigration services market, has traded ahead of expectations with robust underlying demand due to global migration patterns. Covid-related work, which fully concluded in the first half of 2022, was a drag of £78m, or 8%. This was more than offset by strong growth for our immigration services in both the UK and Europe, and good growth in our defence business. We exclude the revenue from our joint ventures, however, our VIVO Defence Services work for the Defence Infrastructure Organisation, which when won in 2021 included one of the largest contracts ever secured by Serco, continues to ramp up. Were joint ventures included in revenue it would add a further 13% to organic growth.

Underlying operating profit increased by 86% to £70m (2022: £38m). Strong demand for immigration services, the ramp up of contracts signed in prior years, improved performance across a range of existing contracts and the ORS acquisition more than offset the drag from Covid-related work. The half also benefited from a £6m one-off settlement of a dispute on a contract. The margin increased by nearly 200bp to 5.7% (2022: 3.8%) as a result of these factors.

Underlying operating 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 5.2% (2022: 3.5%). The joint venture and associate profit contribution increased to £18m (2022: £3m) due to our VIVO work continuing to ramp up, Merseyrail seeing improved performance and the one-off settlement mentioned above being included.

Order intake was around £0.7bn, a book-to-bill ratio of 0.5x and around 30% of the total intake for the Group. The low book-to-bill reflected the first six months of 2023 being relatively quiet in terms of contract award decisions. Some large contracts on which we had expected a decision remain under adjudication with a conclusion now anticipated in the second half. Our win rates, which after a dip in the second half of 2022, rebounded in the first six months of 2023. New wins represented approximately 45% of the order intake and our win rate on new work was more than 30%. We were successful on all our rebids in the period. Agreements signed in the first half included a contract with the UK Home Office to run the Derwentside Immigration Removal Centre. The new contract has an estimated value of around £80m over the initial nine-year term. Also in the Justice & Immigration sector, increases in the numbers of service-users led to us securing additional immigration work that is expected to be worth an estimated £280m over two years.

The pipeline of new opportunities in the UK & Europe remains healthy at £3.0bn (December 2022: £3.7bn), with significant new opportunities across Justice & Immigration, Defence and Citizen Services.

Asia Pacific (18% of revenue, 8% of underlying operating profit[(7)])

Six months ended 30 June £m	**2023**	**2022**	**Growth**
Revenue	**449.5**	**472.0**	**(5%)**
Organic change	(4%)	3%	
Acquisitions	0%	1%	
Currency	(1%)	(1%)	
Underlying operating profit	**13.9**	**31.6**	**(56%)**
Organic change	(56%)	29%	
Acquisitions	0%	(3%)	
Currency	0%	0%	
Margin	**3.1%**	**6.7%**	**(360bps)**

Our Asia Pacific business had a difficult first half of the year. Volume-variable work, which as part of a portfolio we expect to ebb and flow, reduced in the period, tight labour markets created operational challenges and new business wins did not meet our expectations. We have taken actions to ensure the business is well positioned for the opportunities we expect in the coming years in what remains an important and attractive market. A search for a new leader for the business is under way with Mark Irwin providing additional oversight of the division until an appointment is made.

Revenue reduced by 5% to £450m (2022: £472m). The business contracted by 4% organically and adverse currency moves had a 1% impact. Revenue fell because of lower volume-variable work in parts of the immigration network, reduced work in facilities management and a combination of tight labour markets and some lost work in the Citizen Services sector.

Underlying operating profit reduced by 56% to £14m (2022: £32m), representing a margin of 3.1% (2022: 6.7%). Profit fell more than revenue due to a negative mix impact from the lower immigration volumes, some initial stranded costs on lost contracts and labour market disruption making it difficult to recruit enough people to meet customer headcount targets.

Order intake in the first six months of 2023 was less than £0.1bn, continuing a recent record of low win rates on new work. Our investor pipeline for new business currently stands at £1.4bn in the year. Defence makes up the bulk of the pipeline with opportunities also in the Justice & Immigration and Citizen Services sectors.

Since the period end, we were pleased to be notified that our Immigration Detention Facilities and Detainee Services contract with the Australian Department of Home Affairs has been extended until December 2024.

Middle East (4% of revenue, 4% of underlying operating profit [(7)])

Six months ended 30 June £m	2023	2022	Growth
Revenue	**103.1**	**92.6**	**11%**
Organic change	5%	(38%)	
Acquisitions	0%	0%	
Currency	6%	3%	
Underlying operating profit	**7.0**	**8.7**	**(20%)**
Organic change	(22%)	17%	
Acquisitions	0%	0%	
Currency	2%	4%	
Margin	**6.8%**	**9.4%**	**(261bps)**

Revenue grew by 11% to £103m (2022: £93m). The business grew by 5% organically and favourable currency moves added 6% to revenue. Organic growth was driven by the Citizen Services sector, where our new advisory business unit is gaining traction.

Underlying operating profit reduced to £7m (2022: £9m). Profit was negatively impacted by stopping services with a customer where we have had debtor collection issues and by costs on some health & facilities management work we exited. These more than offset the higher margins being achieved on our advisory work. Margins decreased from 9.4% to 6.8% as a result.

Order intake was around £0.1bn, or 5% of the total for the Group and a book-to-bill ratio of 1.0x. More than 95% of the order intake was new business. The largest win was a contract to provide facilities management at a new hospital in the NEOM economic zone in Saudi Arabia, which is estimated to be worth around £50m over four years. Since the end of our contract to run the Dubai Metro, our Middle East business has been exploring new potential areas of demand and in particular has put investment into developing an advisory business in the region. The first half saw this begin to pay off with several agreements being secured to advise customers in the region as they embark on ambitious new multi-year projects.

Our pipeline of major new bid opportunities in the Middle East totals around £0.7bn and includes significant opportunities in Citizen Services and potential work in the Transport and Defence sectors.

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 saw a short-term reduction of £1.7m to £22.3m (2022: £24.0m).

Dividend

The Board has declared an interim dividend of 1.14p per share. The interim dividend will be paid on 6 October 2023, with an ex-dividend date of 7 September 2023 and a record date of 8 September 2023.

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Finance Review

For the six months ended 30 June	2023 Underlying £m	2023 Non underlying items £m	2023 Reported £m	2022 Underlying £m	2022 Non underlying items £m	2022 Reported £m
Revenue	2,472.1	-	2,472.1	2,178.4	-	2,178.4
Cost of sales	(2,210.5)	-	(2,210.5)	(1,927.2)	4.2	(1,923.0)
Gross profit	261.6	-	261.6	251.2	4.2	255.4
Administrative expenses	(131.7)	-	(131.7)	(125.1)	-	(125.1)
Exceptional operating items	-	51.2	51.2	-	(0.9)	(0.9)
Amortisation and impairment of intangibles arising on acquisition	-	(11.4)	(11.4)	-	(9.6)	(9.6)
Share of profits in joint ventures and associates, net of interest and tax	18.0	-	18.0	3.4	-	3.4
Operating profit/(loss)	147.9	39.8	187.7	129.5	(6.3)	123.2
Margin	*6.0%*		*7.6%*	*5.9%*		*5.7%*
Net finance costs	(11.0)	-	(11.0)	(9.2)	-	(9.2)
Profit/(loss) before tax	136.9	39.8	176.7	120.3	(6.3)	114.0
Tax (charge)/credit	(29.8)	0.7	(29.1)	(25.8)	2.7	(23.1)
Effective tax rate	*21.8%*		*16.5%*	*21.4%*		*20.3%*
Profit/(loss) for the period	107.1	40.5	147.6	94.5	(3.6)	90.9
Attributable to						
Equity owners of the Company	107.1	40.5	147.6	94.5	(3.6)	90.9
Non-controlling interest	-	-	-	-	-	-
Earnings per share (EPS) - basic (pence)	*9.52*		*13.11*	*7.83*		*7.53*
Earnings per share (EPS) - diluted (pence)	*9.40*		*12.96*	*7.71*		*7.41*

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 income or expense are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual income or expense 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.

Consolidation of profit measures

The Group is simplifying its profit measures by removing Trading Profit and renaming Underlying Trading Profit (UTP) to Underlying Operating Profit (UOP). The historic UOP presented is consistent with the equivalent reported UTP in that period.

The UTP definition was introduced in 2015 to exclude onerous contract provision (OCP) releases or charges, other Contract and Balance Sheet Review adjustments, depreciation and amortisation of assets held for sale, and some other one-time items. It was maintained to ensure there was transparency outside the underlying results of large charges and releases from the portfolio of onerous contracts recorded in 2014. These definitions are no longer required as the Contract and Balance Sheet Adjustments recorded in 2014 are now at an insignificant level. In the future, no items will be recorded between UTP and Trading Profit, meaning the additional measure no longer adds any value.

Items excluded from UOP will be the amortisation of intangibles arising on acquisition and exceptional operating items, which is consistent with the items previously excluded from Trading Profit. The methodology applied to calculating other APMs has not changed since 31 December 2022.

Alternative revenue measures

For the six months ended 30 June	2023 £m	2022 £m
Reported revenue at constant currency[1]	2,418.7	2,178.4
Foreign exchange differences[1]	53.4	-
Reported revenue at reported currency	2,472.1	2,178.4

1. In order to provide a comparable movement on the previous period's results, reported revenue is recalculated by translating non-Sterling values into Sterling at the average exchange rates for the six months ended 30 June 2022.

For the six months ended 30 June	2023 Organic Revenue[1] £m	2022 Comparable Organic Revenue[1] £m	2023 Revenue plus share of joint ventures and associates[2] £m	2022 Revenue plus share of joint ventures and associates[2] £m
Alternative revenue measure at constant currency	2,307.5	2,178.4	2,647.1	2,267.3
Foreign exchange differences[3]	48.3	-	53.4	-
Alternative revenue measure at reported currency	2,355.8	2,178.4	2,700.5	2,267.3
Impact of relevant acquisitions or disposals	116.3	-	-	-
Share of joint venture and associates	-	-	(228.4)	(88.9)
Reported revenue at reported currency	2,472.1	2,178.4	2,472.1	2,178.4

1. 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 the relevant acquisitions or disposals. The prior year figure is recalculated on a consistent basis to the acquisitions or disposals removed in the current year and therefore may not agree to the organic revenue previously reported.
2. 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.
3. In order to provide a comparable movement on the previous period's results, the alternative revenue measures are recalculated by translating non-Sterling values into Sterling at the average exchange rates for the six months ended 30 June 2022.

Alternative profit measures

For the six months ended 30 June	2023 £m	2022 £m
Underlying operating profit at constant currency[1]	141.7	129.5
Foreign exchange differences[1]	6.2	-
Underlying operating profit at reported currency[2]	147.9	129.5
Non-underlying items:		
Amortisation and impairment of intangibles arising on acquisition[3]	(11.4)	(9.6)
Exceptional operating items[4]	51.2	(0.9)
Other non-underlying items[4]	-	4.2
Reported operating profit	187.7	123.2

1. In order to provide a comparable movement on the previous period's results, reported UOP is recalculated by translating non-Sterling values into Sterling at the average exchange rates for the six months ended 30 June 2022.
2. The Group uses an alternative measure, UOP, to make adjustments for items considered material and outside of the normal operating practice of the Group to be suitable for separate presentation and detailed explanation.
3. 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.
4. Exceptional operating items (and in the prior year other non-underlying items), being those considered material and outside of the normal operating practice of the Group to be suitable for separate presentation and detailed explanation. Where items are not material, their inclusion is to ensure they are treated consistently with prior periods.

Alternative Earnings per share (EPS) measures

For the six months ended 30 June	2023 basic pence	2022 basic pence	2023 diluted pence	2022 diluted pence
Underlying EPS[1]	9.52	7.83	9.40	7.71
Non-underlying items:				
Net impact of non-underlying operating items, non underlying tax and amortisation and impairment of intangibles arising on acquisition	(0.75)	(0.25)	(0.74)	(0.25)
Exceptional operating items, net of tax	4.34	(0.05)	4.30	(0.05)
Reported EPS	13.11	7.53	12.96	7.41

1. Reflecting the same adjustments made to operating profit to calculate UOP 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.

Alternative cash flow and Net Debt measures

Free cash flow (FCF)

For the six months ended 30 June	2023 £m	2022 £m
Free cash flow[1]	98.4	95.6
Exclude dividends from joint ventures and associates	(4.7)	(3.6)
Exclude net interest paid	12.4	10.9
Exclude capital element of lease repayments	63.0	58.1
Exclude purchase of own shares to satisfy share awards	22.8	15.9
Exclude purchase of intangible and tangible assets net of proceeds from disposal	7.2	8.3
Net cash inflow from underlying operating activities	199.1	185.2
Non-underlying cash flows from operating activities	9.7	(1.1)
Net cash inflow from operating activities	208.8	184.1

1. Free cash flow (FCF) is an alternative cash flow measure which is reconciled above to net cash flow from operating activities, the measure shown on the Condensed Consolidated Cash Flow Statement on page 30. This IFRS measure is adjusted to remove the impact of non-underlying cash flows from operating activities and 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.

UOP cash conversion

For the six months ended 30 June	2023 £m	2022 £m
Free cash flow[1]	98.4	95.6
Add back:		
Tax paid	24.7	24.9
Net interest paid	12.4	10.9
Trading cash flow	135.5	131.4
Underlying operating profit	147.9	129.5
Underlying operating profit cash conversion[1]	92%	101%

1. FCF, as defined above, includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UOP, trading cash flow is derived from FCF by excluding tax and interest items. UOP 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 operating items.

Net Debt and Adjusted Net Debt

	As at 30 June 2023 £m	As at 31 December 2022 £m
Cash and cash equivalents	98.7	57.2
Loans payable	(315.3)	(262.9)
Lease liabilities	(438.4)	(446.0)
Derivatives relating to Net Debt	0.9	1.8
Net Debt[1]	(654.1)	(649.9)
Add back: Lease liabilities	438.4	446.0
Adjusted Net Debt[2]	(215.7)	(203.9)

1. 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 29 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.
2. 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 *IFRS 16 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.

Return on invested capital (ROIC)

	30 June 2023 £m	31 December 2022 £m	30 June 2022 £m
ROIC excluding right of use assets			
Goodwill	908.5	945.0	922.7
Other intangible assets - owned	134.0	158.0	143.5
Property, plant and equipment	41.7	48.1	52.3
Interests in joint ventures and associates	37.3	23.3	18.6
Loans to joint ventures	10.0	10.0	7.5
Contract assets, trade and other receivables	14.3	16.1	18.8
Current assets			
Inventory	23.1	22.4	21.4
Contract assets, trade and other receivables	646.0	719.6	655.5
Total invested capital assets	1,814.9	1,942.5	1,840.3
Current liabilities			
Contract liabilities, trade and other payables	(618.9)	(683.3)	(631.0)
Non-current liabilities			
Contract liabilities, trade and other payables	(40.6)	(42.8)	(55.3)
Total invested capital liabilities	(659.5)	(726.1)	(686.3)
Invested capital[1]	1,155.4	1,216.4	1,154.0
Two-point average of opening and closing Invested capital	1,154.7	1,151.8	1,096.0
Underlying operating profit, 12 months ended	255.4	237.0	235.7
Underlying ROIC%[2]	22.1%	20.6%	21.5%

1. Invested capital excludes right of use assets recognised under *IFRS 16 Leases*. This is because the Invested capital of the Group are those items within which resources are, or have been, committed, which is not the case for many leases which would have been classified as operating leases under *IAS 17 Leases* where termination options exist and commitments for expenditure are in future years.
2. 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 UOP, 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 above.

Overview of financial performance

Revenue and Underlying operating profit (UOP)

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

Joint ventures and associates – share of results

In 2023, the most significant joint ventures and associates in terms of scale of operations were Merseyrail Services Holding Company Limited (Merseyrail) and VIVO Defence Services Limited (VIVO), with dividends received of £4.7m and £nil (2022: £2.0m and £nil), respectively, and total revenues of £116.1m and £387.9m, respectively (2022: £90.2m and £96.2m).

The split of the share of profits in joint ventures and associates, net of interest and tax for the first six month of 2023 was £18.0m (2022: £3.4m), comprising of profit from Merseyrail £12.2m (2022: £1.7m), VIVO £5.8m (2022: £1.4m) and other joint ventures and associates £nil (2022: £0.3m). The change in revenue is due to the increase of operations in VIVO, increased passenger volumes and a commercial settlement within the Merseyrail joint venture relating to current and prior periods. Profit has increased due to the increased revenue, with VIVO incurring higher costs during the ramp up phase of its operations. Dividends received are broadly the same as the prior year.

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.

For the six months ended 30 June	2023 £m	2022 £m
Revenue	228.4	88.9
Operating profit	23.4	3.9
Net investment charge	-	(0.1)
Income tax charge	(5.4)	(0.4)
Profit after tax	18.0	3.4
Dividends received from joint ventures and associates	4.7	3.6

Exceptional operating items

Exceptional operating 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. These require separate disclosure on the face of the income statement to assist in the understanding of the performance of the Group. In 2023, the total exceptional credit net of tax was £48.9m (2022: charge of £0.6m).

The Group released provisions held for indemnities provided on disposed businesses totalling £41.3m due to the claims period ending. The Group also received £9.9m compensation on the early termination of a contract.

Exceptional tax for the period was a tax charge of £2.3m (2022: credit of £0.3m) which arises on exceptional operating items within operating profit.

Finance costs and investment revenue

Net finance costs were £11.0m (2022: £9.2m) and net interest paid was £12.4m (2022: £10.9m).

Investment revenue of £3.5m (2022: £2.0m) consists of interest accruing on net retirement benefit assets of £1.5m (2022: £1.4m) and interest income of £2.0m (2022: £0.6m).

Finance costs of £14.5m (2022: £11.2m) include interest incurred on the US private placement loan notes and the revolving credit facility of £8.3m (2022: £6.7m) and lease interest expense of £5.6m (2022: £3.6m) as well as other financing related costs including the impact of foreign exchange on financing activities.

Tax

Underlying tax

An underlying tax charge of £29.8m has been recognised in the period on underlying profits after finance costs. The effective tax rate (21.8%) is marginally higher than at half year 30 June 2022 (21.4%) and slightly lower than the year end 31 December 2022 (22.1%). The rate is lower than the December 2022 rate due mainly to a change in mix of the businesses where profits have arisen.

The current rate of 21.8% is lower than the UK statutory rate of 23.5%. This is due to profits of Joint Ventures, where post tax profits are included in the Group's profits before tax (reducing the rate by 3.1%). This is only partially offset by higher rates of tax on profits arising on our international operations (increasing the rate by 2.5%). There is also a smaller impact of changes in provisions for uncertain tax positions, as part of regular reassessment of tax exposures across the Group (decreasing the rate by 0.9%) and other adjustments (reducing the rate by 0.2%).

Non-underlying tax

Exceptional tax for the period was a tax charge of £2.3m arising on compensation received for early termination of a contract. The other exceptional credits, which arise in the UK on the release of the indemnities, are not subject to tax. A tax credit on amortisation of intangibles arising on acquisition of £3.0m nets against this to give a total tax credit on non-underlying items of £0.7m.

Deferred tax assets

At 30 June 2023 there is a net deferred tax asset of £186.5m (31 December 2022: £190.4m). This consists of a deferred tax asset of £234.1m (31 December 2022: £244.2m) and a deferred tax liability of £47.6m (31 December 2022: £53.8m). A £183.4m UK deferred tax asset is recognised on the Group's balance sheet at 30 June 2023 (31 December 2022: £186.9m).

Taxes paid

Net corporate income tax of £24.7m was paid during the period, relating primarily to operations in AsPac (£10.0m), North America (£13.6m), Middle East (£0.5m), and Europe (£0.6m). The UK business made tax payments on account in relation to 2023 and received a tax repayment in relation to the 2021 year during the period, with these balances netting against each other.

The amount of tax paid (£24.7m) differs from the tax charge in the period (£29.1m) mainly because taxes paid to or received from Tax Authorities can arise in later periods to the associated tax charge/credit. This is particularly the case with regards to movements in deferred tax and provisions for uncertain tax positions.

Dividend, share buyback, and share count

During the six months to 30 June 2023, the Group paid dividends of £21.2m (2022: £19.3m) in respect of the final dividend for the year ended 31 December 2022. As noted in the Chief Executive's Review, the Board has decided to declare an interim dividend of 1.14p per share in respect of the six months ended 30 June 2023 (2022: 0.94p per share).

On 28 February 2023, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. The buyback programme took place between 3 March and 22 June 2023. During this period, the Group repurchased 58,956,118 shares at an average cost of £1.506 for total cost including fees of £88.8m. As at 30 June 2023 these shares were held as treasury shares.

The weighted average number of shares for EPS purposes was 1,125.5m for the six months ended 30 June 2023 (2022: 1,207.2m) and diluted weighted average number of shares was 1,139.2m (2022: 1,226.3m). The decrease in the weighted average number of shares is primarily due to the full year impact of the repurchase of 55,506,704 shares during 2022; and the weighted average impact of the repurchase of 58,956,118 in the first half of 2023.

Cash flows and net debt

UOP of £147.9m (2022: £129.5m) converts into net cash inflow from underlying operating activities of £199.1m (2022: £185.2m). The increase in cash inflow from operating activities in 2023 compared with 2022 is in line with the increase in UOP for the same period. The dividends received from Joint Ventures were lower than the profit recognised in the period, however this was offset by a working capital inflow driven by improved cash collections for volume-variable work.

The table below shows the cash flow from underlying operating activities and FCF reconciled to movements in Net Debt. FCF for the period was an inflow of £98.4m compared to £95.6m in 2022.

Adjusted Net Debt increased by £11.8m in the six months to 30 June 2023. Average Adjusted Net Debt as calculated on a daily basis for the six months ended 30 June 2023 was £261m (2022: £201m). Peak Adjusted Net Debt was £357m (2022: £258m).

For the six months ended 30 June	**2023 £m**	**2022 £m**
Underlying operating profit	147.9	129.5
Share of profit from joint ventures and associates	(18.0)	(3.4)
Movement in provisions	(0.3)	1.5
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13.9	15.4
Depreciation and impairment of right of use assets	63.1	56.7
Other non-cash movements	4.4	7.5
Working capital movements	12.8	2.9
Tax paid	(24.7)	(24.9)
Net cash inflow from underlying operating activities	199.1	185.2
Dividends received from joint ventures and associates	4.7	3.6
Net interest paid	(12.4)	(10.9)
Capital element of lease repayments	(63.0)	(58.1)
Purchase of intangible and tangible assets net of proceeds from disposals	(7.2)	(8.3)
Purchase of own shares to satisfy share awards	(22.8)	(15.9)
Free cash flow	98.4	95.6
Net cash outflow on acquisition and disposal of subsidiaries, joint ventures and associates	(6.7)	(0.1)
Dividends paid to shareholders	(21.2)	(19.3)
Dividends paid to non-controlling interests	(1.7)	-
Purchase of own shares	(88.8)	(25.1)
Movements on other investment balances	(3.1)	-
Net loans advanced to joint ventures	-	(7.5)
Exceptional operating items	9.7	(1.1)
Capitalisation and amortisation of loan costs	(0.4)	(0.7)
Cash movements on hedging instruments	(7.7)	2.7
Foreign exchange gain/(loss) on Adjusted Net Debt	9.7	(30.1)
Movement in Adjusted Net Debt	(11.8)	14.4
Opening Adjusted Net Debt	(203.9)	(178.0)
Closing Adjusted Net Debt	(215.7)	(163.6)
Lease liabilities	(438.4)	(432.5)
Closing Net Debt	(654.1)	(596.1)

Risk management and treasury operations

The Group's operations expose it to a variety of financial risks that include access to 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.

Liquidity and funding

As at 30 June 2023, the Group had committed funding of £603.7m (at 31 December 2022: £616.4m), comprising £253.7m of US private placement loan notes, and a £350.0m revolving credit facility (RCF) of which £65.0m was drawn (at 31 December 2022: £nil). The Group does not engage in any external financing arrangements associated with either receivables or payables.

The Group's RCF provides £350.0m of committed funding for five years from the arrangement date in November 2022. The facility includes an accordion option, providing a further £100.0m of funding (uncommitted and therefore not incurring any fees) if required without the need for additional documentation. This option has not been included in the Group's assessment of available liquidity as approvals are required to access the funding. The US private placement loan notes are repayable in bullet payments between 2023 and 2032.

Interest rate risk

The Group has a preference for fixed rate debt to reduce the volatility of net finance costs. The Group's Treasury Policy requires it 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 2023, £253.7m of debt was held at fixed rates and Adjusted Net Debt was £215.7m.

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 Dollars. 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 covenant net finance costs of 3.0 times, tested semi-annually. A reconciliation of the basis of calculation is set out in the table below.

The covenants exclude the impact of *IFRS 16 Leases* on the Group's results.

For the twelve months ended	**30 June 2023 £m**	**31 December 2022 £m**	**30 June 2022 £m**
Operating profit	281.7	217.2	223.1
Remove: Exceptional items	(49.7)	2.4	(0.6)
Remove: Amortisation and impairment of intangibles arising on acquisition	23.4	21.6	19.0
Exclude: Share of joint venture post-tax profits	(26.6)	(12.0)	(5.7)
Include: Dividends from joint ventures	10.2	9.1	7.5
Add back: Net non-exceptional (releases)/charges to OCPs	(0.9)	(1.0)	0.9
Add back: Net covenant OCP utilisation	(3.2)	(1.3)	(0.7)
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non-acquisition intangible assets	31.6	33.1	31.2
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets held under finance leases - in accordance with *IAS 17 Leases*	4.7	4.8	5.0
Add back: Foreign exchange on investing and financing arrangements	0.5	0.4	0.1
Add back: Share based payment expense	14.9	15.6	15.5
Other covenant adjustments to EBITDA	(1.0)	(1.0)	3.7
Covenant EBITDA	285.6	288.9	299.0
Net finance costs	22.2	20.4	20.6
Exclude: Net interest receivable on retirement benefit obligations	2.8	2.7	1.9
Exclude: Movement in discount on other debtors	0.1	0.1	0.1
Exclude: Other dividends received	-	-	0.2
Exclude: Foreign exchange on investing and financing arrangements	0.6	0.4	0.1
Add back: Movement in discount on provisions	-	-	(0.1)
Other covenant adjustments to net finance costs resulting from *IFRS 16*	(9.5)	(7.5)	(6.9)
Covenant net finance costs	16.2	16.1	15.9
Adjusted Net Debt	215.7	203.9	163.6
Obligations under finance leases – in accordance with *IAS 17 Leases*	19.6	21.8	24.1
Recourse Net Debt	235.3	225.7	187.7
Exclude: Encumbered cash, amortised costs and other adjustments	4.6	6.9	(2.0)
Covenant adjustment for average FX rates	13.3	(8.2)	(25.5)
CTNB	253.2	224.4	160.2
CTNB/covenant EBITDA (not to exceed 3.5x)	0.89x	0.78x	0.54x
Covenant EBITDA/covenant net finance costs (at least 3.0x)	17.6x	17.9x	18.8x

Net assets

At 30 June 2023, the condensed consolidated balance sheet shown on page 29 had net assets of £983.5m, a movement of £46.2m from the closing net asset position of £1,029.7m as at 31 December 2022.

Key movements since 31 December 2022 on the condensed consolidated balance sheet shown on page 29 include:

- A decrease in goodwill of £36.5m driven predominantly by an adverse foreign exchange movement.
- Other intangible assets reduction of £24.0m due to amortisation and a revision of the provisional fair values of intangibles recognised in respect of the ORS acquisition (£6.4m).
- A decrease in the net retirement benefit asset of £25.7m (see pensions section below).
- Provisions have reduced by £49.4m due to the exceptional release of provisions previously held for indemnities given on disposed businesses.
- Cash and cash equivalents have increased by £41.5m. In the period the Group has generated cash inflows of £199.1m from underlying operations. The net advance of loans was £65.0m and the capital element of lease repayments in the period was £63.0m. Including associated costs, the spend on shares repurchased totals £111.6m (£88.8m held in treasury and £22.8m for the Employee Share Ownership Trust) and dividends totalling £21.2m have been paid to shareholders.
- Net loan balances have increased by £52.4m due to the £65.0m drawdown on the Group's RCF in the period offset by the impact of foreign exchange on US private placement loan notes.
- The increase in contract assets, trade receivables and other assets have largely offset increases in contract liabilities, trade payables and other liabilities and are as a result of normal working capital movements.

Pensions

There has been a high degree of volatility in the valuation of pension obligations primarily driven by the change in discount rates which have been rising since 31 December 2021 against the backdrop of concerns over high global inflation and the increased risk of recession. This has been fuelled by the ongoing disruption to supply chains and rising interest rates.

Serco's pension schemes remain in a strong funding position, and show an accounting surplus, before tax, of £25.1m (31 December 2022: £50.8m) on scheme gross assets of £1.0bn (31 December 2022: £1.1bn) and gross liabilities of £1.0bn (31 December 2022 £1.0bn). The decrease in the net retirement benefit asset of £25.7m reflects the experience adjustment from actual pension increases in Serco Pension and Life Assurance Scheme (SPLAS) as a result of higher CPI in 2023 compared to the year-end assumption and the high degree of volatility as noted above resulting in a reduction in pension scheme assets particularly investments in bonds, and amounts held by insurance companies. There has been a reduction in pension scheme obligations as discount rates have risen but this has only partially offset the reduction in assets as the liabilities are hedged on an actuarial basis rather than an *IAS 19* basis.

Based on the 2021 actuarial funding valuation which was finalised in 2022 for SPLAS, the Group has committed to make deficit recovery payments of £6.6m per year from 2022 to 2030.

The opening net asset position led to a net interest income within net finance costs of £1.5m (2022: £1.4m).

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. The Group does not currently assess the merits as strong, especially given the legal uncertainties in such actions.

Information on other contingent liabilities can be found in note 10 to the Condensed Consolidated Financial Statements.

Nigel Crossley

Group Chief Financial Officer

3 August 2023

Principal risks and uncertainties

Risk Management

Since the date of the approval of the Annual Report and Financial statements our risk management process has continued to operate as described on page 95 of our 2022 Annual Report.

The Executive Committee and the Risk Committee reviewed the principal risks and uncertainties of the Group and have determined that those reported in the 2022 Annual Report and Accounts remain valid for the remaining half of the financial year. These and any emerging risks will be reviewed again by the Executive Committee in October and remain under review on a quarterly basis by the Risk Committee.

The following summarises the risks and uncertainties detailed further in the Annual Report:

- Major Information Security Breach (including Cyber-attack and Data Privacy), resulting in the loss or compromise of sensitive information or wilful damage;
- Failure to Grow Profitably as a result of failing to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets;
- Material Legal and Regulatory Compliance that may cause significant loss and damage to the Group including exposure to regulatory prosecution, reputational damage and the potential loss of licences and authorisations;
- Significant Failure of the Supply Chain that may result in Serco being unable to meet customer obligations, perform business critical operations or win new business;
- Failure to Act with Integrity including engagement in significant corrupt, illegal or dishonest acts;
- Contract Non-Compliance including failure to deliver contractual requirements and to meet agreed service performance levels and report against them accurately;
- Financial Control Failure impacting our ability to accurately report, forecast, create suitable capital structures and make critical financial transactions;
- Catastrophic Risk focusing on the risk of an event as a result of our actions or failure to respond to an event that results in multiple fatalities, severe property/asset damage or loss or very serious long term environmental damage;
- Health, Safety and Wellbeing as a result of the diversity of our operations and the inherent risks in our operations in both work and public environments; and
- Failure to Attract and Retain Good People restricting our ability to deliver customer obligations, execute our strategy and achieve business objectives whilst driving employee pride in the organisation.

Further detail on our principal risks and uncertainties and the associated controls and mitigations can be found on page 98 in our 2022 Annual Report.

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:

Mark Irwin	**Nigel Crossley**
Group Chief Executive Officer	Group Chief Financial Officer
3 August 2023	3 August 2023

INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC

Conclusion

We have been engaged by Serco Group Plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 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 2023 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").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with 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.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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.

Juliette Lowes
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London,E14 5GL
3 August 2023

Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June (unaudited)	2023 Underlying £m	2023 Non underlying items £m	2023 Reported £m	2022 Underlying £m	2022 Non underlying items £m	2022 Reported £m
Revenue	2,472.1	-	2,472.1	2,178.4	-	2,178.4
Cost of sales	(2,210.5)	-	(2,210.5)	(1,927.2)	4.2	(1,923.0)
Gross profit	261.6	-	261.6	251.2	4.2	255.4
Administrative expenses	(131.7)	-	(131.7)	(125.1)	-	(125.1)
Exceptional operating items	-	51.2	51.2	-	(0.9)	(0.9)
Amortisation and impairment of intangibles arising on acquisition	-	(11.4)	(11.4)	-	(9.6)	(9.6)
Share of profits in joint ventures and associates, net of interest and tax	18.0	-	18.0	3.4	-	3.4
Operating profit/(loss)	147.9	39.8	187.7	129.5	(6.3)	123.2
Margin	*6.0%*		*7.6%*	*5.9%*		*5.7%*
Net finance costs	(11.0)	-	(11.0)	(9.2)	-	(9.2)
Profit/(loss) before tax	136.9	39.8	176.7	120.3	(6.3)	114.0
Tax (charge)/credit	(29.8)	0.7	(29.1)	(25.8)	2.7	(23.1)
Effective tax rate	*21.8%*		*16.5%*	*21.4%*		*20.3%*
Profit/(loss) for the period	107.1	40.5	147.6	94.5	(3.6)	90.9
Attributable to						
Equity owners of the Company	107.1	40.5	147.6	94.5	(3.6)	90.9
Non-controlling interest	-	-	-	-	-	-
Earnings per share (EPS) - basic (pence)	*9.52*		*13.11*	*7.83*		*7.53*
Earnings per share (EPS) - diluted (pence)	*9.40*		*12.96*	*7.71*		*7.41*

The notes on pages 31 to 42 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June	2023 (unaudited) £m	2022 (unaudited) £m
Profit for the period	147.6	90.9
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	0.8	1.3
Remeasurements of post-employment benefit obligations[1]	(25.8)	(42.0)
Actuarial loss on reimbursable rights[1]	(3.2)	(8.2)
Income tax relating to these items[1]	6.9	12.4
Items that may be reclassified subsequently to profit or loss:		
Net exchange (loss)/gain on translation of foreign operations[1]	(43.3)	58.9
Fair value (loss)/gain on cash flow hedges during the period[1]	(0.7)	0.8
Tax relating to items that may be reclassified[1]	0.2	(0.2)
Total other comprehensive (loss)/income for the period	(65.1)	23.0
Total comprehensive income for the period	82.5	113.9
Attributable to:		
Equity owners of the Company	82.5	113.6
Non-controlling interest	-	0.3

1 Recorded in other reserves in the Condensed Consolidated Statement of Changes in Equity.

The notes on pages 31 to 42 form part of these condensed consolidated financial statements

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2022 (audited)	24.4	463.1	542.8	(23.6)	1,006.7	1.7
Total comprehensive income for the period	-	-	92.1	21.5	113.6	0.3
Dividends paid	-	-	(19.3)	-	(19.3)	-
Shares purchased and held in treasury	-	-	-	(25.1)	(25.1)	-
Shares committed to be purchased and held in treasury	-	-	-	(15.0)	(15.0)	-
Shares purchased and held in own share reserve	-	-	-	(15.9)	(15.9)	-
Expense in relation to share based payments	-	-	-	7.9	7.9	-
Tax credit on items taken directly to equity	-	-	-	3.8	3.8	-
At 30 June 2022 (unaudited)	24.4	463.1	615.6	(46.4)	1,056.7	2.0

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2023 (audited)	24.4	463.1	670.6	(129.9)	1,028.2	1.5
Total comprehensive income/(loss) for the period	-	-	148.4	(65.9)	82.5	-
Dividends paid	-	-	(21.2)	-	(21.2)	(1.7)
Shares purchased and held in treasury	-	-	-	(88.8)	(88.8)	-
Shares purchased and held in own share reserve	-	-	-	(22.8)	(22.8)	-
Change in non-controlling interests	-	-	(1.2)	-	(1.2)	(0.1)
Expense in relation to share based payments	-	-	-	7.1	7.1	-
At 30 June 2023 (unaudited)	24.4	463.1	796.6	(300.3)	983.8	(0.3)

The notes on pages 31 to 42 form part of these condensed consolidated financial statements

Condensed Consolidated Balance Sheet

	As at 30 June 2023 (unaudited) £m	As at 31 December 2022 (audited) £m
Non-current assets		
Goodwill	908.5	945.0
Other intangible assets	134.0	158.0
Property, plant and equipment	41.7	48.1
Right of use assets	427.8	434.2
Interests in joint ventures and associates	37.3	23.3
Loans to joint ventures	10.0	10.0
Trade and other receivables	14.3	16.1
Derivative financial instruments	-	0.3
Deferred tax assets	234.1	244.2
Retirement benefit assets	32.1	57.0
	1,839.8	1,936.2
Current assets		
Inventories	23.1	22.4
Contract assets	300.8	345.0
Trade and other receivables	345.2	374.6
Current tax assets	8.7	11.5
Cash and cash equivalents	98.7	57.2
Derivative financial instruments	3.4	3.3
	779.9	814.0
Total assets	2,619.7	2,750.2
Current liabilities		
Contract liabilities	(64.8)	(60.5)
Trade and other payables	(554.1)	(622.8)
Derivative financial instruments	(2.0)	(1.1)
Current tax liabilities	(7.3)	(16.0)
Provisions	(92.0)	(134.9)
Lease obligations	(134.6)	(144.4)
Loans	(159.3)	(44.5)
	(1,014.1)	(1,024.2)
Non-current liabilities		
Contract liabilities	(32.1)	(36.3)
Trade and other payables	(8.5)	(6.5)
Derivative financial instruments	(0.1)	-
Deferred tax liabilities	(47.6)	(53.8)
Provisions	(67.0)	(73.5)
Lease obligations	(303.8)	(301.6)
Loans	(156.0)	(218.4)
Retirement benefit obligations	(7.0)	(6.2)
	(622.1)	(696.3)
Total liabilities	(1,636.2)	(1,720.5)
Net assets	983.5	1,029.7
Equity		
Share capital	24.4	24.4
Share premium account	463.1	463.1
Retained earnings	796.6	670.6
Other reserves	(300.3)	(129.9)
Equity attributable to owners of the Company	983.8	1,028.2
Non controlling interest	(0.3)	1.5
Total equity	983.5	1,029.7

The notes on pages 31 to 42 form part of these condensed consolidated financial statements

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June	2023 (unaudited) £m	2022 (unaudited) £m
Net cash inflow from underlying operating activities	199.1	185.2
Non-underlying items	9.7	(1.1)
Net cash inflow from operating activities	208.8	184.1
Investing activities		
Interest received	1.9	0.7
Dividends received from joint ventures and associates	4.7	3.6
Other investing activities	(3.1)	-
Loans advanced to joint ventures	(5.0)	(7.5)
Loans repaid by joint ventures	5.0	-
Purchase of other intangible assets	(4.0)	(3.3)
Purchase of property, plant and equipment	(5.4)	(5.2)
Proceeds from disposal of property, plant and equipment	0.9	0.2
Proceeds from disposal of intangible assets	1.3	-
Proceeds on disposal of subsidiaries and operators	0.2	-
Acquisition of subsidiaries, net of cash acquired	(6.9)	(0.1)
Net cash outflow from investing activities	(10.4)	(11.6)
Financing activities		
Interest paid	(14.3)	(11.6)
Advances of loans	65.0	60.1
Repayments of loans	-	(127.6)
Capital element of lease repayments	(63.0)	(58.1)
Cash movements on hedging instruments	(7.7)	2.7
Dividends paid to shareholders	(21.2)	(19.3)
Dividends paid to non-controlling interests	(1.7)	-
Purchase of Own Shares by the Employee Share Ownership Trust	(22.8)	(15.9)
Own shares repurchased	(88.8)	(25.1)
Net cash outflow from financing activities	(154.5)	(194.8)
Net increase/(decrease) in cash and cash equivalents	43.9	(22.3)
Cash and cash equivalents at beginning of period	57.2	198.4
Net exchange (loss)/gain	(2.4)	2.8
Cash and cash equivalents at end of period	98.7	178.9

The notes on pages 31 to 42 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 period ended 31 December 2022 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 2022 accounts was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of Serco Group plc are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRS) and are prepared in accordance with UK-adopted International Accounting Standards. 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.

IFRS 17 Insurance Contracts is effective from 1 January 2023 and though expected to primarily impact the insurance sector, there appear to be some unintended consequences which may result in *IFRS 17* applying more widely than contracts issued by traditional insurance entities. Management has concluded none of its contracts or obligations should be classified as insurance contracts.

No new or amended accounting standards that became effective during the six months ended 30 June 2023 have had a significant impact on the Group. No new standards or interpretations that have been issued but are not yet effective are expected to have a significant impact on the Group.

In the six months ended 30 June 2023, 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 the exception of the change to alternative profit measures (APMs) as set out below.

Consolidation of profit measures

The Group is simplifying its profit measures by removing Trading Profit and renaming Underlying Trading Profit (UTP) to Underlying Operating Profit (UOP). The historic UOP will be the same as the reported UTP.

The UTP definition was introduced in 2015 to exclude onerous contract provision (OCP) releases or charges, other Contract and Balance Sheet Review adjustments, depreciation and amortisation of assets held for sale, and some other one-time items. It was maintained to ensure that there was transparency outside the underlying results of large charges and releases from the portfolio of onerous contracts recorded in 2014. These definitions are no longer required as the Contract and Balance Sheet Adjustments recorded in 2014 are now at an insignificant level. In the future, no items will be recorded between UTP and Trading Profit, meaning the additional measure no longer adds any value.

Items excluded from UOP will be the amortisation of intangibles arising on acquisition and exceptional operating items, which is consistent with the items currently excluded from Trading Profit.

The methodology applied to calculating other APMs has not changed since 31 December 2022.

Going concern

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2023, 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 condensed financial statements.

At 30 June 2023, the Group's principal debt facilities comprised a £350m revolving credit facility (of which £65m was drawn), and £254m of US private placement notes, giving £604m of committed credit facilities and committed headroom of £379m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility. As at 30 June 2023 the Group's primary restricting covenant, its leverage ratio, is below the covenant of 3.5x and is below the Group's target range of 1x-2x at 0.89x.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities 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 operating 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 2023. 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.

Owing to the unprecedented levels of inflation driven by geopolitical factors, the Directors have considered the Group's resilience to rising costs. Due to the contracting nature of the Group's operations, almost all of the revenue base has some form of inflationary protection, whether it be through contractual indexation mechanisms, cost plus billing or being short term in nature. Though the timing of such protections becoming effective may, in the short term, differ from the impact of cost pressures, it is expected that the current inflation levels will not have a material impact 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 bids and extensions, 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 notes totalling £95m due to mature during the assessment period are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 80% of its bids and extensions, combined with a profit margin 80 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.

In respect of win rates, rebids and extensions have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions over the last two years by volume. Including new business, win rates by volume remain high at 68%. Therefore, a reduction of 80% or more to the budgeted bid and extensions rates is not considered plausible.

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 80bps versus the Group's budget is not considered plausible within the assessment period combined with a 80% reduction in bid and extensions rates.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the 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 six months ended 30 June 2023, there have been no changes to the critical accounting judgements and key sources of estimation uncertainty from those disclosed in the Group's latest annual audited financial statements.

3. Segmental information

The Group's operating segments reflecting the information reported to the Board in the six months ended 30 June 2023 are consistent with those reported in the Group's latest annual audited financial statements.

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

For the six months ended 30 June 2023	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	180.7	462.4	77.8	15.6	736.5
Justice & Immigration	620.7	-	183.1	-	803.8
Transport	86.0	51.9	8.0	34.6	180.5
Health	122.8	-	108.4	42.6	273.8
Citizen Services	208.3	186.7	72.2	10.3	477.5
	1,218.5	701.0	449.5	103.1	2,472.1

For the six months ended 30 June 2022 (restated[1])	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	153.2	411.5	71.6	14.7	651.0
Justice & Immigration	325.9	-	201.7	-	527.6
Transport	83.4	43.0	3.8	33.1	163.3
Health	130.1	-	112.1	44.1	286.3
Citizen Services	298.9	167.8	82.8	0.7	550.2
	991.5	622.3	472.0	92.6	2,178.4

1. The prior period balances have been restated to ensure consistent application of the sector definitions used for the current period and those used in the full year 2022 results as stated in the Annual Report and Accounts. The change has no impact to the income statement or the balance sheet of the Group.

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

For the six months ended 30 June 2023	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,218.5	701.0	449.5	103.1	-	2,472.1
Result						
Underlying operating profit/(loss)[1]	69.9	79.4	13.9	7.0	(22.3)	147.9
Amortisation and impairment of intangibles arising on acquisition	(1.5)	(8.1)	(1.8)	-	-	(11.4)
Exceptional operating items[2]	9.9	-	-	-	41.3	51.2
Operating profit	78.3	71.3	12.1	7.0	19.0	187.7
Net finance costs						(11.0)
Profit before tax						176.7
Tax charge						(26.8)
Tax charge on exceptional items						(2.3)
Profit for the year						147.6
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	18.0	-	-	-	-	18.0
Total depreciation and impairment of property, plant and equipment and right of use assets	(50.5)	(10.5)	(5.3)	(1.1)	(5.6)	(73.0)
Amortisation and impairment of other intangible assets	(1.0)	(0.5)	(0.5)	-	(2.0)	(4.0)

1. Underlying operating profit/(loss) is defined as operating profit/(loss) before exceptional operating items, amortisation and impairment of intangible assets arising on acquisition, and other non-underlying items.
2. Included within exceptional operating items are releases of provisions previously held for indemnities given on disposed businesses of £41.3m and compensation received on the early termination of a contract of £9.9m. Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

For the six months ended 30 June 2022	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	991.5	622.3	472.0	92.6	-	2,178.4
Result						
Underlying operating profit/(loss)[1]	37.5	75.7	31.6	8.7	(24.0)	129.5
Other non-underlying items[2]	4.2	-	-	-	-	4.2
Amortisation and impairment of intangibles arising on acquisition	(0.4)	(7.4)	(1.8)	-	-	(9.6)
Exceptional operating items[3]	-	(0.9)	0.1	-	(0.1)	(0.9)
Operating profit/(loss)	41.3	67.4	29.9	8.7	(24.1)	123.2
Net finance costs						(9.2)
Profit before tax						114.0
Tax charge						(23.1)
Profit for the year						90.9
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	3.4	-	-	-	-	3.4
Total depreciation and impairment of property, plant, and equipment and right of use assets	(36.7)	(13.6)	(6.1)	(0.9)	(5.7)	(63.0)
Amortisation of other intangible assets	(0.5)	(0.3)	(1.1)	-	(3.0)	(4.9)

1. Underlying operating profit/(loss) is defined as operating profit/(loss) before exceptional operating items, amortisation and impairment of intangible assets arising on acquisition, and other non-underlying items.
2. Non-underlying items include the reversal of an impairment in respect of assets which is no longer required due to contractual changes which the Group has agreed with its customer.
3. Included within exceptional operating items are total acquisition-related costs of £0.9m.

As at 30 June 2023	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	36.9	-	-	0.4	-	37.3
Other segment assets[1]	907.5	918.5	284.2	72.3	55.1	2,237.6
Total segment assets	944.4	918.5	284.2	72.7	55.1	2,274.9
Unallocated assets[2]						344.8
Consolidated total assets						2,619.7
Segment liabilities						
Segment liabilities[1]	(711.4)	(162.2)	(234.0)	(51.1)	(105.2)	(1,263.9)
Unallocated liabilities[2]						(372.3)
Consolidated total liabilities						(1,636.2)
Supplementary information						
Additions to non-current assets[3]	16.9	(49.5)	(17.5)	0.4	(31.1)	(80.8)
Segment non-current assets	682.5	700.2	159.0	14.5	49.5	1,605.7
Unallocated non-current assets						234.1

1. The corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.
2. Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.
3. Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant & equipment and right of use assets.

As at 31 December 2022	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	22.9	-	-	0.4	-	23.3
Other segment assets[1]	960.8	948.0	309.6	68.7	123.3	2,410.4
Total segment assets	983.7	948.0	309.6	69.1	123.3	2,433.7
Unallocated assets[2]						316.5
Consolidated total assets						2,750.2
Segment liabilities						
Segment liabilities[1]	(720.2)	(178.3)	(248.1)	(61.1)	(179.0)	(1,386.7)
Unallocated liabilities[2]						(333.8)
Consolidated total liabilities						(1,720.5)
Supplementary information						
Additions to non-current assets[3]	173.7	14.5	7.4	3.0	12.1	210.7
Segment non-current assets	701.1	718.6	177.1	14.1	80.8	1,691.7
Unallocated non-current assets						244.5

1. The corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.
2. Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.
3. Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant & equipment and right of use assets.

4. Exceptional operating items

Exceptional operating 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.

For the six months ended 30 June	2023 £m	2022 £m
Exceptional operating items		
Release of provisions held for indemnities given on disposed businesses	41.3	-
Compensation received on the early termination of contractual services	9.9	-
Costs associated with successful acquisition	-	(0.9)
Exceptional operating items	51.2	(0.9)
Exceptional tax (charge)/credit	(2.3)	0.3
Total exceptional items net of tax	48.9	(0.6)

The Group released provisions held for indemnities given on disposed businesses of £41.3m during the six months ended 30 June 2023 due to the claims period ending. The Group also received compensation on the early termination of a contract of £9.9m.

Exceptional tax for the period was a tax charge of £2.3m (2022: credit of £0.3m) which arises on exceptional operating items within operating profit.

5. Tax

The tax charge for the six months ended 30 June 2023 is calculated using the full year forecasted effective tax rate by taxable entity which is then applied to the actual profit for the period in each taxable entity. The tax impacts of items specific to the period are then included to provide the half year actual tax charge.

A total tax charge of £29.1m includes an underlying tax charge of £29.8m, a tax credit on amortisation of intangibles arising on acquisition of £3.0m and a tax charge of £2.3m on exceptional income.

The tax rate on underlying profits at 21.8% is lower than the UK standard corporation tax rate of 23.5%. This is mainly due to the impact of profits made by joint ventures whose post tax profits are included in the Group's profit before tax. In addition, there is a credit associated with a reduction in provisions for uncertain tax positions during the period, as part of regular reassessment of tax exposures across the Group. This is partially offset by higher rates of tax on profits arising on international operations.

A £186.5m deferred tax asset is recognised on the balance sheet at 30 June 2023 (31 December 2022: £190.4m) of which £183.4m relates to the UK (31 December 2022: £186.9m).

6. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with *IAS 33 Earnings per Share*.
The calculation of the basic and diluted EPS is based on the following data:

Number of shares **For the six months end 30 June**	2023 millions	2022 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,125.5	1,207.2
Effect of dilutive potential ordinary shares: Shares under award	13.7	19.1
Weighted average number of ordinary shares for the purpose of diluted EPS	1,139.2	1,226.3

Basic EPS **For the six months end 30 June**	Earnings 2023 £m	Per share amount 2023 pence	Earnings 2022 £m	Per share amount 2022 pence
Earnings for the purpose of basic EPS	147.6	13.11	90.9	7.53
Effect of dilutive potential ordinary shares		(0.15)		(0.12)
Diluted EPS	147.6	12.96	90.9	7.41

7. 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 2022 year end. 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, 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.

As noted at year end 2022, within the forecast cash flows for the AsPac CGU, there are few large opportunities which have a binary outcome the loss of which could result in an impairment of the goodwill. The current trading environment and win rates have been considered, however given the opportunities available within the region no indicator of impairment has been identified. Should the scale of any Division in the Group decline to a level which does not make it economically viable, it is likely that the Group would review the overhead and support structures in place to ensure they are appropriate for the scale of the business and opportunities available. The Group will undertake a five-year strategy review during the second half of 2023 for all Divisions, and as required a full impairment review will take place for the 31 December 2023 reporting period.

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

8. Analysis of Net Debt

30 June 2023

	As at 1 January 2023 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Non-cash movements[1] £m	As at 30 June 2023 £m
Loans payable	(262.9)	(65.0)	-	13.0	(0.4)	(315.3)
Lease obligations	(446.0)	63.0	-	3.9	(59.3)	(438.4)
Liabilities arising from financing activities	(708.9)	(2.0)	-	16.9	(59.7)	(753.7)
Cash and cash equivalents	57.2	43.9	-	(2.4)	-	98.7
Derivatives relating to Net Debt	1.8	-	-	(0.9)	-	0.9
Net Debt	(649.9)	41.9	-	13.6	(59.7)	(654.1)

1. 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 2022

	As at 1 January 2022 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash movements[2] £m	As at 31 December 2022 £m
Loans payable	(377.0)	149.3	(6.5)	(30.1)	1.4	(262.9)
Lease obligations	(430.3)	120.5	(13.1)	(8.0)	(115.1)	(446.0)
Liabilities arising from financing activities	(807.3)	269.8	(19.6)	(38.1)	(113.7)	(708.9)
Cash and cash equivalents	198.4	(151.1)	6.2	3.7	-	57.2
Derivatives relating to Net Debt	0.6	-	-	1.2	-	1.8
Net Debt	(608.3)	118.7	(13.4)	(33.2)	(113.7)	(649.9)

1. Acquisitions represent the net cash/(debt) acquired on acquisition.
2. 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.

9. Provisions

	Employee related £m	Property £m	Contract £m	Claims £m	Other £m	Total £m
As at 1 January 2023	82.5	19.6	11.6	24.2	70.5	208.4
Arising on acquisition	-	-	-	-	0.4	0.4
Transfer from working capital	-	0.6	-	-	-	0.6
Eliminated on disposal of subsidiary	(1.2)	(0.9)	-	-	(0.3)	(2.4)
Charged to income statement	9.2	1.5	1.3	5.2	4.4	21.6
Released to income statement	(0.6)	(0.4)	(0.7)	-	(4.5)	(6.2)
Released to exceptional items	-	-	-	-	(41.3)	(41.3)
Utilised during the period	(4.1)	(2.0)	(2.2)	(3.6)	(4.0)	(15.9)
Exchange differences	(5.4)	(0.2)	-	-	(0.6)	(6.2)
As at 30 June 2023	80.4	18.2	10.0	25.8	24.6	159.0
Analysed as:						
Current	50.7	7.3	9.6	4.3	20.0	92.0
Non-current	29.7	10.9	0.4	21.5	4.6	67.0
	80.4	18.2	10.0	25.8	24.6	159.0

Employee-related provisions include amounts for 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. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is uncertain.

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 the lease. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in March 2037.

A contract provision is recorded when a contract is deemed to be unprofitable and therefore is considered onerous. 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.

Claims provisions relate to claims made against the Group. These claims are varied in nature, although they typically come from either the Group's service users, claimants for vehicle-related incidents or the Group's employees. Whilst there is some level of judgement on the amount to be recorded, in almost all instances the variance to the actual claim paid out will not individually be material, however the timing of when the claims are reported and settled is less certain.

Included within other provisions is:

- £1.4m related to indemnities provided in respect of a historic business transaction. During the six months to 30 June 2023 £41.3m was released due to the claim period ending on 31 March 2023.
- £23.2m related to legal and other costs that the Group expects to incur in respect of past events for which a provision has been recorded, none of which are individually material.

10. Contingent liabilities

The Group has guaranteed overdrafts, leases and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (31 December 2022: £5.7m). The actual commitment outstanding at 30 June 2023 was £5.7m (31 December 2022: £5.7m).

The Group has provided certain guarantees and indemnities in respect of performance and other bonds, issued by banks on its behalf, in the ordinary course of business. The total commitment outstanding as at 30 June 2023 was £206.8m (31 December 2022: £222.7m).

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 it is therefore not possible to assess the quantum of any such litigation as at the date of this disclosure.

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.

11. 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, 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 2023 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 2023, 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 £3.4m (31 December 2022: £3.6m) and financial liabilities of £2.1m (31 December 2022: £1.1m).

There have been no transfers between levels in the six months to 30 June 2023.

12. Defined benefit schemes

Recognised in the income statement:

For the six months ended 30 June	2023 £m	2022 £m
Current service cost - employer	2.8	2.5
Settlement gain recognised	-	(0.4)
Administrative expenses and taxes	0.8	0.9
Recognised in arriving at operating profit	3.6	3.0
Interest income on scheme assets - employer	(25.3)	(14.0)
Interest on franchise adjustment	-	(0.1)
Interest cost on scheme liabilities - employer	23.8	12.7
Finance income	(1.5)	(1.4)
Total recognised in the income statement	2.1	1.6

Included within the SOCI:

For the six months ended 30 June	2023 £m	2022 £m
Actual return on scheme assets	(18.2)	(367.7)
Less: interest income on scheme assets	(25.3)	(14.0)
	(43.5)	(381.7)
Effect of changes in demographic assumptions	-	16.0
Effect of changes in financial assumptions	37.1	399.8
Effect of experience adjustments	(19.4)	(76.1)
Remeasurements	(25.8)	(42.0)
Change in franchise adjustment	(1.9)	(4.7)
Change in members' share	(1.3)	(3.5)
Actuarial loss on reimbursable rights	(3.2)	(8.2)
Total pension loss recognised in the SOCI	(29.0)	(50.2)

The total assets and liabilities of all schemes are:

	At 30 June 2023			At 31 December 2022		
	Fair value of scheme assets £m	Present value of scheme liabilities	Surplus/ (deficit)	Fair value of scheme assets £m	Present value of scheme liabilities	Surplus/ (deficit)
SPLAS	885.7	(860.4)	25.3	925.3	(877.8)	47.5
Other schemes	126.9	(127.1)	(0.2)	134.4	(134.1)	0.3
Total	1,012.6	(987.5)	25.1	1,059.7	(1,011.9)	47.8
Franchise adjustment[1]			-			1.8
Members' share of deficit			-			1.2
Net retirement benefit asset[2]			25.1			50.8

1. The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period, the balance is now nil following the transfer of the pension obligations for Caledonian Sleepers at the end of the franchise agreement in June 2023.
2. Net retirement benefit asset (before tax) is split between schemes with a pension asset £32.1m (31 December 2022: £57.0m) and a pension liability £7.0m (31 December 2022: £6.2m)

Actuarial assumptions:

The assumptions set out below are for Serco Pension and Life Assurance Scheme (SPLAS), which represents 87% of total liabilities and 87% of total assets of the defined benefit pension schemes in which the Group participates.

Main assumptions	30 June 2023 %	31 December 2022 %
Discount rate	5.35	5.00
Rate of salary increases	2.95	2.85
RPI Inflation	3.15	3.15
CPI Inflation	2.45	2.35

Post retirement mortality	30 June 2023 Years	31 December 2022 years
Current pensioners at 65 - male	21.6	21.5
Current pensioners at 65 - female	24.2	24.1
Future pensioners at 65 - male	23.6	23.6
Future pensioners at 65 - female	26.3	26.2

13. 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. Related party transactions with the Group's key management personnel and retirement benefit plans, are set out in the Group's financial statements for the year ended 31 December 2022. 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 2023 £m	Current outstanding at 30 June 2023 £m	Non-current outstanding at 30 June 2023 £m
Sale of goods and services			
Joint ventures	6.9	2.2	-
Other			
Dividends received - joint venture	4.7	-	-
Loan receivable from joint ventures[1]	-	-	10.0
Receivable from consortium for tax - joint ventures	3.8	0.8	7.0
Total	15.4	3.0	17.0

1. During the period a £5.0m loan was advanced to VIVO, and the amount was subsequently repaid.

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 2022 £m	Current outstanding at 30 June 2022 £m	Non-current outstanding at 30 June 2022 £m
Sale of goods and services			
Joint ventures	5.7	-	-
Associates	0.8	0.1	-
Other			
Dividends received - joint venture	2.0	-	-
Dividends received - associate	1.6	-	-
Loan receivable from joint ventures	7.5	-	7.5
Receivable from consortium for tax - joint ventures	1.1	0.2	1.9
Total	18.7	0.3	9.4

14. Notes to the Condensed Consolidated Cash Flow Statement

For the six months ended 30 June	2023 Underlying £m	2023 Non underlying items £m	2023 Reported £m	2022 Underlying £m	2022 Non underlying items £m	2022 Reported £m
Operating profit/(loss) for the period	147.9	39.8	187.7	129.5	(6.3)	123.2
Adjustments for:						
Share of profits in joint ventures and associates	(18.0)	-	(18.0)	(3.4)	-	(3.4)
Share based payment expense	7.1	-	7.1	7.8	-	7.8
Impairment of property, plant and equipment - owned	0.9	-	0.9	-	-	-
Impairment of property, plant and equipment - leased	-	-	-	-	(4.2)	(4.2)
Depreciation of property, plant and equipment - owned	9.0	-	9.0	10.5	-	10.5
Depreciation of property, plant and equipment - leased	63.1	-	63.1	56.7	-	56.7
Amortisation of intangible assets – owned	4.0	11.4	15.4	4.9	9.6	14.5
Profit on early termination of leases	-	-	-	(0.1)	-	(0.1)
Profit on disposal of property, plant and equipment	(0.2)	-	(0.2)	(0.1)	-	(0.1)
(Profit)/loss on disposal of intangible assets	(1.2)	-	(1.2)	0.1	-	0.1
(Decrease)/increase in provisions	(0.3)	(41.5)	(41.8)	1.5	(0.2)	1.3
Other non-cash movements	(1.3)	-	(1.3)	(0.2)	-	(0.2)
Total non-cash items	63.1	(30.1)	33.0	77.7	5.2	82.9
Increase in inventories	(1.5)	-	(1.5)	(1.1)	-	(1.1)
Decrease in receivables	43.0	-	43.0	9.1	-	9.1
Decrease in payables	(28.7)	-	(28.7)	(5.1)	-	(5.1)
Movements in working capital	12.8	-	12.8	2.9	-	2.9
Tax paid	(24.7)	-	(24.7)	(24.9)	-	(24.9)
Net cash inflow/(outflow) from operating activities	199.1	9.7	208.8	185.2	(1.1)	184.1

15. Post balance sheet events

Dividends

Subsequent to the period end, the Board has declared an interim dividend 1.14p per share in respect of the six months ended 30 June 2023.