2024 half year results
Serco Group
1 August 2024

On track for full year following good progress in first half

Highlights

- **Revenue:** £2.4bn, in line with expectations.
- **Margin:** Focus on enhancing performance across our portfolio delivered margin of 6.0%.
- **Underlying operating profit:** Ahead of plan at £142m. Approximately 60% of Group underlying operating profit derived from outside the UK[1].
- **Cash flow:** Free cash flow £75m, on track for full year trading cash conversion of at least 80%.
- **Strong financial position:** Adjusted net debt of £131m, Leverage 0.6x net debt to EBITDA.
- **Order intake:** £1.9bn of wins, order book remains strong at £13.5bn.
- **Pipeline:** Pipeline of potential new work remains high at £10.2bn.
- **Dividend per share:** Interim dividend per share of 1.34p, +18% year on year.
- **Share buyback:** £57m of £140m share buyback completed, remainder in second half.
- **Guidance for 2024:** Unchanged following upgrade to profit and cash in trading statement on 27 June.

Period ended 30 June	2024	2023	Change at reported currency	Change at constant currency
Reported revenue	£2,359m	£2,472m	(5)%	(3)%
Underlying operating profit	£142m	£148m	(4)%	(2)%
Reported operating profit	£130m	£188m	(31)%	
Underlying earnings per share (EPS), diluted	8.54p	9.40p	(9)%	
Reported EPS (i.e. after exceptional items), diluted	7.68p	12.96p	(41)%	
Dividend per share (recommended)	1.34p	1.14p	18 %	
Free cash flow	£75m	£98m	(23)%	
Net cash inflow from operating activities	£189m	£209m	(10)%	
Adjusted net debt	£131m	£216m	(39)%	
Reported net debt	£631m	£654m	(4)%	

Mark Irwin, Serco Group Chief Executive, said:

"Our focus on productivity and driving improvement across our portfolio has seen good progress at this early stage. As a result, we were able to increase our guidance for profit, cash and net debt with our trading update in June. In a year where revenue is expected to be slightly down, we will grow underlying operating profit by approximately 9% to £270m, with margins increasing by around 50 basis points.

As we enter the second six months of the year, we continue to work on enhancing the performance of the business. While mindful of a potential impact internationally from elections in 2024, we are confident about the quality of our pipeline of potential new work to achieve our medium-term growth targets."

Guidance for 2024

Guidance for 2024 is unchanged since our trading statement on 27 June. At that point we increased underlying operating profit guidance by £10m, or 4%, to approximately £270m, and free cash flow by the same amount. We expect revenue in 2024 to be slightly below 2023 but underlying operating profit to grow by around 9%. Conversion of profit to cash is expected to be consistent with our medium-term target of at least 80%.

	2023 Actual	2024 Guidance (unchanged from 27 June)
Revenue	£4.9bn	~£4.8bn
Organic sales growth	4%	~(3)%
Underlying operating profit	£249m	~£270m
Net finance costs	£25m	~£35m
Underlying effective tax rate	23%	~25%
Free cash flow	£209m	~£150m
Adjusted net debt	£109m	~£165m

NB: The guidance uses an average GBP:USD exchange rate of 1.28 in 2024, GBP:EUR of 1.17 and GBP:AUD of 1.91. We expect a weighted average number of shares in 2024 of 1,060m for basic EPS and 1,080m 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 at 10.00 UKT. The presentation will be webcast live at https://www.sparklive.lseg.com/SercoGroup/events/ec96ccaa-2fed-4d77-8f48-b0d830164eb3/serco-2024-half-year-results and subsequently available on demand. To be able to ask questions please use our dial-in facility accessed on https://registrations.events/direct/LON941200

Notes to financial results summary table and highlights:

The trading performance and outlook for each Division are described on pages 10 to 14. Reconciliations and further detail of financial performance are included in the additional information on pages 35 to 39. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group.

(1) 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 the period ended June 2024 was £165.2m

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Chief Executive's update

Our focus is on building a resilient international government services business that can sustainably deliver growth in revenue, profit and cash. We continue to work on effective execution of initiatives prioritising service excellence to our customers, the safety and productivity of colleagues, actively managing our portfolio for performance and strategic alignment, and generating and converting a pipeline of opportunities to deliver profitable growth over the medium term.

Good early progress has contributed to the margin being ahead of plan in the first half, and, together with the successful ramp up of new work, supports our planned delivery of more than 25% profit improvement in the second six months when compared to the same period in the prior year.

We anticipated revenue in the period to reduce due to previously announced exits from low margin contracts and the changes from successfully rebidding one of our largest contracts in North America. On this basis, revenue of £2.4bn was in line with expectation and 5% lower than the same period last year. Underlying operating profit was £142m, with margins at the upper end of our 5-6% target range at 6.0% in the period.

In our North America business, the first half saw further progress in defence and good order intake. The pipeline of new opportunities remains positive. As anticipated this half saw the most significant step down in our Centers for Medicaid & Medicare Services (CMS) contract when compared to the prior year as we completed the first year of the new five-year contract under different scope and terms. CMS remains a benchmark contract in the Group portfolio for innovation and profitability. Mobilising the new employment services contracts and better performance of existing contracts has seen an improved outcome from operations in Canada.

Our UK & Europe business, despite revenue being slightly lower, delivered strong growth in profit and a significant uplift in margin. The division managed previously announced contract exits effectively, while also responding to ongoing demand for immigration services, successfully ramping up new work and making progress on productivity.

New management settled in well in Asia Pacific and is working through a plan to stabilise the business ahead of positioning for the growth opportunities we expect in the coming years. The first half saw us take action to reduce the cost base and improve profitability on some larger contracts. We expect the benefit of this to come through in the second half of the year.

Our Middle East business saw organic revenue growth with profit impacted due to the successful rebid of an historically significant contract which has a materially reduced scope in the current term. The division has a healthy pipeline of opportunities in both the United Arab Emirates and the Kingdom of Saudi Arabia. The recently acquired Climatize engineering consulting business has been fully integrated into our advisory business and is providing additional capability for sustainability projects.

Looking more broadly across the business, a central part of our strategy is to protect and deepen the relationship between Serco and the people whose dedication and commitment enables our success. Colleague engagement levels have remained high, and the first half saw improvement in safety outcomes with an 18% reduction in lost time incidents. Compared to their peak in the last two years, vacancy numbers are down by 60% and the data-driven approach we have taken to understanding and addressing the reasons for elevated attrition has led to a 30% reduction in the attrition rate.

We have progressed the AI pilots we commenced in 2023 with Group-wide implementation of two of the initial six platforms so far. AutoGenAI to support bid and proposal development, and Synthesia for text to video knowledge management are now being used in the business, and we are moving others, for example VisionAI, into operational testing phase. We are also exploring several new opportunities aimed at enhancing colleague safety and productivity or differentiating our value proposition to our customers. We are pleased that Tom Read has joined us in July as Chief Digital and Technology Officer and a member of the Executive Committee. Tom brings deep experience in public and private sector digital transformation to accelerate our approach to simplify, automate and digitise.

We remain mindful of potential timing impacts on contract awards due to the unusually large number of elections across the globe in 2024. Notwithstanding a range of potential outcomes with changes in government, we see significant demands on our customers arising from fiscal constraints, demographic and social impacts, migration patterns and geopolitical tension, among others. The geographic and sector diversity of our portfolio sees us well placed to respond to these market drivers by bringing together the right people, the right technology and the right partners.

In summary, we are pleased with progress so far in 2024 and the steps we are taking to deliver profitable, sustainable growth aligned to our medium-term goals. The business has a very healthy pipeline of potential new work, a business plan to deliver margin improvement from a rigorous approach to operational efficiency, a network of partnerships to support technology enablement and a robust balance sheet providing good optionality for capital allocation.

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 was in line with our expectations at £2,359m, which was 5%, or £113m, lower than the £2,472m reported in 2023. Organically, revenue declined by 5% (£116m), while acquisitions added 2% (£49m) and currency was a drag of 2% (£46m). We saw constant currency growth in the immigration, defence and justice sectors in the half. This partially offset declines in other areas, in particular lower revenue from the new CMS contract and our previously announced exit from some low margin contracts in the UK.

Underlying operating profit reduced by 4% to £142m (2023: £148m). Currency had an adverse impact of 2%, leaving a constant currency decline of 2%. The lower profit was due to the new CMS contract, immigration volumes in Australia and mobilisation costs on new work. Although profit was lower than in 2023, the outcome was better than we had expected. A contributing factor to this was our focus on productivity and improving the underlying performance of our portfolio. We first discussed this in our 2023 full year results, and we have seen good progress at this early stage. Efforts to improve the underlying portfolio meant our profit margin was also better than anticipated. It was 6.0% in the first half, the same as the first six months of 2023, despite the headwinds on profit.

Reported operating profit reduced by 31% to £130m. The decline was primarily because the prior year included £51m of positive one-off exceptional operating items. These resulted from the release of £41m of provisions held for indemnities provided on businesses disposed of in 2015, predominantly due to the claims period ending, and £10m compensation we received on the early termination of a contract.

Diluted underlying earnings per share reduced by 9% to 8.54p (2023: 9.40p). Higher net finance costs and tax rate were partially offset by a 4% reduction in our weighted average number of shares, due to our share buybacks in 2023 and 2024.

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

Cash flow and net debt

Free cash flow was £75m (2023: £98m). We have made excellent progress in structurally improving our working capital over recent years, which has delivered average cash conversion of more than 100%. This was achieved with focus on efficient and prompt processes to issue sales invoices and collect cash from our customers. This rigour is now built into our culture and processes, and we expect the business to convert at least 80% of profit into cash on an ongoing basis, including in 2024. Average working capital days were at attractive levels with debtor days of 21 (2023: 21 days) and creditor days of 19 (2023: 22 days). Including accrued income and other unbilled receivables, day sales outstanding were 43 days (2023: 43 days). Of all UK supplier invoices, 94% were paid in under 30 days (2023: 93%) and 97% were paid in under 60 days (2023: 97%). No working capital financing facilities were utilised in this or the prior year.

Adjusted net debt was £131m at the end of June. This was an increase of only £22m since the year end (December 2023: £109m) despite £25m of dividend payments, a £19m net cash outflow for acquisitions and £58m being spent on our share buyback programme, including fees.

The period end adjusted net debt compares to a daily average of £157m (first half of 2023: £261m) and a peak of £212m (first half of 2023: £357m). The difference between average and peak figures reflected working capital fluctuations. These can be caused when certain discrete outflows - for example payroll, supplier payments, VAT payments on account - occur in a short timeframe. Variances like this are normal for the Group.

Our measure of adjusted net debt excludes lease liabilities, which aligns closely with the covenants on our financing facilities. Lease liabilities totalled £500m at the end of June (2023: £438m), the majority being leases on housing for asylum seekers under our Asylum Accommodation and Support Services Contract (AASC). These leases are cash backed with contracted revenue from the customer and their terms do not extend beyond the expected life of the contract we have.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.6x EBITDA (2023: 0.9x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

On 27 February 2024, we issued $150m (£118m) of US Private Placement loan notes. The notes are equally split into two series of $75m each with maturities of five and ten years, giving an average maturity of seven and a half years. The average interest rate on the new loan notes is fixed at 6.58%, which compares to a blended rate of 3.97% for the existing notes.

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.

Our capital allocation framework was actively applied in the first half of 2024:

- Invest to support organic growth: investment has been put into business development, which has supported our healthy pipeline of new opportunities. We continued to invest in pilot programmes to partner with both start-up and established technology businesses to create a broader capability ecosystem from which to deliver future growth. Investment was made to improve productivity and competitiveness.
- Increase ordinary dividends: we will be paying an interim dividend of 1.34p per share, 18% 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: in March we acquired European Homecare (EHC), a leading provider of immigration services in Germany. In January we acquired Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services. We continue to assess other opportunities that are aligned to our strategy and provide potential to enhance future organic growth.
- Return surplus cash to shareholders: we completed £57m of our £140m share buyback in the first half.

Contract awards, order book, rebids and pipeline

Contract awards

Order intake in the half was £1.9bn, a book-to-bill rate of 82%. Book-to-bill of below 100% reflects some larger bids in the UK either being unsuccessful or the existing contract being extended and therefore delaying the procurement.

There were around 30 contract awards worth £10m or more each. North America had the strongest book-to-bill at 127%, with wins across the defence, citizen services and transport sectors. After strong order intake in 2023, our Middle East business had another good half with book-to-bill of 125%. Unsuccessful bids and some existing work being extended rather than proceeding with the tender left the UK & Europe book-to-bill at 70%. Book-to-bill in Asia Pacific was unsurprisingly low, at 35%, as we look to stabilise the business, rebuild the pipeline and work to make sure we are well positioned to convert future opportunities. Both North America and the UK & Europe had order intake of £0.8bn, or approximately 45% each, and the Middle East and Asia Pacific both contributed £0.1bn, or approximately 5%.

Approximately 40% of the order intake value was new business and 60% was rebids or extensions of existing work. The win rate by value for new work was approximately 25%, at the lower end of the range we have delivered over recent years, while the win rate by value for retaining existing work was consistent with our typical levels at approximately 90%.

New wins included additional immigration accommodation work in the UK, a £90m six and a half year contract to deliver emergency response services in the NEOM economic zone in the Kingdom of Saudi Arabia, a £70m six-year agreement to operate and maintain the Shing Mun Tunnels and Tseung Kwan O Tunnel in Hong Kong, and a further £50m five-year contract with the Government of Ontario to help job seekers develop their skills and match them to employment opportunities. We successfully rebid our contract to manage HMP Ashfield in the UK. The new contract has an estimated value to Serco of £200m over its initial ten-year period. In the US, we won the rebid of our contract to provide customer support services to the US Pension Benefit Guaranty Corporation. The contract has a one-year base period and four option years with a value of approximately £180m if all options years are exercised. Our contracts with the UK Department for Work and Pensions to help people find jobs in the West Central region and Wales as part of the Restart programme, were extended for a further two years, with an estimated value of £130m. Since the period end, we have been awarded a new $320m four-year contract by the US Army Corps of Engineers to upgrade defence infrastructure in Greenland.

Order book

The order book remains strong at £13.5bn at the end of June (30 June 2023: £14.1bn, 31 December 2023: £13.6bn). 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 £2.5bn (2023: £2.4bn) 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 £1.7bn (2023: £1.8bn) to our order book.

Rebids

In our portfolio of existing work, we have around 70 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2026, with an aggregate annual revenue of £1.5bn. At around 30% of the Group's 2024 revenue guidance, this proportion of work that will be up for rebid is at the low end of the range we have seen over recent years. Contracts that will either need to be rebid or extended in 2024 have an annual contract value of around £0.4bn, including our immigration services work in Australia, which is currently contracted until December 2024. The annual value of rebids in 2025 is approximately £0.7bn and this reduces to £0.5bn in 2026.

New business pipeline

Our measure of pipeline 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 small proportion of the total universe of opportunities, as many opportunities have annual revenues less than £10m, are likely to be decided beyond the next 24 months or are rebids and extensions.

Our pipeline was £10.2bn at the end of June, slightly higher than the £10.1bn level at the end of December 2023, and an increase of nearly 30% since the end of June 2023. This remains the largest pipeline of potential new work we have had in a decade. The pipeline consists of around 45 bids with an ACV averaging slightly less than £40m and an average contract length of around six years. The pipeline of opportunities for new business with an estimated ACV of less than £10m totalled £2.2bn at the end of June, a 13% decrease from the £2.6bn value at the end of December 2023.

Acquisitions

We view acquisitions as an important part of our strategic toolkit, which, if deployed correctly, can add significant value to the business. They should therefore supplement and be capable of delivering new opportunities for organic growth. Generally speaking, we regard acquisitions as higher risk than organic growth, so any potential opportunities have to meet our stringent criteria of being both financially and strategically compelling. We judge potential acquisitions against three criteria: do they add new, or strengthen existing, capability? Do they add scale which we can use to increase efficiency? Do they bring us access to new and desirable customers and markets? We also recognise that acquisition opportunities come in different shapes, sizes and sectors, and a small one can be strategically important to a region, but not necessarily significant at Group level. But large or small, the execution of all acquisitions is centrally managed and follows the same rigorous process. Equal focus and discipline is applied to post-acquisition value drivers such as effective integration and value realisation from synergy and growth.

We completed two acquisitions in the first half of 2024:

- In March we acquired European Homecare (EHC), for an enterprise value of €40m (£34m). EHC is a leading private provider of immigration services in Germany. In conjunction with ORS, the Swiss-based business we acquired in 2022, this strategic acquisition creates a strong partner for European governments in immigration services and complements the support we already provide to government customers in the UK and Australia.
- In January we acquired Climatize, for an initial consideration of AED 9m (£2m) and a contingent consideration of up to AED 51m (£11m), payable on achieving certain financial targets. Climatize is a small but fast-growing business that operates in the United Arab Emirates and Saudi Arabia offering 'zero-carbon' advisory and related engineering services. The business will significantly boost Serco's sustainability advisory capability in the Middle East with possible scalability to other markets.

We continue to seek out and evaluate new opportunities for acquisitions that fit our criteria and focus on delivering value from those acquisitions already executed.

Guidance for 2024

Our guidance for 2024 is unchanged from our pre-close trading statement on 27 June 2024. At that point we increased underlying operating profit guidance by £10m, or 4%, to £270m, and free cash flow by the same amount.

Revenue: We expect revenue to be around £4.8bn, slightly below the £4.9bn outturn for 2023, with a 3% organic contraction, a 2% contribution from acquisitions and a 1% adverse impact of currency. Revenue is expected to be lower organically due to our CMS contract now being in its new five-year agreement, the annualisation of our previously announced exit from certain low-margin contracts, and contract mix change in immigration, as we support the UK Government's efforts to reduce the number of asylum seekers being accommodated in hotels. These factors will be partially offset by growth in the defence and justice sectors.

Underlying operating profit: Underlying operating profit is expected to grow by around 9% to £270m, including an expected currency drag of £5m, with margins increasing by around 50 basis points (bps). The year will benefit from new contracts ramping up, operational efficiency improvements across the existing portfolio and a contribution from acquisitions. We expect these to more than offset the mobilisation costs on new work, lower immigration volumes in the UK and Australia, and CMS operating in its new contract term. Following our success in winning the Health Assessment Advisory Services and electronic monitoring contracts in the UK in the fourth quarter of 2023, we expect there to be around a £13m drag on profits due to mobilisation activities.

Net finance costs and tax: Net finance costs are expected to be around £35m. This is more than 2023 due to higher interest rates, increased volume of lease-related interest and acquisition spend. The underlying effective tax rate is expected to be around 25%, 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 again expected to be strong at around £150m in the year, consistent with our ongoing expectation of converting at least 80% of profit into cash. This is below 2023, as this included the benefit of actions taken to structurally improve our working capital. We expect adjusted net debt to end the year at around £165m, including the acquisitions of EHC and Climatize, and the £140m share buyback. We expect net debt to EBITDA to be approximately 0.6x at the year end.

Summary of guidance for 2024

	2023 Actual	2024 Guidance (unchanged from 27 June)
Revenue	£4.9bn	~£4.8bn
Organic sales growth	4%	~(3)%
Underlying operating profit	£249m	~£270m
Net finance costs	£25m	~£35m
Underlying effective tax rate	23%	~25%
Free cash flow	£209m	~£150m
Adjusted net debt	£109m	~£165m

NB: The guidance uses an average GBP:USD exchange rate of 1.28 in 2024, GBP:EUR of 1.17 and GBP:AUD of 1.91. We expect a weighted average number of shares in 2024 of 1,060m for basic EPS and 1,080m for diluted EPS.

Outlook for growth in the medium-term

Our medium-term targets remain unchanged. We expect to grow revenue at an average of 4-6% a year. Our focus on productivity and efficiency will help us achieve our margin target of 5-6%. At least 80% of our operating profit will be converted into cash.

Divisional Reviews

Serco's operations are reported as four regional divisions: North America; UK & Europe (UK&E); the Asia Pacific region; 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.

Period ended 30 June 2024	North America £m	UK&E £m	Asia Pacific £m	Middle East £m	Corporate costs £m	Total £m
Revenue	**656.4**	**1,210.6**	**387.4**	**104.9**	**–**	**2,359.3**
Change	(6)%	(1)%	(14)%	2 %		(5)%
Change at constant currency	(3)%	(1)%	(10)%	5 %		(3)%
Organic change at constant currency	(3)%	(5)%	(10)%	5 %		(5)%
Underlying operating profit / (loss)	**68.8**	**82.9**	**7.8**	**5.7**	**(22.8)**	**142.4**
Margin	10.5 %	6.8 %	2.0 %	5.4 %	(1.0)%	6.0 %
Change	(13)%	19 %	(44)%	(19)%	2 %	(4)%
Amortisation and impairment of intangibles arising on acquisition	(7.8)	(5.1)	–	–	–	(12.9)
Exceptional operating items	–	–	–	–	–	–
Reported operating profit / (loss)	**61.0**	**77.8**	**7.8**	**5.7**	**(22.8)**	**129.5**

Period ended 30 June 2023	North America £m	UK&E £m	Asia Pacific £m	Middle East £m	Corporate costs £m	Total £m
Revenue	**701.0**	**1,218.5**	**449.5**	**103.1**	**–**	**2,472.1**
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 %
Amortisation and impairment 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 / (loss)	**71.3**	**78.3**	**12.1**	**7.0**	**19.0**	**187.7**

The trading performance and outlook for each Division are described on the following pages. Reconciliations and further detail of financial performance are included in the additional information on pages 35 to 39. 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 18 to 34.

Included in note 2 to the Group's 2023 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.

North America (28% of revenue, 42% of underlying operating profit)

Period ended 30 June £m	2024	2023	Growth
Revenue	**656.4**	**701.0**	**(6)%**
Organic change	(3)%	6 %	
Acquisitions	– %	– %	
Currency	(3)%	6 %	
Underlying operating profit	**68.8**	**79.4**	**(13)%**
Organic change	(10)%	(2)%	
Acquisitions	– %	– %	
Currency	(3)%	7 %	
Margin	**10.5 %**	**11.3 %**	**(85)bps**

Revenue declined by 6% to £656m (2023: £701m), with an organic decline of 3% and a 3% adverse translational effect of currency. The organic reduction in revenue was mainly due to our CMS contract being in its new five-year agreement, with this half being both the final period with the effect and the one where it had the largest impact. Our defence business delivered modest organic revenue growth. There were positive contributions from new work ramping up, maritime services and anti-terrorist force protection for the navy. Offsetting these were lower volumes on some other existing operations, including communication systems integration.

Underlying operating profit reduced by 13% to £69m (2023: £79m). Currency had a 3% adverse impact, with underlying operating profit down 10% on a constant currency basis. As with revenue, lower profit was due to the new CMS contract, which was partially offset by growth in our defence business. Margins reduced from 11.3% to 10.5% as a result.

Order intake was solid at £0.8bn, around 45% of the total for the Group and a book-to-bill ratio of 1.3x. Of this, new business wins were around 40% of the order intake. Following on from our success in 2022 and 2023, we secured a further £50m five-year contract with the Government of Ontario to help job seekers develop their skills and match them to employment opportunities. We won the rebid of our contract with the US Pension Benefit Guaranty Corporation. We provide benefits administration and customer support for over one million individuals whose defined benefits plans have been disrupted. The contract has a one-year base period and four option years with a value of approximately £180m if all options years are exercised. We also successfully rebid our IT support contract with the US Air Force. The new agreement has a one-year base period and four one-year option periods, and a value of approximately £70m if all options are exercised. As the NexGen Information Technology (IT) Service Provider, Serco will manage, configure, deploy, operate, sustain, and enhance the NexGen IT program solutions for Air Force Civil Engineering activities. This includes delivering the largest implementation of the IBM TRIRIGA software application in the world, to enable data-driven decisions for the Air Force. Since the period end, we have been awarded a new $320m four-year contract by the US Army Corps of Engineers to upgrade defence infrastructure in Greenland.

The pipeline of major new bid opportunities due for decision within the next 24 months in North America has increased from £3.2bn at the end of 2023 to £3.4bn at the end of June, with it having increased by more than 15% in the last 12 months. It is pleasing to see the pipeline at such a healthy level given good order intake in 2022, 2023 and the first half of 2024. North America represents approximately one-third of the total Group pipeline. Defence makes up the vast majority of the North American pipeline, with a broad spread of types of work.

UK & Europe (52% of revenue, 50% of underlying operating profit)

Period ended 30 June £m	2024	2023	Growth
Revenue	**1,210.6**	**1,218.5**	**(1)%**
Organic change	(5)%	11 %	
Acquisitions	4 %	11 %	
Currency	– %	1 %	
Underlying operating profit	**82.9**	**69.9**	**19 %**
Organic change	8 %	64 %	
Acquisitions	12 %	20 %	
Currency	(1)%	2 %	
Margin	**6.8 %**	**5.7 %**	**111bps**

Revenue reduced by 1% to £1,211m (2023: £1,219m), with an organic decline of 5% partially offset by a 4% contribution from acquisitions. EHC, the German immigration services business we acquired in March 2024, traded strongly with robust demand due to global migration patterns. The organic decline resulted from us exiting a variety of contracts in 2023, several of which had margins below the level we see as appropriate for the services we deliver. These contracts were in different sectors, so revenue declined in citizen services, transport and health & facilities management as we exited this work. Elsewhere we saw good growth in justice & immigration. Revenue in our defence business was stable in the period.

Underlying operating profit increased by 19% to £83m (2023: £70m). The good profit outcome was supported by immigration, where the EHC acquisition contributed and UK performance was better than originally anticipated, justice, where we successfully mobilised the newly built HMP Fosse Way, and from our focus on productivity and improving the underlying performance of our portfolio. Our health & facilities management business, in particular, saw much improved profitability compared to the prior year. Margin performance in the period was strong, with it increasing by 111bps to 6.8% (2023: 5.7%).

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 5.9% (2023: 5.2%). The joint venture and associate profit contribution reduced to £11m (2023: £18m) due to a one-off settlement being included in the prior year.

Order intake was around £0.8bn, a book-to-bill ratio of 0.7x and around 45% of the total intake for the Group. The low book-to-bill reflected some larger bids on new work not landing in our favour. This included two bids with a total contract value of more than £300m being awarded to competitors, which of course can happen in a healthily functioning market, and another being extended with the current provider rather than proceeding with the tender process. Our win rate by value on new work was slightly below 20% as a result. Offsetting this, our win rate on rebids and extensions was very good at more than 95%. New business represented approximately 30% of the order intake, with rebids and extensions around 70%. Agreements signed included the rebid of our contract to manage HMP Ashfield in the UK. The new contract has an estimated value of £200m and by the end of the ten-year period, Serco will have been managing the prison for 29 years. Additional immigration accommodation work was awarded. Our contracts with the UK Department for Work and Pensions to help people find jobs in the West Central region and Wales as part of the Restart programme, were extended for a further two years, with an estimated value of £130m. We extended our EFC2 contract with the European Space Agency. On this contract, Serco provides services in various areas including space, telecommunications, software engineering and data science. The new agreement is worth approximately £50m over two years.

The pipeline of new opportunities in the UK & Europe remains healthy at £4.5bn (December 2023: £4.8bn), with significant new opportunities across the defence, justice & immigration, and citizen services sectors.

Asia Pacific (16% of revenue, 5% of underlying operating profit)

Period ended 30 June £m	2024	2023	Growth
Revenue	**387.4**	**449.5**	**(14)%**
Organic change	(10)%	(4)%	
Acquisitions	– %	– %	
Currency	(4)%	(1)%	
Underlying operating profit	**7.8**	**13.9**	**(44)%**
Organic change	(41)%	(56)%	
Acquisitions	– %	– %	
Currency	(3)%	– %	
Margin	**2.0 %**	**3.1 %**	**(108)bps**

We are working through a plan to turn around our Asia Pacific segment following a difficult year in 2023. New management has bedded in well as we look to stabilise the business and position it for the opportunities we expect in the coming years. The first half saw us take action to reduce the cost base and improve profitability on some larger contracts. We expect the benefit of this to begin to come through in the second half of the year. Rebuilding the pipeline of potential new work is a key focus for us through the remainder of the year and into 2025.

Revenue reduced by 14% to £387m (2023: £450m). The business contracted by 10% organically and adverse currency moves had a 4% impact. Revenue fell because of lower volume-variable work in parts of the immigration network, reduced work in facilities management and some lost work in the citizen services sector.

Underlying operating profit reduced by 44% to £8m (2023: £14m), representing a margin of 2.0% (2023: 3.1%). Profit fell more than revenue due to a negative mix impact from the lower immigration volumes and investment in the cost transformation programme. We expect to see the focus on contract profitability improvements and cost transformation to show positive results in the second half of the year.

Order intake was £0.1bn. This was unsurprisingly low at this stage of our turnaround plan. New work included a £70m six-year agreement to operate and maintain the Shing Mun Tunnels and Tseung Kwan O Tunnel in Hong Kong.

The pipeline of potential new business stands at £1.4bn (December 2023: £1.3bn). Defence makes up around 80% of the pipeline with smaller opportunities in the transport, citizen services, justice & immigration and health sectors.

Our immigration services work in Australia, which is contracted until December 2024, and one of the largest contracts in the Group, is currently in a competitive rebid process. Serco has been providing immigration services as a partner to the Australian Government since October 2009, with our work having been successfully rebid and extended over this period. Our performance levels have been high on the current contract, and we believe we have submitted a compelling bid. The outcome of the tender process is expected before the end of the third quarter of 2024.

Middle East (4% of revenue, 3% of underlying operating profit)

Period ended 30 June £m	2024	2023	Growth
Revenue	**104.9**	**103.1**	**2 %**
Organic change	5 %	5 %	
Acquisitions	– %	– %	
Currency	(3)%	6 %	
Underlying operating profit	**5.7**	**7.0**	**(19)%**
Organic change	(17)%	(22)%	
Acquisitions	1 %	– %	
Currency	(3)%	2 %	
Margin	**5.4 %**	**6.8 %**	**(136)bps**

Revenue grew by 2% to £105m (2023: £103m). The business grew by 5% organically and currency moves had a 3% adverse impact. Organic growth was driven by new work in the transport and citizen services sectors. This more than offset lower revenue in health and in defence, where a large contract, which we successfully retained, moved to a materially reduced scope in its new term.

Underlying operating profit reduced by 19% to £6m (2023: £7m). Profit was negatively impacted by the defence rebid. Margins decreased from 6.8% to 5.4% as a result.

Order intake was around £0.1bn, a book-to-bill ratio of 1.3x. Around 80% of the order intake was new business. The largest win was a new contract to provide Fire Rescue, Emergency and Ambulance Services in the NEOM economic zone in Saudi Arabia. This followed on from other similar work in the zone and is estimated to be worth around £90m over its six-and-a-half-year term.

Our pipeline of major new bid opportunities in the Middle East totals around £0.9bn (December 2023: £0.8bn) and includes opportunities in justice & immigration, defence, citizen services and transport.

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.

Underlying corporate costs were relatively stable in the period, increasing by £0.5m to £22.8m (2023: £22.3m).

Dividend

The Board has declared an interim dividend of 1.34p per share. The interim dividend will be paid on 4 October 2024, with an ex-dividend date of 29 August 2024 and a record date of 30 August 2024.

Other Financial Information

Joint ventures and associates – share of results

During the period, 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).

Merseyrail generated revenue of £108.8m (2023: £116.1m), with the Group's share of profits net of interest and tax for the period being £5.9m (2023: £12.2m). The reduction in Merseyrail revenue and profits is primarily due to a one-off commercial settlement received in 2023. The Group received dividends of £5.5m (2023: £4.7m).

VIVO revenues for the period was £514.8m (2023: £387.9m) with the Group's share of profits net of interest and tax for the year for the period being £5.3m (2023: £5.8m). The increase in VIVO's revenue is largely due to volumes in the Accommodation contract, of which the Group's share of profit is 25%. VIVO issued dividends of £nil (2023: £nil) in the period.

Whilst the revenues and individual line items are not consolidated in the Group 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 period ended 30 June	2024 £m	2023 £m
Revenue	267.6	228.4
Operating profit	15.9	23.4
Net finance cost	(0.5)	–
Income tax charge	(4.2)	(5.4)
Profit after tax	11.2	18.0
Dividends received from joint ventures and associates	5.6	4.7

Finance costs and investment revenue

Net finance costs recognised in the income statement were £15.5m (2023: £11.0m), consisting of investment revenue of £3.8m (2023: £3.5m), less finance costs of £19.3m (2023: £14.5m).

Investment revenue of £3.8m (2023: £3.5m) consists of interest accruing on net retirement benefit assets of £0.9m (2023: £1.5m) and interest income of £2.9m (2023: £2.0m).

Finance costs of £19.3m (2023: £14.5m) include interest incurred on loans, primarily the US private placement loan notes and the revolving credit facility of £7.6m (2023: £8.3m) and lease interest expense of £9.1m (2023: £5.6m), as well as other financing related costs including the impact of foreign exchange on financing activities. The increase in lease interest expense year on year is primarily due to the continuing increase in the number of leases for dispersed properties required for our UK asylum contract.

Net interest paid recognised in the cash flow statement was £12.2m (2023: £12.4m), consisting of interest received of £2.8m (2023: £1.9m) less interest paid of £15.0m (2023: £14.3m).

Tax

Underlying tax

An underlying tax charge of £33.0m (2023: £29.8m) has been recognised in the period on underlying profits after finance costs. The effective tax rate (26.0%) is higher than at half year 30 June 2023 (21.8%) and higher than the rate at year end 31 December 2023 (22.7%). The rate is higher than the December 2023 rate due to a change in geographical mix of where profits have arisen, proportional reduction in profits within Joint Ventures, and charges recorded on the finalisation of overseas tax positions, which is only partially offset by a reduction in expenses that are treated as disallowable for tax.

The current rate of 26.0% is slightly higher than the UK statutory rate of 25%. This is mainly due to higher rates of tax on profits arising on international operations (increases the rate by 1.4%), a charge that arises in relation to prior years where tax positions have now been finalised (increases the rate by 1.0%) and the impact of losses made in companies overseas where forecast profits are such that deferred tax is not recognised (increases rate by 0.9%). This is only partially offset by the impact of profits made by joint ventures whose post tax profits are included in the Group's profit before tax (reduces the rate by 2.2%) together with other adjustments (reducing the rate by 0.1%).

Non-underlying tax
A tax credit of £3.5m (2023: £0.7m) arises from the amortisation and impairment of intangibles arising on acquisition.

Deferred tax assets
As at 30 June 2024 there is a net deferred tax asset of £175.1m (31 December 2023: £184.8m). This consists of a deferred tax asset of £230.1m (31 December 2023: £235.7m) and a deferred tax liability of £55.0m (31 December 2023: £50.9m). A £174.2m UK deferred tax asset is included within the deferred tax asset on the Group's balance sheet as at 30 June 2024 (31 December 2023: £179.9m).

Taxes paid
Net corporate income tax of £15.5m was paid during the period, relating primarily to operations in Asia Pacific (£1.7m), North America (£12.1m), Middle East (£1.8m), and Europe (£0.6m). The UK business made tax payments to the Tax Authority (£1.3m) and had receipts from joint ventures in relation to the 2022 year (£2.0m) during the period, with these balances netting against each other to give a balance received of £0.7m.

The amount of tax paid (£15.5m) differs from the tax charge in the period (£29.5m) 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.

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 seek 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 which are reviewed annually. Financial instruments are only used 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 2024, the Group had committed funding of £626.5m (31 December 2023: £558.8m), comprising £276.5m of US private placement loan notes, and a £350.0m revolving credit facility which was undrawn. The US private placement loan notes are repayable in bullet payments between 2025 and 2034. The Group does not engage in any external financing arrangements associated with either receivables or payables.

During the period ended 30 June 2024, £118.2m of US private placement notes were issued and total repayments of £52.8m were made.

The Group's revolving credit facility 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.

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 2024, £276.5m of debt was held at fixed rates and adjusted net debt was £130.8m.

Foreign exchange risk
The Group is subject to currency exposure on the translation to Sterling of its net investments in overseas subsidiaries. The Group seeks to manage 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 seeks to manage its currency cash flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate to hedge net currency cash 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.

Net assets
At 30 June 2024, the consolidated balance sheet shown on page 21 had net assets of £994.7m, a reduction of £39.0m from the closing net asset position of £1,033.7m as at 31 December 2023.

Key movements since 31 December 2023 on the consolidated balance sheet shown on page 21 include:
- Obligations under leases increased by £46.7m primarily driven by new leases for dispersed properties in our UK asylum contract resulting in an equivalent increase in right of use assets.
- Goodwill increased by £31.8m and includes £20.5m relating to European Homecare and £9.7m relating to Climatize. Other intangibles increased by £1.6m, driven by £15.5m recognition of customer relationships for European Homecare offset by amortisation.
- A decrease in the net retirement benefit asset of £10.0m primarily in respect of Serco Pension and Life Assurance Scheme (SPLAS); further details are provided in the pensions section below.
- Cash and cash equivalents have increased by £48.0m. In the period the Group generated cash of £189.0m from underlying operations. The net advance of loans was £65.4m and the capital element of lease repayments in the period was £66.9m. Including associated costs, the spend on shares repurchased during the year totalled £80.4m (£57.6m share buyback and £22.8m to fund employee share options) and dividends totalling £24.5m have been paid to shareholders. The acquisition of European Homecare and Climatize cost £19.3m net of cash acquired.
- Net loan balances have increased by £67.1m, driven by the issuance of US Private Placement loan notes of £118.2m, offset by repayments of £52.8m. An FX impact of £2.2m was offset by capitalised finance costs.
- The movements in contract assets, trade receivables and other assets, and, contract liabilities, trade payables and other liabilities are a result of normal working capital movements.

Pensions
Serco's pension schemes remain in a strong funding position and have a net accounting surplus, before tax, of £14.5m (31 December 2023: £24.5m), on scheme gross assets of £1.0bn (31 December 2023: £1.1bn) and gross liabilities of £1.0bn (31 December 2023 £1.0bn). The £10.0m decrease in the net retirement benefit surplus is primarily attributed to the Group's largest scheme, SPLAS. This reduction is a consequence of declining bond yields driven by the market's scaled-back expectation of interest rate cuts in 2024 offset by increased discount rates.

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 to 2030.

The opening net asset position led to a net interest income within net finance costs of £0.9m (2023: £1.5m).

Condensed Consolidated Financial Statements
Consolidated Income Statement
For the period ended 30 June 2024 (unaudited)

Period ended 30 June	Underlying 2024 unaudited £m	Non Underlying items 2024 unaudited £m	Reported 2024 unaudited £m	Underlying 2023 unaudited £m	Non Underlying items 2023 unaudited £m	Reported 2023 unaudited £m
Revenue	2,359.3	–	2,359.3	2,472.1	–	2,472.1
Cost of sales	(2,098.9)	–	(2,098.9)	(2,210.5)	–	(2,210.5)
Gross profit	260.4	–	260.4	261.6	–	261.6
Administrative expenses	(129.2)	–	(129.2)	(131.7)	–	(131.7)
Exceptional operating items	–	–	–	–	51.2	51.2
Amortisation and impairment of intangibles arising on acquisition	–	(12.9)	(12.9)	–	(11.4)	(11.4)
Share of results of joint ventures and associates, net of interest and tax	11.2	–	11.2	18.0	–	18.0
Operating profit / (loss)	142.4	(12.9)	129.5	147.9	39.8	187.7
Margin	*6.0%*		*5.5%*	*6.0%*		*7.6%*
Investment revenue	3.8	–	3.8	3.5	–	3.5
Finance costs	(19.3)	–	(19.3)	(14.5)	–	(14.5)
Net finance costs	(15.5)	–	(15.5)	(11.0)	–	(11.0)
Profit/(loss) before tax	126.9	(12.9)	114.0	136.9	39.8	176.7
Tax (charge)/credit	(33.0)	3.5	(29.5)	(29.8)	0.7	(29.1)
Effective tax rate	*26.0%*		*25.9%*	*21.8%*		*16.5%*
Profit/(loss) for the period	93.9	(9.4)	84.5	107.1	40.5	147.6
Attributable to:						
Equity attributable to owners of the Company	93.6	(9.4)	84.2	107.1	40.5	147.6
Non-controlling interest	0.3	–	0.3	–	–	–
Earnings per share (EPS)						
Basic EPS	8.65p		7.78p	9.52p		13.11p
Diluted EPS	8.54p		7.68p	9.40p		12.96p

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2024 (unaudited)

	2024 unaudited £m	2023 unaudited £m
Profit for the period	84.5	147.6
Other comprehensive income/(loss) for the period:		
Items that will not be reclassified subsequently to profit or loss:		
Share of other comprehensive income in joint ventures and associates	0.4	0.8
Remeasurements of post-employment benefit obligations[1]	(19.9)	(25.8)
Actuarial loss on reimbursable rights[1]	–	(3.2)
Income tax relating to components of other comprehensive income that will not be reclassified subsequently to profit or loss	6.3	6.9
Items that may be reclassified subsequently to profit or loss:		
Net exchange loss on translation of foreign operations[2]	(2.3)	(43.3)
Fair value gain/(loss) on cash flow hedges during the year[2]	0.2	(0.7)
Tax relating to items that may be reclassified[2]	–	0.2
Total other comprehensive loss for the period	(15.3)	(65.1)
Total comprehensive income for the period	69.2	82.5
Attributable to:		
Equity owners of the Company	68.9	82.5
Non-controlling interest	0.3	–

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

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

Consolidated Statement of Changes in Equity

For the period ended 30 June 2024 (unaudited)

	Share capital £m	Share premium account £m	Retained earnings £m	Other Reserves £m	Total shareholders' equity £m	Non-controlling interest £m
Audited balance as at 1 January 2023	24.4	463.1	670.6	(129.9)	1,028.2	1.5
Total comprehensive income/(loss) for the year	–	–	148.4	(65.9)	82.5	–
Dividends paid	–	–	(21.2)	–	(21.2)	(1.7)
Shares purchased and held in own share reserve	–	–	–	(22.8)	(22.8)	–
Shares purchased and held in Treasury	–	–	–	(88.8)	(88.8)	–
Change in non-controlling interests	–	–	(1.2)	–	(1.2)	(0.1)
Expense in relation to share-based payments	–	–	–	7.1	7.1	–
Unaudited balance as at 30 June 2023	24.4	463.1	796.6	(300.3)	983.8	(0.3)
Audited balance as at 1 January 2024	22.1	463.1	659.1	(110.3)	1,034.0	(0.3)
Total comprehensive income/(loss) for the year	–	–	84.6	(15.7)	68.9	0.3
Dividends paid	–	–	(24.5)	–	(24.5)	–
Shares purchased and held in own share reserve	–	–	–	(22.8)	(22.8)	–
Shares committed to be purchased and held in Treasury until cancelled	–	–	–	(12.6)	(12.6)	–
Shares purchased and held in Treasury until cancelled	–	–	–	(57.6)	(57.6)	–
Cancellation of shares held in Treasury	(0.5)	–	(42.2)	42.7	–	–
Tax credit on items taken directly to equity	–	–	–	1.5	1.5	–
Expense in relation to share-based payments	–	–	–	7.8	7.8	–
Unaudited balance as at 30 June 2024	21.6	463.1	677.0	(167.0)	994.7	–

Consolidated Balance Sheet
For the period ended 30 June 2024 (unaudited)

	As at 30 June 2024 unaudited £m	As at 31 December 2023 audited £m
Non-current assets		
Goodwill	938.5	906.7
Other intangible assets	117.2	115.6
Property, plant and equipment	55.7	44.3
Right of use assets	488.8	440.9
Interests in joint ventures and associates	38.1	32.1
Trade and other receivables	23.1	14.8
Deferred tax assets	230.1	235.7
Retirement benefit assets	21.3	37.4
	1,912.8	1,827.5
Current assets		
Inventories	24.9	24.1
Contract assets	309.9	296.6
Trade and other receivables	345.8	329.0
Loan to joint ventures	–	10.0
Current tax assets	18.6	23.8
Cash and cash equivalents	142.4	94.4
Derivative financial instruments	1.1	4.9
	842.7	782.8
Total assets	2,755.5	2,610.3
Current liabilities		
Contract liabilities	(38.0)	(35.8)
Trade and other payables	(584.5)	(558.0)
Derivative financial instruments	(0.9)	(1.7)
Current tax liabilities	(28.8)	(18.4)
Provisions	(119.3)	(92.9)
Obligations under leases	(153.0)	(140.0)
Loans	–	(51.0)
	(924.5)	(897.8)
Non-current liabilities		
Contract liabilities	(63.8)	(59.3)
Trade and other payables	(16.6)	(9.2)
Derivative financial instruments	(0.1)	(0.2)
Deferred tax liabilities	(55.0)	(50.9)
Provisions	(73.3)	(77.4)
Obligations under leases	(347.4)	(313.7)
Loans	(273.3)	(155.2)
Retirement benefit obligations	(6.8)	(12.9)
	(836.3)	(678.8)
Total liabilities	(1,760.8)	(1,576.6)
Net assets	994.7	1,033.7
Equity		
Share capital	21.6	22.1
Share premium account	463.1	463.1
Retained earnings	677.0	659.1
Other reserves	(167.0)	(110.3)
Equity attributable to owners of the Company	994.7	1,034.0
Non-controlling interest	–	(0.3)
Total equity	994.7	1,033.7

Condensed Cash Flow Statement
For the period ended 30 June 2024 (unaudited)

	2024 unaudited £m	2023 unaudited £m
Net cash inflow from underlying operating activities	189.0	199.1
Non-underlying items	–	9.7
Net cash inflow from operating activities	189.0	208.8
Investing activities		
Interest received	2.8	1.9
Dividends received from joint ventures and associates	5.6	4.7
Loan to joint venture	–	(5.0)
Loan repaid by joint ventures	10.0	5.0
Purchase of other intangible assets	(3.8)	(4.0)
Purchase of property, plant and equipment	(12.9)	(5.4)
Proceeds from disposal of property, plant and equipment	0.4	0.9
Proceeds from disposal of intangible assets	–	1.3
Proceeds from disposal of subsidiary	–	0.2
Acquisition of subsidiaries, net of cash acquired	(19.3)	(6.9)
Other investing activities	0.1	(3.1)
Net cash outflow from investing activities	(17.1)	(10.4)
Financing activities		
Interest paid	(15.0)	(14.3)
Capitalised finance costs paid	(1.0)	–
Advances of loans	118.2	65.0
Repayments of loans	(52.8)	–
Capital element of lease repayments	(66.9)	(63.0)
Cash movements on hedging instruments	(0.3)	(7.7)
Dividends paid to shareholders	(24.5)	(21.2)
Dividends paid to non-controlling interests	–	(1.7)
Purchase of Own Shares for Employee Share Ownership Trust	(22.8)	(22.8)
Own shares repurchased	(57.6)	(88.8)
Net cash outflow from financing activities	(122.7)	(154.5)
Net increase in cash and cash equivalents	49.2	43.9
Cash and cash equivalents at beginning of year	94.4	57.2
Net exchange loss	(1.2)	(2.4)
Cash and cash equivalents at end of period	142.4	98.7

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies

Basis of preparation

These Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK.

The annual financial statements of Serco Group plc are prepared in accordance with UK-adopted international accounting standards and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed set of Financial Statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's 2023 audited financial statements.

The financial information herein for the period ended 31 December 2023 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 2023 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.

No new or amended accounting standards had a material impact on the Group for the 30 June 2024 reporting period.

Going concern

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2024, 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.

As at 30 June 2024, the Group's principal debt facilities comprised a £350m revolving credit facility maturing in November 2027 (of which £nil was drawn), and £276.5m of US private placement notes, giving £626.5m of committed credit facilities and committed headroom of £492.4m, being the undrawn RCF plus cash of £142.4m. The principal financial covenant ratios are consistent across the US private placement loan notes and revolving credit facility. As at 30 June 2024, 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 0.56x.

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 trading activities and its working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved budget updated to take account of known changes since, including the impact of the Group's results for the six months to 30 June 2024. 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.

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 loan of £39.5m due to mature during the assessment period is 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 extensions and available contract extensions by volume over the last two years. Including new business, win rates by volume remain high at more than 70%. 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 an 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 its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the condensed financial statements on a going concern basis.

2. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2023 under IFRS 8 Operating Segments are consistent with those reported in the Group's 2023 audited financial statements.

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

Period ended 30 June 2024	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Total £m
Key sectors					
Defence	174.5	452.9	86.7	12.4	726.5
Justice & Immigration	710.9	–	156.1	–	867.0
Transport	62.8	43.9	4.5	41.3	152.5
Health & Other Facilities Management	106.6	–	82.9	38.9	228.4
Citizen Services	155.8	159.6	57.2	12.3	384.9
	1,210.6	656.4	387.4	104.9	2,359.3

Period ended 30 June 2023	UK&E £m	North America £m	Asia Pacific £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 & Other Facilities Management	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

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

Period ended 30 June 2024	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Revenue	1,210.6	656.4	387.4	104.9	–	2,359.3
Result						
Underlying operating profit/(loss)[1]	82.9	68.8	7.8	5.7	(22.8)	142.4
Amortisation and impairment of intangibles arising on acquisition	(5.1)	(7.8)	–	–	–	(12.9)
Operating profit/(loss)	77.8	61.0	7.8	5.7	(22.8)	129.5
Net finance cost						(15.5)
Profit before tax						114.0
Tax (charge)/credit						(29.5)
Tax on exceptional items						–
Profit for the year						84.5
Supplementary Information						
Share of profits in joint ventures and associates, net of interest and tax	11.2	–	–	–	–	11.2
Total depreciation and impairment of plant, property and equipment and right of use assets	(59.7)	(9.9)	(4.2)	(0.9)	–	(74.7)
Amortisation and impairment of intangible assets	(2.8)	(0.6)	(0.5)	(0.1)	–	(4.0)

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

Period ended 30 June 2023	UK&E £m	North America £m	Asia Pacific £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/(loss)	78.3	71.3	12.1	7.0	19.0	187.7
Net finance cost						(11.0)
Profit before tax						176.7
Tax (charge)/credit						(26.8)
Tax 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 plant, property and equipment and right of use assets	(50.5)	(10.5)	(5.3)	(1.1)	(5.6)	(73.0)
Amortisation and impairment of 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 items and amortisation and impairment of intangible assets arising on acquisition.

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.

Period ended 30 June 2024	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	37.7	–	–	0.4	–	38.1
Other segment assets[1]	1,038.8	907.8	253.9	72.1	52.6	2,325.2
Total segment assets	1,076.5	907.8	253.9	72.5	52.6	2,363.3
Unallocated assets[2]						392.2
Consolidated total assets						2,755.5
Segment liabilities						
Segment liabilities	(841.4)	(168.5)	(226.5)	(67.4)	(98.9)	(1,402.7)
Unallocated liabilities[2]						(358.1)
Consolidated total liabilities						(1,760.8)
Supplementary Information						
Additions to non current assets[3]	158.9	16.3	3.2	11.0	0.1	189.5
Segment non-current assets	802.7	691.7	148.0	23.5	16.8	1,682.7
Unallocated non-current assets						230.2

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 and equipment and right of use assets.

Year ended 31 December 2023	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	31.8	–	–	0.3	–	32.1
Other segment assets[1]	891.6	897.7	254.5	62.4	113.2	2,219.4
Total segment assets	923.4	897.7	254.5	62.7	113.2	2,251.5
Unallocated assets[2]						358.8
Consolidated total assets						2,610.3
Segment liabilities						
Segment liabilities	(725.1)	(172.0)	(223.5)	(54.1)	(124.7)	(1,299.4)
Unallocated liabilities[2]						(277.2)
Consolidated total liabilities						(1,576.6)
Supplementary Information						
Additions to non current assets[3]	125.3	16.7	8.0	2.6	15.7	168.3
Segment non-current assets	677.1	688.6	151.9	13.5	60.8	1,591.9
Unallocated non-current assets						235.8

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 and equipment and right of use assets.

3. Acquisitions

On 1 March 2024, the Group acquired 100% of the issued share capital of European Homecare (EHC), a leading private provider of immigration services in Germany for cash consideration of €49.5m (£42.2m). The acquired net assets included €29.3m (£24.9m) of cash resulting in a net cash outflow on acquisition of €20.2m (£17.3m). The operating results, assets and liabilities have been recognised effective 1 March 2024.

EHC contributed £46.9m of revenue and £8.1m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the period to 30 June 2024.

On 31 January 2024, the Group acquired 100% of the issued share capital of Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services for total consideration of AED51.3m (£11.0m). AED11.3m (£2.5m) was paid in cash and the remaining AED40.0m (£8.5m) is the fair value of the contingent consideration payable on achieving certain financial targets. The acquired net assets included AED2.4m (£0.5m) of cash resulting in a net cash outflow on acquisition of AED8.9m (£2.0m). The operating results, assets and liabilities have been recognised effective 31 January 2024.

Climatize contributed £0.5m of revenue and £0.1m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the period to 30 June 2024.

The provisional fair values of the two acquisitions undertaken during the period are summarised below:

	Provisional fair values EHC £m	Provisional fair values Climatize £m	Total £m
Goodwill	20.5	9.7	30.2
Other intangible assets	15.5	–	15.5
Property, plant and equipment	6.7	–	6.7
Right of use assets	1.6	–	1.6
Trade and other receivables	28.0	0.8	28.8
Cash and cash equivalents	24.9	0.5	25.4
Trade and other payables	(8.7)	–	(8.7)
Provisions	(26.4)	–	(26.4)
Corporation tax liabilities	(13.7)	–	(13.7)
Deferred tax liabilities	(4.7)	–	(4.7)
Lease obligations	(1.5)	–	(1.5)
Acquisition date fair value of consideration transferred	42.2	11.0	53.2
Satisfied by:			
Cash consideration	42.2	2.5	44.7
Contingent consideration on acquisition	–	8.5	8.5
Total consideration	42.2	11.0	53.2

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

	£m
Cash consideration	44.7
Cash acquired on acquisition of businesses	(25.4)
Net cash outflow in respect of acquisitions	19.3
Acquisition related costs	0.8
Net cash impact in the year on acquisitions	20.1

4. Exceptional operating items

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

Period ended 30 June	2024 £m	2023 £m
Compensation received on the early termination of contractual services	–	9.9
Release of provisions held for indemnities given on disposed businesses	–	41.3
Exceptional operating items	**–**	**51.2**
Exceptional tax (charge)	–	(2.3)
Total exceptional operating items net of tax	**–**	**48.9**

5. Tax

The tax charge for the six months ended 30 June 2024 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 £29.5m includes an underlying tax charge of £33.0m and a tax credit on amortisation of intangibles arising on acquisition of £3.5m.

The current rate of 25.9% is slightly higher than the UK statutory rate of 25%. This is mainly due to higher rates of tax on profits arising on international operations, a charge that arises in relation to prior years where tax positions have now been finalised and the impact of losses made in companies overseas where forecast profits are such that deferred tax is not recognised. This is only partially offset by the impact of profits made by joint ventures whose post tax profits are included in the Group's profit before tax.

A £175.1m deferred tax asset is recognised on the balance sheet as at 30 June 2024 (31 December 2023: £184.8m) of which £174.2m relates to the UK (31 December 2023: £179.9m).

6. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to owners of the Company by the weighted average number of shares in issue, after deducting the own shares held by employee share ownership trusts and treasury shares, and adding back vested share options not exercised.

In calculating the diluted earnings per share, unvested share options outstanding have been taken into account where the impact of these is dilutive.

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

Period ended 30 June Number of shares	2024 millions	2023 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,082.0	1,125.5
Effect of dilutive potential ordinary shares: Shares under award	14.1	13.7
Weighted average number of ordinary shares for the purpose of diluted EPS	1,096.1	1,139.2

Earnings per share

Period ended 30 June Basic EPS	Earnings 2024 £m	Per share amount 2024 pence	Earnings 2023 £m	Per share amount 2023 pence
Earnings for the purpose of basic EPS	84.2	7.78	147.6	13.11
Effect of dilutive potential ordinary shares	–	(0.10)	–	(0.15)
Diluted EPS	84.2	7.68	147.6	12.96

7. Goodwill

At 30 June 2024 the carrying value of goodwill was £938.5m (31 December 2023: £906.7m). The net increase is primarily due to £30.2m arising on acquisition, refer to Note 3.

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.

In assessing for indicators of impairment, the Group has gathered information internally and externally, at both macro and micro levels, globally and on the basis of the individual geographies in which the Group operates. Factors that were considered included, but were not limited to:

- Any obsolescence indicators within the Group's physical assets;
- Any plans to dispose of CGUs or significant portions of CGUs;
- Indicators of worse than expected financial and bidding performance to an extent that would have caused an impairment had they been known at the time of the latest full impairment review;
- Unfavourable market conditions and valuations; or
- Carrying amounts of net assets in excess of market capitalisation.

There have been no indicators of impairment identified since the full impairment test undertaken as at 31 December 2023. However, the risks associated with the Asia Pacific CGU outlined in the 2023 Annual Report and Accounts remain and therefore a review of these has been performed for the period ending 30 June 2024.

Asia Pacific CGU

Consistent with the impairment test performed as at 31 December 2023 and outlined in the 2023 Annual Report and Accounts, the 2023 risk adjusted Board-approved five-year plan for the Asia Pacific Division supports the headroom held against the CGU. The key judgements taken in respect of the divisional plan are as follows:

- Win rates by value are in line with the five-year average being 15% for new business and 63% for rebids.
- The immigration rebid delivers cash flows beyond 2024; and
- There is no significant deterioration within the outsourcing market in the region.

In the period to 30 June 2024, following local management changes, a full review of the pipeline has been performed and actions identified to ensure opportunities are prioritised based on capability and sector focus. Whilst positive progress has been made, it is expected that it will take time for these actions to result in observable improvements in the pipeline and win rates. In addition, Management has made good progress in the delivery of its cost rationalisation programme with structural savings having been realised. Costs incurred in the period in relation to restructuring have been expensed within underlying operating profit.

The Group is awaiting the outcome of the Immigration rebid which is now expected in the second half of 2024 and as such the Directors continue to believe on balance that the contract is likely to be retained given the Group's experience in delivering the existing contract, and the general rebid rates it achieves. However, as noted in the 2023 Annual Report and Accounts, a loss would impact the Division's ability to deliver the five-year plan if no opportunities are secured to replace the cash flows delivered by the contract.

The Directors continue to highlight the risk of impairment of the entire goodwill balance of the CGU if win rates on new business do not improve, and sufficient credible opportunities are not identified. Win rates not improving, or the loss of the Immigration rebid, would require further review of the efficiency of the Asia Pacific Division and may result in a further review of the overhead and support structures in place to ensure that they are appropriate for the scale of business and opportunities available.

8. Analysis of net debt

The analysis below provides a reconciliation between the opening and closing positions in the balance sheet for liabilities arising from financing activities together with movements in derivatives relating to the items included in net debt. There were no changes in fair value noted in either the current or prior year.

	As at 1 January 2024 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash movements[2] £m	As at 30 June 2024 £m
Loans payable	(206.2)	(65.4)	–	(2.2)	0.5	(273.3)
Lease obligations	(453.7)	66.9	(1.5)	0.8	(112.9)	(500.4)
Liabilities arising from financing activities	(659.9)	1.5	(1.5)	(1.4)	(112.4)	(773.7)
Cash and cash equivalents	94.4	23.8	25.4	(1.2)	–	142.4
Derivatives relating to net debt	3.1	–	–	(3.0)	–	0.1
Net debt	(562.4)	25.3	23.9	(5.6)	(112.4)	(631.2)

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

2 Non-cash movements on loans payable relate to movement in capitalised finance costs in the year. For lease obligations 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 2024	83.9	23.2	16.7	25.6	20.9	170.3
Arising on acquisition	–	–	0.3	–	26.1	26.4
Charge capitalised in right of use assets	–	1.0	–	–	–	1.0
Charged to income statement	7.3	1.0	1.6	3.9	1.6	15.4
Released to income statement	(1.7)	(3.0)	–	(1.3)	(2.5)	(8.5)
Utilised during the year	(4.6)	(0.9)	(1.8)	(2.4)	(1.1)	(10.8)
Exchange differences	(0.9)	–	(0.1)	–	(0.2)	(1.2)
As at 30 June 2024	84.0	21.3	16.7	25.8	44.8	192.6
Analysed as:						
Current	57.0	6.4	10.6	4.6	40.7	119.3
Non-current	27.0	14.9	6.1	21.2	4.1	73.3
	84.0	21.3	16.7	25.8	44.8	192.6

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. The provisions will be utilised over various periods driven by attrition and demobilisation of contracts, the timing of which is uncertain. There are also amounts included in relation to restructuring.

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.

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. While 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 as a process needs to be followed prior to the amounts being paid.

Included within other provisions:

- £20.4m relates to legal and other costs that the Group expects to incur over an extended period, in respect of past events for which a provision has been recorded, none of which are individually material.
- £24.4m relates to a provision in respect of a contingent liability recognised on the acquisition of EHC. The Directors have assessed that a present obligation exists in respect of the treatment of certain historic transactions and have measured the fair value of these as required by IFRS 3 *Business Combinations* notwithstanding that the outflow of economic benefits is not probable. This provision will be reassessed at each reporting date as the risk associated with the contingent liability progressively reduces and in due course expires.

Individual provisions are only discounted where the impact is assessed to be significant. Currently, the effect of discounting is not material.

10. Contingent liabilities

The Group and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 30 June 2024 was £215.1m (31 December 2023: £214.4m).

The Group has guaranteed overdrafts, finance leases and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (31 December 2023: £5.7m). The actual commitment outstanding at 30 June 2024 was £5.7m (31 December 2023: £5.7m).

The Group has previously disclosed a contingent liability in respect of damages for alleged losses as a result of the reduction in Serco's share price in 2013. The claim has now been resolved with no material impact to the Group's financial statements.

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 that are observable for the asset or liability, either directly or indirectly, other than quoted prices included within Level 1.
Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, derivative financial instruments held by the Group at 30 June 2024 fall into Level 2, and contingent consideration, as outlined in Note 3, is considered to fall into Level 3. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves.

There have been no transfers between levels in the year.

12. Retirement benefit schemes

Period ended 30 June **Recognised in the income statement**	2024 £m	2023 £m
Current service cost – employer	3.5	2.8
Administrative expenses and taxes	0.4	0.8
Recognised in arriving at operating profit	**3.9**	**3.6**
Interest income on scheme assets – employer	(23.7)	(25.3)
Interest cost on scheme liabilities – employer	22.8	23.8
Finance income	**(0.9)**	**(1.5)**
Total recognised in the income statement	**3.0**	**2.1**

Included within the Statement of Comprehensive Income	2024 £m	2023 £m
Actual return on scheme assets	(24.6)	(18.2)
Less: interest income on scheme assets	(23.7)	(25.3)
Net return on scheme assets	(48.3)	(43.5)
Effect of changes in demographic assumptions	2.3	–
Effect of changes in financial assumptions	27.5	37.1
Effect of experience adjustments	(1.4)	(19.4)
Remeasurements	**(19.9)**	**(25.8)**
Change in franchise adjustment	–	(1.9)
Change in members' share	–	(1.3)
Actuarial loss on reimbursable rights	**–**	**(3.2)**
Total recognised in the Statement of Comprehensive Income	**(19.9)**	**(29.0)**

The assets and liabilities of the schemes are:

	Fair value of scheme assets As at 30 June 2024 £m	Present value of scheme liabilities As at 30 June 2024 £m	Surplus/ (deficit) As at 30 June 2024 £m	Fair value of scheme assets As at 31 December 2023 £m	Present value of scheme liabilities As at 31 December 2023 £m	Surplus/ (deficit) As at 31 December 2023 £m
SPLAS[1]	873.1	(855.8)	17.3	917.0	(886.5)	30.5
ORS	77.7	(83.6)	(5.9)	68.5	(80.5)	(12.0)
RPS	63.9	(60.8)	3.1	66.7	(60.8)	5.9
Other Schemes in surplus	3.8	(2.9)	0.9	3.8	(2.8)	1.0
Other schemes in deficit	1.0	(1.9)	(0.9)	1.1	(2.0)	(0.9)
Net retirement benefit asset[2]	1,019.5	(1,005.0)	14.5	1,057.1	(1,032.6)	24.5

1 The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time until all members have left the plan. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Group either in the form of future refunds or in the form of possible reductions in future contributions.

2 Net retirement benefit asset (before tax) is split between schemes with a pension asset £21.3m (31 December 2023: £37.4m) and a pension liability £6.8m (31 December 2023: £12.9m).

Actuarial assumptions:
The assumptions set out below are for SPLAS, which reflects 86% of total assets and 85% of total liabilities of the defined benefit pension schemes in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

Significant actuarial assumptions	As at 30 June 2024 %	As at 31 December 2023 %
Discount rate[1]	5.15	4.80
Rate of salary increases	3.05	2.85
RPI Inflation	3.15	3.05
CPI Inflation	2.55	2.35

1 In 2024, the yield curve used to derive discount rates was updated to incorporate expanded corporate bond data. This adjustment resulted in a 0.15% decrease in the discount rate. If this change had occurred in isolation, there would have been an approximate £16m increase in the present value of scheme liabilities. The impact of this adjustment is reported within the 'effects of changes in financial assumptions' reported in the Statement of Comprehensive Income.

Post-retirement mortality[1]	As at 30 June 2024 years	As at 31 December 2023 years
Current pensioners at 65 – male	20.8	20.9
Current pensioners at 65 – female	23.6	23.6
Future pensioners at 65 – male	22.8	22.8
Future pensioners at 65 – female	25.7	25.6

1 The mortality assumptions for 30 June 2024 reflects the latest available mortality tables CMI_2023 compared to 31 December 2023 reflecting CMI_2022.

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. Transactions between the Group and its joint venture undertakings and associates are disclosed below. During the year, Group companies entered into the following transactions with joint ventures and associates:

	Transactions As at 30 June 2024 £m	Current outstanding As at 30 June 2024 £m	Non-current outstanding As at 30 June 2024 £m	Transactions As at 30 June 2023 £m	Current outstanding As at 30 June 2023 £m	Non-current outstanding As at 30 June 2023 £m
Sale of goods and services						
Joint ventures[1]	10.3	0.9	–	6.9	2.2	–
Other transactions						
Loan receivable from joint ventures[2]	10.0	–	–	–	–	10.0
Dividends received – joint ventures	5.6	–	–	4.7	–	–
Receivable from consortium for tax – joint ventures[2]	7.3	11.0	7.3	3.8	0.8	7.0
Total	33.2	11.9	7.3	15.4	3.0	17.0

1 Sales of goods and services to joint ventures relates to services provided including administrative and back office activities to VIVO.
2 Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured and will be settled in cash.

14. Notes to the Consolidated Cash Flow statement

Period ended 30 June	2024 Underlying £m	2024 Non underlying items £m	2024 Reported £m	2023 Underlying £m	2023 Non underlying items £m	2023 Reported £m
Profit/(loss) before tax	126.9	(12.9)	114.0	136.9	39.8	176.7
Net finance costs	15.5	–	15.5	11.0		11.0
Operating profit/(loss) for the year	**142.4**	**(12.9)**	**129.5**	**147.9**	**39.8**	**187.7**
Adjustments for:						
Share of profits in joint ventures and associates	(11.2)	–	(11.2)	(18.0)	–	(18.0)
Share-based payment expense	7.8	–	7.8	7.1	–	7.1
Impairment of intangible assets	–	2.0	2.0	–	–	–
Amortisation of intangible assets	4.0	10.9	14.9	4.0	11.4	15.4
Impairment of property, plant and equipment	(0.3)	–	(0.3)	0.9	–	0.9
Depreciation of property, plant and equipment	8.0	–	8.0	9.0	–	9.0
Depreciation of right of use assets	66.9	–	66.9	63.1	–	63.1
(Profit) on disposal of intangible assets	–	–	–	(1.2)	–	(1.2)
(Profit) on disposal of property, plant and equipment	(0.1)	–	(0.1)	(0.2)	–	(0.2)
Other non-cash movements	–	–	–	(1.3)	–	(1.3)
(Decrease) in provisions	(3.9)	–	(3.9)	(0.3)	(41.5)	(41.8)
Total non-cash items	**71.2**	**12.9**	**84.1**	**63.1**	**(30.1)**	**33.0**
Operating cash inflow before movements in working capital	**213.6**	**–**	**213.6**	**211.0**	**9.7**	**220.7**
(Increase) in inventories	(0.8)	–	(0.8)	(1.5)	–	(1.5)
(Increase)/decrease in receivables	(17.6)	–	(17.6)	43.0	–	43.0
Decrease/(increase) in payables	9.3	–	9.3	(28.7)	–	(28.7)
Movements in working capital	(9.1)	–	(9.1)	12.8	–	12.8
Cash generated by operations	**204.5**	**–**	**204.5**	**223.8**	**9.7**	**233.5**
Tax paid	(15.5)	–	(15.5)	(24.7)	–	(24.7)
Net cash inflow from operating activities	**189.0**	**–**	**189.0**	**199.1**	**9.7**	**208.8**

15. Post balance sheet events

Share Buyback
Subsequent to the period end, the Group purchased a further 5,667,779 of its own shares at a cost (before fees) of £10.6m, resulting in £67.9m of the £140m share buyback programme being completed.

Dividends
Subsequent to the period end, the Board has declared an interim dividend of 1.34p per share in respect of the six months ended 30 June 2024.

Additional information

Notes to financial results summary table and highlights:

Alternative performance measure	Relevance to strategy
Underlying operating profit (UOP)	The level of absolute UOP and the relationship of UOP with revenue – i.e. the margin we earn on what our customers pay us – is at the heart of our aspiration to be profitable and sustainable. We believe the delivery of strategic success has potential to support annual revenue growth of 4-6%, in the medium term, and trading margins of 5-6%.
Underlying earnings per share (EPS), diluted	EPS builds on the relevance of UOP, and further reflects the achievement of being profitable and sustainable by taking into account not just our ability to grow revenue and margin but also the strength and costs of our financial funding and tax arrangements. EPS is therefore a measure of financial return for our shareholders.
Free cash flow (FCF)	FCF is a reflection of the sustainability of the business, by showing how much of our effort turns into cash to reinvest back into the business or to deploy in other ways. Our philosophy is we should only win business that generates appropriate cash returns, and 'executing well' includes appropriate management of our working capital cash flow cycles.
Underlying return on invested capital (ROIC)	ROIC measures how efficiently the Group uses its capital to generate returns from its assets. To be a sufficiently profitable and sustainable business, a return must be achieved that is appropriately above a cost of capital hurdle reflective of the typical returns required by our weighting of equity and debt capital.
Pipeline of larger new bid opportunities	The pipeline provides a key area of potential for winning good business and therefore is a major input to being profitable and sustainable. The size of the pipeline and our win-rate on the bids within it are at the heart of our strategy to grow the business.
Order book	The order book reflects progress with winning good business, including retaining existing work and as a store of future value, it is a key measure to ensure the Group is profitable and sustainable. The value of how much is added to the order book compared to how much revenue we are billing our customers – the book-to-bill ratio – is key to achieving long-term growth.

Alternative revenue measures
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. Constant currency is calculated by translating non-sterling values for the Period ended 30 June into sterling at the average exchange rates for the prior period. A reconciliation of reported revenue to the alternative revenue measures is as follows:

Period ended 30 June	Statutory Revenue 2024 £m	Statutory Revenue 2023 £m	Organic Revenue 2024 £m	Organic Revenue 2023 £m	Revenue plus share of joint ventures and associates 2024 £m	Revenue plus share of joint ventures and associates 2023 £m
Alternative revenue measure at constant currency	2,404.8	2,472.1	2,356.2	2,472.1	2,672.4	2,700.5
Foreign exchange differences	(45.5)	–	(44.3)	–	(45.5)	–
Alternative revenue measure at reported currency	**2,359.3**	**2,472.1**	**2,311.9**	**2,472.1**	**2,626.9**	**2,700.5**
Impact of relevant acquisitions or disposals	–	–	47.4	–	–	–
Share of joint venture and associates	–	–	–	–	(267.6)	(228.4)
Reported revenue at reported currency	2,359.3	2,472.1	2,359.3	2,472.1	2,359.3	2,472.1

Alternative profit measures
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. Constant currency is calculated by translating non-sterling values for the Period ended 30 June into sterling at the average exchange rates for the prior period. A reconciliation of underlying operating profit to reported operating profit is as follows:

Period ended 30 June	2024 £m	2023 £m
Underlying operating profit at constant currency	145.6	147.9
Foreign exchange differences	(3.2)	–
Underlying operating profit at reported currency	**142.4**	**147.9**
Amortisation and impairment of intangibles arising on acquisition	(12.9)	(11.4)
Exceptional operating items	–	51.2
Reported operating profit at reported currency	**129.5**	**187.7**

Underlying EPS

Underlying EPS is derived from the underlying operating profit measure after deducting pre-exceptional net finance costs and related tax effects. A reconciliation of underlying EPS to reported EPS is as follows:

Period ended 30 June	2024 basic pence	2023 basic pence	2024 diluted pence	2023 diluted pence
Underlying EPS	8.65	9.52	8.54	9.40
Non-underlying items:				
Net impact of non-underlying operating items, non underlying tax and amortisation and impairment of intangibles arising on acquisition	(0.87)	(0.75)	(0.86)	(0.74)
Exceptional operating items, net of tax	–	4.34	–	4.30
Reported EPS	7.78	13.11	7.68	12.96

Alternative cash flow measures

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.

In order to calculate an appropriate cash conversion metric equivalent to UOP, trading cash flow is derived from FCF by excluding capitalised finance costs, interest, non-cash R&D expenditure and tax items. Trading 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 capitalised finance costs, interest, non-cash R&D expenditure, tax and non-underlying items.

A reconciliation of underlying operating profit to trading cash flow is as follows:

Period ended 30 June	2024 £m	2023 £m
Underlying operating profit	**142.4**	**147.9**
Less: Share of profit from joint ventures and associates	(11.2)	(18.0)
Movement in provisions	(3.9)	(0.3)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	11.7	13.9
Depreciation and impairment of right of use assets	66.9	63.1
Other non-cash movements	7.7	4.4
Working capital movements	(9.1)	12.8
Tax paid	(15.5)	(24.7)
Net cash inflow from underlying operating activities	**189.0**	**199.1**
Dividends from joint ventures and associates	5.6	4.7
Net interest paid	(12.2)	(12.4)
Capitalised finance costs paid	(1.0)	–
Capital element of lease repayments	(66.9)	(63.0)
Purchase of own shares to satisfy share awards	(22.8)	(22.8)
Purchase of intangible and tangible assets net of proceeds from disposal	(16.4)	(7.2)
Free cash flow	**75.3**	**98.4**
Add back:		
Tax paid	15.5	24.7
Net interest paid	12.2	12.4
Capitalised finance costs paid	1.0	–
Trading cash flow	**104.0**	**135.5**
Underlying Operating Profit	**142.4**	**147.9**
Trading cash conversion	**73 %**	**92 %**

Adjusted net debt

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.

Period ended 30 June	**2024** £m	**2023** £m
Free cash flow	75.3	98.4
Net cash outflow on acquisition and disposal of subsidiaries, joint ventures and associates	(19.3)	(6.7)
Dividends paid to non-controlling interests	–	(1.7)
Dividends paid to shareholders	(24.5)	(21.2)
Purchase of own shares	(57.6)	(88.8)
Movements on other investment balances	–	(3.1)
Loans repaid from joint venture	10.0	–
Capitalisation and amortisation of loan costs	0.5	(0.4)
Exceptional items	–	9.7
Cash movements on hedging instruments	(0.3)	(7.7)
Foreign exchange (loss)/gain on adjusted net debt	(6.2)	9.7
Movement in adjusted net debt	(22.1)	(11.8)
Opening adjusted net debt - 1 January	(108.7)	(203.9)
Closing adjusted net debt - 30 June	(130.8)	(215.7)

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 **2024** £m	**As at 31 December** **2023** £m
Cash and cash equivalents	142.4	94.4
Loans payable	(273.3)	(206.2)
Lease liabilities	(500.4)	(453.7)
Derivatives relating to net debt	0.1	3.1
Reported net debt	(631.2)	(562.4)
Add back: Lease liabilities	500.4	453.7
Adjusted net debt	(130.8)	(108.7)

Return on invested capital (ROIC)

ROIC is a measure to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UOP, using the income statement for the period and a two-point average of the invested capital. The composition of Invested capital and calculation of ROIC are summarised in the table below.

	As at 30 June 2024 £m	As at 31 December 2023 £m	As at 30 June 2023 £m
ROIC excluding right of use assets			
Non current assets			
Goodwill	938.5	906.7	908.5
Other intangible assets - owned	117.2	115.6	134.0
Property, plant and equipment - owned	55.7	44.3	41.7
Interest in joint ventures	38.1	32.1	37.3
Loans to joint ventures	–	–	10.0
Contract assets, trade and other receivables	23.1	14.8	14.3
Current assets			
Inventory	24.9	24.1	23.1
Loans to joint ventures	–	10.0	–
Contract assets, trade and other receivables	655.7	625.6	646.0
Total invested capital assets	1,853.2	1,773.2	1,814.9
Current liabilities			
Contract liabilities, trade and other payables	(622.5)	(593.8)	(618.9)
Non current liabilities			
Contract liabilities, trade and other payables	(80.4)	(68.5)	(40.6)
Total invested capital liabilities	(702.9)	(662.3)	(659.5)
Invested capital	1,150.3	1,110.9	1,155.4
Two point average of opening and closing invested capital	1,152.9	1,163.7	1,154.7
Underlying operating profit 12 months	243.2	248.7	255.4
Underlying ROIC %	21.1 %	21.4 %	22.1 %

Debt Covenant

The principal financial covenant ratios are consistent across the US 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.

For the twelve months ended	30 June 2024 £m	31 December 2023 £m	30 June 2023 £m
Operating Profit	213.4	271.6	281.7
Remove: Exceptional items	(2.6)	(53.8)	(49.7)
Remove: Amortisation and impairment of intangibles arising on acquisition	32.4	30.9	23.4
Exclude: Share of joint venture post-tax profits	(22.2)	(29.0)	(26.6)
Include: Dividends from joint ventures	22.0	21.1	10.2
Add back: Net non-exceptional charges/(releases) to OCPs	9.1	8.2	(0.9)
Add back: Net covenant OCP utilisation	(2.8)	(3.2)	(3.2)
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non acquisition intangible assets	19.5	25.7	31.6
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non acquisition intangible assets held under finance leases - in accordance with IAS17 Leases	4.2	4.3	4.7
Add back: Foreign exchange on investing and financing arrangements	(1.9)	(0.9)	0.5
Add back: Share-based payment expense	14.2	13.5	14.9
Net other covenant adjustments to EBITDA	(16.4)	(11.5)	(1.0)
Covenant EBITDA	268.9	276.9	285.6
Net finance costs	29.1	24.6	22.2
Exclude: Net interest receivable on retirement benefit obligations	2.5	3.1	2.8
Exclude: Movement in discount on other debtors	–	–	0.1
Exclude: Foreign exchange on investing and financing arrangements	(1.9)	(0.9)	0.6
Other covenant adjustments to net finance costs	(16.3)	(12.7)	(9.5)
Covenant net finance costs	13.4	14.1	16.2
Adjusted net debt	130.8	108.7	215.7
Obligations under finance leases - in accordance with IAS17 Leases	15.2	17.4	19.6
Recourse net debt	146.0	126.1	235.3
Add back: Disposal vendor loan note, encumbered cash and other adjustments	3.4	5.9	4.6
Covenant adjustment for average FX rates	1.2	5.6	13.3
CTNB	150.6	137.6	253.2
CTNB / Covenant EBITDA (not to exceed 3.5x)	0.56x	0.50x	0.89x
Covenant EBITDA / Covenant net finance costs (at least 3.0x)	20.1x	19.6x	17.6x

Currency impact on Guidance

The currency rates used for our 2024 outlook, along with their estimated impact on revenue and underlying operating profit are:

	2024 outlook	2023 actual	2022 actual
Average FX rates:			
US Dollar	1.28	1.24	1.24
Australian Dollar	1.91	1.87	1.78
Euro	1.17	1.15	1.18
Year-on-year impact:			
Revenue	£(66)m	£(33)m	£175m
Underlying operating profit	£(5)m	£(0)m	£14m

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 32 of our 2023 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 2023 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 before year end 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 34 in our 2023 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;
- The interim management report includes a fair review of the information required by 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
31 July 2024	31 July 2024

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 2024 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 2024 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
31 July 2024

Forward looking statements

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