

Remuneration Report

Dear Shareholder

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2015.

The Remuneration Committee continues to focus on the need for a clear link between pay and performance and provides information on this in the Report by way of disclosures on our reward structure and on our remuneration decisions in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules. This Report also complies with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations).

We have structured the Report into two sections:

1. Directors' Remuneration Policy setting out all elements of our Company's remuneration policy and the key factors that were taken into account in setting that policy. This policy received overwhelming support from shareholders under a binding shareholder vote at the General Meeting in May 2014 and will be resubmitted to shareholders for a vote at least every third year.
2. Annual Report on Remuneration setting out payments and awards made to our Directors and an explanation of the link between Company performance and remuneration for the financial year covered by the accounts. This report on remuneration, together with this letter is subject to an advisory shareholder vote at the Annual General Meeting on 12 May 2016.

2015 Overview

The first few months of the year were hugely challenging for the business as the new management team sought to stabilise Serco through the Rights Issue and refinancing of the group. These were exceptional circumstances and given the position of the Company at that time, the new Group Chief Executive, Rupert Soames, decided it would be in the best interests of the Company if he were to waive payment of his annual bonus in respect of 2014. Since then, and as reported in the Strategic Report (pages 5 to 83) a great deal of progress has been made in implementing the new strategy. The disposal of the offshore private sector (BPO) business was materially completed by year-end, net debt has been substantially reduced, and the management team has over-delivered on the guidance given at the beginning of 2015. Significant improvements have been made to management information and financial reporting systems, costs have been reduced and relationships with key government customers have been improved. Serco has a highly effective management team, who are committed to continuing to transform the business over the coming two years in line with the strategic plan; something the Committee has seen first-hand in our work with the management team in shaping in-year objectives and in our contract visits in the Middle East.

In addition to overseeing senior Executive remuneration, the Committee has been briefed on wider issues, most notably in 2015, the plans to deal with the implementation of the new National Living Wage; Serco welcomes any measure that addresses basic pay within the UK and provides a consistent approach to pay levels across the industry. Further detail on the Committee's activities during the year can be found on page 142.

Rights Issue

Following the closure of the Rights Issue on 17 April 2015 the Remuneration Committee approved for the options and awards granted under the Serco Employee Share Schemes to be adjusted to compensate the option and award holders for the effects of the Rights Issue (as permitted by the rules of the relevant Serco Employee Share Schemes). The adjustments were carried out using a standard formula called the 'TERP' (Theoretical Ex Rights Price) formula and were approved by the Company's auditors. Further details on the adjustments can be found on page 141.

Remuneration outcomes in respect of 2015

2015 Share Awards

Operating within our existing policy, in 2015 the Committee consulted with our major shareholders on some small changes to the performance measures with the intention of better aligning Serco's incentive plans with the outcomes of the Group's Strategy Review. The performance measures for the 2015 Performance Share Plan awards are Aggregate EPS, Relative TSR and ROIC and are described in more detail in the Implementation Report on page 138. These awards are subject to malus, clawback and a holding period.

2015 Bonus Awards

Following the Rights Issue, we consulted with major shareholders on some small changes to the performance measures for incentive plans in order to align with the Group's Strategy Review. One of these was to increase the weighting on financial performance such that for 2015 70% of the annual bonus is driven by financial performance and 30% against non-financial performance. It is the view of the Remuneration Committee that the management team should be highly commended for the exceptional progress made in stabilising the business and delivering what was set out in the strategic plan during challenging circumstances. After thorough consideration there was unanimous support for the decision to make bonus awards to reflect the contribution that each member of the team has made to strengthening the business and ensuring a strong foundation on which to build a successful future.

As a result of the achievement of strong financial and non-financial performance over the year against the targets set, a bonus award of 87% of maximum (130% of salary) has been determined for Rupert in respect of 2015 performance. The corresponding bonus amounts for Angus and Ed are 87% of maximum (112% of salary) and 84% of maximum (125% of salary) respectively.

The financial measures against which the outcome of the bonus were determined comprised Revenue, Free Cash Flow and Trading Profit. On both Free Cash Flow and Trading Profit, the achievements of the business over the year were in excess of the stretching maximum target set by the Committee at the beginning of the year, and these components of bonus have therefore paid out in full. The level of Revenue achieved over the period was between the threshold and maximum target set and as such 68% of this component of the bonus was achieved.

The financial bonus outcomes have been calculated after appropriate adjustments (agreed at the beginning of the year as part of the target-setting process) were made. These related to the Contract and Balance Sheet Review undertaken in December 2014, where a number of charges were taken in respect of Onerous Contract Provisions (OCPs). These provisions totalled £447m and relate to the multi-year net cash outflows to the end of each of the obligated periods for each of the individual contracts. The Committee believe that it is important that management be incentivised to minimise exposure on onerous contracts. However, variations to these can have a very material impact on Reported Trading Profit as under the accounting treatment, the multi-year effect of charges or releases are included in a single year. The Committee has spent considerable time reviewing the Trading Profit calculation for bonus purposes, initially working with management to determine a robust approach to decision-making, informed by a review of each individual contract and with cross-referencing to information shared with the Audit Committee. As a result of the rigour applied to this process, the Committee is satisfied that the annual bonus out-turn fairly reflects management performance in the year. Further detail can be found on pages 133 to 134.

On the non-financial metrics, the leadership team have, in their first full performance year together, shown strong and visible leadership in successfully delivering the Rights Issue, and delivering the transformation plan to achieve agreed in-year savings. The pipeline for new business is now growing again and there have been measurable increases in levels of employee and leadership engagement. The process of disposing of the offshore private sector (BPO) business was completed by the year end, despite numerous challenges. The Corporate Renewal Programme was implemented and continued to be embedded with new values being launched. The new Chairman regards the support that Rupert Soames and his team have provided to him, in becoming effective in role, as first class.

Vesting Share Awards

As a consequence of our financial performance falling short of where we wanted it to be, the long-term incentive awards made under the PSP and DBP in 2013, and due to vest in 2016 based on 2015 results, will lapse. We were below median against our peer group on a relative Total Shareholder Return basis and EPS growth fell short of the threshold of 5.5% p.a. compound.

These outcomes clearly demonstrate that our remuneration policy is effective in aligning pay with performance.

Remuneration for 2016

We are not making any changes to our remuneration policy this year.

The Committee conducted its regular review of salaries of the Executive Directors, with consideration given to the overall pay decisions for employees across the Group as a whole. Based on current conditions within the Company, it was agreed with the senior management team that with effect from 1 April 2016, the salaries for the Executive Directors will remain unchanged.

Shareholder engagement

I and the Committee believe it is important to continue to maintain effective channels of communication with our shareholders. The Committee takes the views of shareholders very seriously and these views have been influential in shaping our policy and practice. We welcome shareholder feedback on any aspect of Executive remuneration.

The voting outcome at the 6 May 2015 General Meeting in respect of the Annual Report on Remuneration for the year ending 31 December 2014 reflected very strong shareholder support with a 98.87% vote in favour.

Having been approved in May 2014, our remuneration policy will be resubmitted to shareholders for a binding vote in May 2017. In preparation for this, the Committee intends to review the policy during the course of 2016, and will discuss any possible changes with our major shareholders as part of this review.

Summary

2015 has continued to be hugely challenging for the business. I believe that the Remuneration Committee has rigorously made the necessary decisions to ensure that reward is demonstrably linked to performance and shareholder interests. We will continue to engage with shareholders to ensure that our new leadership team are rewarded appropriately to incentivise them to realise Serco's strategic objectives.

Angie Risley

Chair of the Remuneration Committee

Remuneration Report continued

At a glance: implementation of remuneration policy for 2016 and key decisions for 2015

The table below summarises how key elements of the remuneration policy will be implemented in 2016 and key decisions taken by the Remuneration Committee in relation to base pay and incentives for Executive Directors in respect of 2015 year-end.

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)	COO (Ed Casey)
Base salary from 1 April 2016	£850,000	£500,000	\$1,061,690
Pension	30% of salary	30% of salary	30% of salary including cost of participation in US 401k plan
Annual bonus	Max 150% of salary On-target 75% of salary	Max 130% of salary On-target 65% of salary	Max 150% of salary On-target 75% of salary
Annual bonus measures	<ul style="list-style-type: none"> • 70% financial targets including Revenue, Trading Profit, Free Cash Flow. • 30% non-financial targets. 		
Deferred Bonus Plan (DBP)	Maximum of 50% of earned bonus can be deferred to purchase investment shares, each individual investment share purchased will be matched (on a gross investment basis) by a maximum of two 'matching' shares.		
DBP measures	EPS is the sole measure to determine the vesting of matching shares measured over three years.		
Performance Share Plan (PSP)	Maximum 200% of salary	Maximum 175% of salary	Maximum 175% of salary
PSP measures	<ul style="list-style-type: none"> • Aggregate EPS – Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis), measured as an aggregate over the three-year performance period. • Relative TSR – Total Shareholder Return (TSR) when ranked relative to companies in the FTSE250 (excluding investment trusts). • ROIC – Pre-tax Return on Invested Capital (ROIC), measured as an average over the three-year performance period. 		
Holding requirement	Vested shares from the PSP to be held for two years post vesting (after payment of tax).		
Shareholding requirement	200% of salary	150% of salary	150% of salary
Malus and clawback	<ul style="list-style-type: none"> • Clawback provisions will apply to the annual bonus plan. • Malus provisions will apply to PSP and DBP awards during the three-year performance period prior to vesting. • Clawback provisions will apply during the two-year post-vesting holding period to shares arising from PSP awards. • Clawback provisions will apply to matching shares awarded under the DBP. 		
Changes for 2016	No change		
Year-end decisions made			
Executive Directors			
1 April 2016 salary review	No change	No change	No change
2015 Bonus outcome:			
• Currency value	£1,103,130	£562,380	\$1,330,085
• % of salary	129.78%	112.48%	125.28%
• % of maximum	86.52%	86.52%	83.52%
2013 PSP vesting	N/a	N/a	Nil
Non-Executive Directors			
Chairman fee effective 1 July 2015	£250,000 (previous Chairman £270,000)		

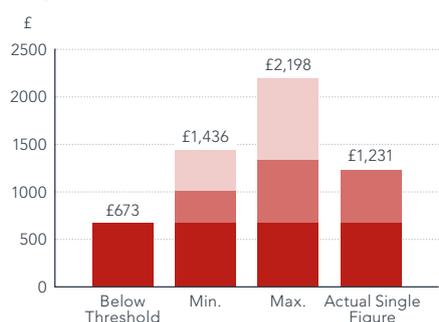
2015 actual single figure versus remuneration policy

The following charts show the actual single figure for remuneration for the Executive Directors against the remuneration policy scenarios applying for 2015:

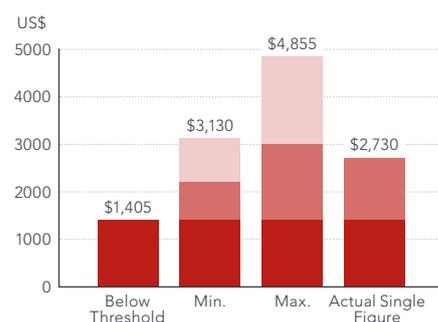
Rupert Soames



Angus Cockburn



Ed Casey



■ Fixed elements of remuneration ■ Annual Variable ■ Multiple period variable

Notes: The scenarios in the above graphs are defined as follows:

Fixed elements of remuneration	Base salary as at 1 April 2015 Estimated value of benefits provided under the remuneration policy Cash allowance in lieu of pension 30% of salary for CEO and CFO Cash allowance in lieu of pension 30% of salary for COO less the cost of participation in the US 401k plan Ed Casey's fixed elements of pay are converted into GBP with an exchange rate of USD 1 = GBP 0.65398		
	Below Threshold	Target performance	Maximum performance
Annual bonus (payout as a % of salary)	0%	75% CEO 65% CFO 75% COO	150% CEO 130% CFO 150% COO
Deferred Bonus Plan	Nil	1:1 Matching Shares ¹	2:1 Matching Shares ¹
Performance Share Plan (as a % of face value)	Nil	50% ¹	100% ¹

Note:

¹ The Deferred Bonus Plan and Performance Share Plan values reflect the target and maximum vesting scenarios for the 2015 awards, the CFO and COO did not participate in the Deferred Bonus Plan in 2015. The Deferred Bonus Plan and Performance Share Plan values in the actual single figure reflects the vesting of the 2013 awards which was zero. The CEO and CFO joined the Company in 2014 so did not receive awards in 2013. Share price movement and dividend equivalents have not been incorporated into the above figures.

Remuneration Report continued

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Directors' Remuneration Policy

The following report details the remuneration policy and the decisions on remuneration of the Directors of the Group for the year ended 31 December 2015. This report has been drafted in compliance with the disclosure requirements of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules. This Report also complies with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations).

The remuneration policy report was approved by shareholders at the 2014 AGM and will apply until shareholders next consider and vote on the Policy at the AGM in 2017.

The Directors' Remuneration Policy is displayed on the Company's website, in the investor area.

Remuneration Policy

Serco's remuneration policy supports the achievement of the Company's long-term strategic objectives. Serco's approach to executive remuneration is designed to:

- Support Serco's long-term future growth, strategy and values;
- Align the financial interests of executives and shareholders;
- Provide market competitive reward opportunities for performance in line with expectations and deliver significant financial rewards for sustained out-performance;
- Enable Serco to recruit and retain the best executives with the required skills and experience in all our chosen markets;
- Be based on a clear rationale which participants, shareholders and other stakeholders are able to understand and support.

Future policy table

The remuneration package for Executive Directors consists of base salary, annual bonus, long-term share based incentives, pension and other benefits. The Company's policy is to ensure that a significant proportion of the package is related to performance.

The following table sets out each element of reward and how it supports the Company's short and long-term strategic objectives. Whilst the table is focused on Executive Directors, the table set out on page 128 provides further information of how pay policies are set for the broader employee population.

How the element supports our strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
<p>Base Salary</p> <p>To help recruit and retain executives of the necessary calibre to execute Serco's strategic objectives and to recognise an individual's experience, responsibility and performance.</p> <p>To ensure base salaries are competitive in the market in which the individual is employed.</p>	<p>Pay levels are designed to be competitive and fair and reflect the skills and performance of individuals.</p> <p>Salaries are benchmarked from time to time against salaries for the Company's relevant peer group, with the market positioning dependent on the scale of challenges intrinsic to the individual's role and individual's ability and experience. In some circumstances there may be phased movement to that positioning.</p> <p>Salaries are reviewed annually and any changes are effective from 1 April in the financial year.</p>	<p>Over the policy period, base salaries for Executive Directors will be set at an appropriate level within the peer group and will normally increase at no more than the greater of inflation and salary increases made to the general workforce in the jurisdiction the Executive Director is based in.</p> <p>Higher increases may be made in exceptional circumstances, for example when there is a change in role or responsibility.</p>	<p>None</p>
<p>Benefits</p> <p>To provide a competitive level of benefits.</p>	<p>Serco pays the cost of providing the benefits on a monthly basis or as required for one-off events such as receiving financial advice.</p> <p>These include but are not limited to car allowances, private medical insurance, permanent healthcare insurance, life cover, annual allowance for independent financial advice, and voluntary health checks every two years.</p> <p>Relocation benefits will be provided in a manner that reflects individual circumstances and Serco's relocation benefits policy. For example, relocation benefits could include temporary accommodation for the Executive and dependents and tax equalisation.</p> <p>Benefits are reviewed annually against market practice and are designed to be competitive.</p>	<p>The maximum opportunity for benefits is defined by the nature of the benefits and the cost of providing them. As the cost of providing such benefits varies based on market rates and other factors, there is no formal maximum monetary value.</p>	<p>None</p>

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How the element supports our strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
<p>Annual Bonus</p> <p>Incentivise executives to achieve specific, predetermined goals during a one-year period.</p> <p>Reward ongoing stewardship and contribution to core values.</p>	<p>Bonus result is determined by the Committee after the year end, based on performance against objectives and targets.</p> <p>Annual bonuses are paid after the end of the financial year end to which they relate. There is an optional deferral of 50% of the total earned bonus into Serco shares.</p> <p>On change of control the Remuneration Committee may pay bonuses on a pro-rata basis measured on performance up to the date of change of control.</p>	<p>Maximum bonus opportunity:</p> <p>150% of salary for CEO 130% of salary for CFO 150% of salary for COO</p> <p>On-target bonus:</p> <p>75% of salary for CEO 65% of salary for CFO 75% of salary for COO</p> <p>Threshold bonus is 20% of maximum bonus opportunity.</p>	<p>Bonus is earned on the basis of achievement of a mix of financial and non-financial objectives of which at least 50% are financial.</p> <p>Financial measures are based on the Company's Key Performance Indicators (KPIs) and the non-financial measures are based on key strategic objectives.</p> <p>Performance is measured over the financial year.</p> <p>The Committee has discretion to vary the weighting of performance metrics over the life of this remuneration policy. Also the Committee has discretion in exceptional circumstances to vary performance measures part-way through a performance year if there is a significant event (such as a major transaction or transition in role) which causes the Committee to believe the original performance conditions are no longer appropriate.</p>
<p>Deferred Bonus Plan (DBP)</p> <p>This plan is to incentivise executives to achieve superior returns for shareholders and to align executives to shareholder interests.</p>	<p>Executive Directors can elect to defer, for three financial years, up to 50% of their annual bonus by purchasing investment shares.</p> <p>Each individual investment share purchased will be matched (on a gross investment basis) by up to a maximum of two 'matching' shares.</p> <p>Dividends are reinvested and distributed only in respect of shares that vest at the end of the performance period.</p> <p>The Committee, at its discretion may attach a post-vesting holding period for awards.</p> <p>In circumstances such as fraud, misconduct and / or misstatement by a participant, the Company will be entitled to withhold before the vesting date the value of any shares to be released or the payment of cash equivalents under the DBP.</p> <p>On a change of control, awards vest pro-rata for time and performance up to the date of change of control unless the Committee decides otherwise.</p> <p>As provided in the plan rules approved by shareholders, the Committee has discretion to adjust awards in the event of, for example, corporate restructuring or capital events.</p>	<p>For maximum performance, each investment share is matched by two matching shares.</p> <p>For threshold performance each investment share is matched by half a matching share.</p>	<p>Earnings Per Share (EPS) is the sole measure to determine the vesting of matching shares.</p> <p>The performance condition is measured over three years.</p> <p>In exceptional circumstances the Committee retains discretion to change performance measures and targets and the weightings attached to performance measures part-way through the performance period if there is a significant event (for example a major transaction) which causes the committee to believe the original measures, weightings or targets are no longer appropriate.</p> <p>The Committee has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.</p>

How the element supports our strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
<p>Performance Share Plan (PSP)</p> <p>To drive achievement of longer-term objectives, increase shareholder value aligned closely to creating shareholders' interests.</p>	<p>Awards of nominal cost options / conditional shares made annually.</p> <p>Dividends are reinvested and distributed only in respect of shares that vest at the end of the performance period.</p> <p>The Committee, at its discretion may attach a post-vesting holding period for awards.</p> <p>In circumstances such as fraud, misconduct and / or misstatement by a participant, the Company will be entitled to withhold before the end of the holding period the value of any shares to be released or the payment of cash equivalents under the PSP.</p> <p>On a change of control awards vest pro-rata for time and performance up to the date of change of control unless the committee decides otherwise.</p> <p>As provided in the plan rules approved by shareholders, the Committee has discretion to adjust awards in the event of, for example, corporate restructuring or capital events.</p>	<p>Face value on grant of 200% of base salary for the CEO and 175% for the CFO and COO.</p> <p>25% of the award vests for threshold performance.</p>	<p>Vesting is dependent on at least two performance conditions chosen from:</p> <ul style="list-style-type: none"> • EPS • Relative TSR • Share Price or absolute TSR <p>The measures are independent, and are measured over three years. The weighting of each is determined prior to award. The Remuneration Committee has discretion to adopt other measures following consultation with major shareholders.</p> <p>In exceptional circumstances the Committee retains discretion to change performance measures and targets and the weightings attached to performance measures part-way through the performance period if there is a significant event (such as a major transaction) which causes the committee to believe the original measures, weightings or targets are no longer appropriate.</p> <p>The Committee has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.</p>
<p>Pension</p> <p>To provide funding for retirement.</p>	<p>Executive Directors may participate in tax-approved pension plans operated by the Company.</p> <p>A cash allowance is available for those not participating in a pension scheme or whose participation exceeds one or more tax allowances.</p>	<p>Rupert Soames and Angus Cockburn receive a cash allowance in lieu of pension equal to 30% of base salary.</p> <p>Ed Casey participates in the US 401k pension and receives a cash allowance in lieu of pension equal to 30% of base salary less the cost of participation in the US 401k plan.</p>	<p>None</p>
<p>Shareholding Requirement</p> <p>To support long-term commitment to the Company and the alignment of employee interests with those of shareholders.</p>	<p>Unvested performance shares or options are not taken into account. Share price is measured at end of each financial year.</p> <p>Executives are required to retain in shares 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding requirement.</p>	<p>CEO – 200% of salary CFO – 150% of salary COO – 150% of salary</p> <p>The Committee has the discretion to increase the shareholding requirements of the Executive Directors.</p>	<p>None</p>

Remuneration Report continued

Notes to the policy table:

Performance measures and targets

The table below sets out a rationale for the performance conditions chosen for annual bonus, Deferred Bonus Plan and Performance Share Plans and how targets were set.

Element	Performance measures and rationale	How targets are set
Annual bonus	<ul style="list-style-type: none"> Financial and non-financial performance measures. The Committee selected the financial measures based on the Company's Key Performance Indicators (KPIs) and the non-financial measures were individually set and based on key strategic goals. 	<ul style="list-style-type: none"> The performance targets are determined annually by the Committee taking into account analyst consensus and the Company's forecasts.
Deferred Bonus Plan	<ul style="list-style-type: none"> EPS is the sole measure to determine the vesting of matching shares. The Committee selected EPS as it is a key performance indicator both for the Company and its major shareholders. The Committee believes EPS can be directly influenced by executive decision-making while also reflecting shareholder value. 	<ul style="list-style-type: none"> EPS targets are set in reference to analyst forecasts, company business plans, and levels of EPS required to support our share price goals.
Performance Share Plan	<ul style="list-style-type: none"> EPS, Relative TSR and Share Price or absolute TSR. As set out above EPS is an important measure of shareholder value which can also be influenced by executive decision making. Relative TSR reflects our performance relative to other companies in which investors could chose to invest. The rationale for the share price measure is explicitly to recognise the recent falls in share price and to ensure that the full award is not delivered unless shareholders benefit from a significant recovery in value over the next 3 years. 	<ul style="list-style-type: none"> Share price targets reflect what the Committee determines as stretching, taking into account the recent fall in share price and historic share price levels, but also what is realistic and consistent with achievable levels of financial performance. The Committee consults with a selection of the largest shareholders and the voting guidance services when determining targets for the company's LTI arrangements.

Remuneration policy for other employees

The remuneration policy described in the previous table applies specifically to Executive Directors of the Group. The Committee believes that the structure of management reward at Serco should be linked to Serco's strategy and performance. The table below explains how the remuneration policy has been cascaded below Executive Directors to achieve alignment of policy across the organisation.

Element	Difference in remuneration policy for other employees
Base salary	<ul style="list-style-type: none"> The same principles and considerations that are applied to Executive Directors are, as far as possible, applied to all employees.
Benefits	<ul style="list-style-type: none"> Serco also has provisions for market-aligned benefits for all employees.
Pension	<ul style="list-style-type: none"> The Group operates a number of defined benefit schemes and defined contribution schemes. Individuals who have exceeded certain tax allowances may be offered cash allowances in lieu of pension benefits.
Annual bonus	<ul style="list-style-type: none"> Approximately 350 members of the Global Leadership Team are eligible for a bonus award under The Leadership Team Bonus Scheme.
Deferred Bonus Plan (DBP)	<ul style="list-style-type: none"> Members of the Executive Committee are invited to participate in the DBP on the same terms as the Executive Directors.
Performance Share Plan (PSP)	<ul style="list-style-type: none"> The PSP is awarded to approximately 350 employees in the Global Leadership Team.
Sharesave	<ul style="list-style-type: none"> An all-employee scheme. Options are normally granted at a discount of 10% to the market value and have no performance conditions. The Executive Directors do not participate in Sharesave.

Considerations of conditions elsewhere in the Group

Although the Committee does not consult directly with employees on the Directors' Remuneration Policy, the Committee does consider the general base salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the remuneration policy for the Executive Directors.

Approach to recruitment remuneration

Serco operates in diverse markets and geographies and many of its competitors for talent are outside the UK. In the event of hiring a new Executive Director, the Committee will typically align the remuneration package with the above Remuneration Policy, which provides for a maximum total incentive under bonus, PSP and DBP combined of 500% of salary in any one year (assuming maximum bonus, maximum investment in the DBP and maximum achievement of all PSP and DBP performance conditions). This is the maximum level of incentives excluding buy-outs that will apply to new recruits. Different performance conditions may apply for new recruits from those set out in the policy, depending on the particular circumstances at the time (which could, for example, include the appointment of an interim Executive Director).

In determining appropriate base salary on hiring a new Executive Director, the Committee will take into account all factors it considers relevant, including their experience and calibre, current total remuneration, levels of remuneration for companies in the Committee's chosen peer group, and the remuneration required to attract the best candidate for Serco. The Committee will seek to ensure that the arrangement is in the best interests of the Company and its shareholders without paying more than is necessary. New promotes or recruits to the Board may on occasion have their salaries set below the targeted policy level while they become established in their role. In such cases, salary increases may be higher than inflation or the general UK workforce increase until the targeted market positioning is achieved.

Where it is necessary to compensate a candidate for entitlements and / or unvested long-term incentive awards from an existing employer that are forfeited, the Committee will seek to match the quantum, structure and timeframe of the award with that of the awards forfeited. In determining the form and quantum of replacement awards, the Committee will consider whether existing awards are still subject to performance requirements, and the extent to which those are likely to be met, with the aim of providing an opportunity of broadly equivalent value. The principle will be to seek to replace awards that remain significantly at risk for performance at the candidate's current employer with awards subject to performance at Serco and to seek to make any other replacement awards in the form of Serco shares, subject to appropriate vesting or holding requirements. Any compensation for awards forfeited is not taken into account in determining the maximum incentive award level.

The recruitment policy also includes the additional provision of benefits in kind, pensions and other allowances, such as relocation, education and tax equalisation in line with Serco policies as may be required in order to achieve a successful recruitment. The policy for recruitment also includes benefits that are either not significant in value or are required by legislation. It is anticipated that any new Executive Director would be offered a pension allowance equal to 30% of base salary in lieu of pension.

Where a new Executive Director is an internal promotion, the Committee reserves discretion to allow the new Executive Director to continue to benefit from existing awards granted, or benefit entitlements (such as pension) prior to appointment to the Board.

The policy on the recruitment of new Non-Executive Directors is to apply the same remuneration elements as for the existing Non-Executive Directors. It is not intended that day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances.

The Committee will include in future Annual Reports details of the implementation of the Policy in respect of any such recruitment to the Board.

Element of remuneration	Maximum percentage of salary
Maximum variable pay:	500%
normally comprising:	
• Annual bonus	150%
• Long-term incentives	350%
Pension allowance	30% cash allowance in lieu of pension

Note: Maximum percentage of salary for annual bonus and long-term incentives excludes compensation for awards forfeited.

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Service contracts and loss of office payments

The policy for service contracts for new Directors is shown in the table below. Ed Casey has a service contract which has aspects that differ from policy as highlighted underneath the table. The Committee may under this policy at any time, with the agreement of a Director, alter aspects of their existing contracts so that they are in line with the policy for new Directors. Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office. The date of appointment for each Director is shown in the table below:

Provision	Detailed terms
Notice period	<ul style="list-style-type: none"> • 12 months notice from the Company • 12 months notice from the Director
Termination payment	<ul style="list-style-type: none"> • Payment in lieu of notice comprising: <ul style="list-style-type: none"> – Base salary – Pension allowance – Selected benefits • All of the above would be paid in instalments in accordance with the Director's contractual payment schedule, subject to an obligation on the part of the Director to mitigate his loss such that payments will either reduce or cease completely, in the event that the Director gains new employment / remuneration. In the event of a compromise or severance agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims. It may include in such payments reasonable reimbursement of professional fees incurred by the Director in connection with such agreements and reasonable payments in respect of restrictive undertakings. • The Remuneration Committee may agree that if a Director steps down from the Board then for a transitional period notice (including payment in lieu of notice) would continue to be based on the equivalent of up to twelve months' notice based on their rate of salary and benefits while a Director, payable in instalments and subject to mitigation. • The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee, as may the continuation of benefits for a limited period.
Treatment of annual bonus on termination under plan rules	<ul style="list-style-type: none"> • No payment unless employed on date of payment of bonus except for 'good leavers': defined as death, disability, redundancy and other circumstances at the Committee's discretion. • 'Good leavers' are entitled to a bonus pro-rated to the period of service during the year, subject to the outcome of the performance metrics and paid at the usual time. • The Committee has discretion to reduce the entitlement of a 'good leaver' in line with performance and the circumstances of the termination.
Treatment of unvested performance shares or options and unvested matching deferred share awards on termination under plan rules	<ul style="list-style-type: none"> • All awards lapse except for 'good leavers': ill-health, injury or disability, death, redundancy, retirement, change of control (as defined in the plan rules) and other circumstances at the Committee's discretion (to the extent that they allow 'good leaver' treatment for particular awards). • For 'good leavers' vesting is pro-rated on a time basis and is dependent on the achieved performance over the performance period. • The Committee has the discretion to vary the level of vesting to reflect the individual performance, and may, depending on the circumstances of the departure, allow some awards to vest while lapsing others.
Provision	Detailed terms
Change of control	<ul style="list-style-type: none"> • Where the Director leaves the Company following a change of control, whether or not he is dismissed or he elects to leave on notice, he will be entitled to receive a payment equivalent to up to one year's remuneration.
Exercise of discretion	<ul style="list-style-type: none"> • Intended only to be used to prevent an outcome that is not consistent with performance. The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company.
NEDs	<ul style="list-style-type: none"> • Appointed for initial three-year term. • Appointment may be terminated on 3 months' written notice. • All Non-Executive Directors are subject to annual re-election. • No compensation or other benefits are payable on early termination.

Notes:

In respect of Ed Casey, operating within our existing policy, in 2014 the Committee increased the notice period to 12 months from the Company to align with the other directors, and 4 months from the Director to more closely align with US employment practice.

Whilst unvested Awards will normally lapse, the Committee may in its absolute discretion allow for Awards to continue until the normal vesting date and be satisfied, subject to achievement of the performance conditions. In such circumstances, Awards vesting will normally be prorated on a time apportioned basis, unless the Committee determines otherwise.

Any such discretion in respect of leavers would only be applied by the Committee to 'good leavers' where it considers that continued participation is justified, for example, by reference to past performance to the date of leaving, or by the requirement to achieve an orderly transition. The claw-back provisions would continue to apply in the event that such discretion were exercised.

Service contracts outline the components of remuneration paid to the individual but do not prescribe how remuneration levels may be adjusted from year to year.

The Chairman and Non-Executive Directors' fees

In accordance with the Company's policy, the fees of the Chairman and the Non-Executive Directors, which are determined by the Board, are set at a level which is designed to attract individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs. The Chairman and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

How the element supports our strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
<p>To attract Non-Executive Directors with the necessary experience and ability to make a substantial contribution to the Group's affairs.</p>	<p>The fees of the Chairman are determined and approved by the Remuneration Committee (excluding Chairman) and fees of the Non-Executive Directors, are determined and approved by the Board as a whole.</p> <p>The Chairman receives a base fee.</p> <p>The following fees are paid to Non-Executive Directors in addition to their base fee:</p> <ul style="list-style-type: none"> • SID fee • Committee Chairmanship fee • Committee membership fee <p>Fees are reviewed on an annual basis against a relevant peer group and taking into consideration market practice.</p> <p>An allowance is payable to directors for attendance at meetings outside their country of residence where such meetings involve inter-continental travel.</p> <p>In addition, reasonable travel and business related expenses are paid.</p> <p>Non-Executive Directors are not entitled to receive incentives and pension.</p> <p>Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding requirement.</p>	<p>Over the policy period, base fees for current Non-Executive Directors will be set at an appropriate level within the peer group and increases will typically be broadly in line with market.</p> <p>The base fees or fees for specific Non-Executive Directors roles may be reviewed at any time based on the anticipated responsibility and time commitment involved.</p> <p>Current fee levels are shown in the section on implementation of policy.</p>	<p>Non-Executive Director fees are not performance related.</p>

Dates of Director's Service Contracts / Letters of Appointment

Director	Date of appointment to the Board
Rupert Soames	8 May 2014
Angus Cockburn	27 October 2014
Ed Casey	25 October 2013
Sir Roy Gardner	1 June 2015
Angie Risley	1 April 2011
Ralph D. Crosby Jnr	30 June 2011
Malcolm Wyman	1 January 2013
Mike Clasper	3 March 2014
Tamara Ingram	3 March 2014
Rachel Lomax	3 March 2014

Notes:

All Directors are put forward annually for re-election at the AGM.

Alastair Lyons was appointed to the Board on 16 March 2010 and ceased to be a Director on 1 July 2015.

Remuneration Report continued

Annual report on remuneration

The implementation of the remuneration policy for year ended 31 December 2015

The remuneration policy for the year ended 31 December 2015 was consistent with the policy on which shareholders voted on at the 2014 AGM.

Single Figure – Directors remuneration (audited information)

Executive Director's single figure

The following table shows a single total figure of remuneration in respect of qualifying services for 2015 for each Executive Director, together with comparative figures for 2014. Details of NEDs' fees are set out in the next section.

		Rupert Soames		Angus Cockburn		Ed Casey ⁶	
		2015	2014 (part-year)	2015	2014 (part-year)	2015	2014
Salary and fees	£	850,000	566,667	500,000	83,333	694,324	733,604
Taxable benefits ¹	£	18,154	10,988	18,154	103,031	20,836	9,960
Bonus ²	£	1,103,130	–	562,380	–	869,849	689,650
LTI ³	£	N/a	N/a	N/a	N/a	–	–
Pension ⁴	£	255,000	170,000	150,701	27,016	200,318	171,850
Other ⁵	£	–	–	–	111,068	–	–
Total	£	2,226,284	747,655	1,231,235	324,448	1,785,327	1,605,064

Notes:

- The value of the taxable benefits relate to the provision of independent financial advice, provision of a car or car allowance (fully inclusive of all scheme costs including insurance and maintenance), health-care, private medical assessments and expatriate benefits. Ed Casey's 2015 benefits relate primarily to his expatriate status, including costs of £6,927 for accommodation and travel.
- The bonuses shown include performance bonuses earned in the period under review, but not paid until the following financial year.
- The 2013 PSP and DBP awards vested at zero.
- The pension amount includes payments made in lieu of pension, calculated as a percentage of base salary, from which the Executive Directors make their own pension arrangements.
- The amount shown is to compensate Angus for the pro-rated bonus that he would have received from Aggreko in respect of the final three months of 2014 had he not left to join Serco.
- Ed Casey's remuneration is paid in US dollars, for the purpose of the 2015 single figure USD1 = GBP 0.65398. For the purpose of the 2014 single figure USD1 = GBP 0.60779.

The annual base salaries of the Executive Directors for the year ended 31 December 2015 were:

Director	Base salary	Effective Date	Increase
Rupert Soames	£850,000	8 May 2014	N/a
Angus Cockburn	£500,000	27 October 2014	N/a
Ed Casey	\$1,061,690	1 April 2014	N/a

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2015, the Executive Director bonus was based on achieving a mix of financial and non-financial objectives which were weighted 70:30. The financial measures were based on Revenue (20%), Free Cash Flow (40%) and Trading Profit (40%) and the non-financial measures were individually set and based on key strategic goals.

The Remuneration Committee reviewed the achievements against the targets for the year and proposed annual incentive payments for the Executive Directors. The table below shows the achievement against the financial and non-financial measures.

Financial performance

Performance Measure	Weighting for 2015 (% maximum opportunity)	Threshold target (m)	Maximum target (m)	Actual performance (m)	Achievement against measure (% maximum opportunity)
Revenue	14%	£3,365.0	£3,612.0	£3,522.0	68%
Free Cash Flow	28%	-£159.0	-£135.0	-£16.2	100%
Trading Profit	28%	£82.3	£96.9	£112.5	100%

Non-financial performance

See table below	30%	Rupert Soames	Angus Cockburn	Ed Casey
		70%	70%	60%
		Rupert Soames	Angus Cockburn	Ed Casey
Total bonus payable as % of maximum		86.52%	86.52%	83.52%
Bonus opportunity as % of salary		150%	130%	150%
Bonus amount achieved as % of salary		129.78%	112.48%	125.28%
Bonus amount earned		£1,103,130	£562,380	\$1,330,085

As part of the Contract and Balance Sheet Review (CBSR) undertaken in December 2014, a number of charges were taken in respect of Onerous Contract Provisions (OCPs). These provisions totalled £447m and relate to the anticipated multi-year net cash outflows to the end of each of the obligated periods for each of the individual contracts. The Committee believe that it is important that management be incentivised to minimise exposure on onerous contracts. However, variations to these can have a very material impact on Reported Trading Profit as under the accounting treatment, the multi-year effect of charges or releases are included in a single year. The Committee has therefore decided to use a measure for bonus calculations which is effectively aligned to Underlying Trading Profit (Reported Trading Profit less foreign exchange and OCP charges and releases and other net movements on CBSR items), to which is added or subtracted an amount related to over or under-performance against the various CBSR items which fairly reflects management performance in the year. In coming to this judgement, the Committee has access to detailed reports providing reasons behind the various movements, which included reviews of individual contracts with cross-referencing to information shared with the Audit Committee.

Within Reported Trading Profit at constant currency of £137.1m, there is £41.2m credit relating to items, other than foreign exchange, which are not considered in Underlying Trading Profit; these include adjustments made to CBSR items. Excluding these, the constant currency Underlying Trading Profit is £95.9m. The Committee has considered how much of this £41.2m net benefit should be adjusted out of Reported Trading Profit for bonus purposes. A total of £24.6m has been adjusted out for management bonus purposes as these are not considered to be the result of management action. The resulting £112.5m therefore includes £16.6m to reflect for bonus purposes the in-year performance of management action which has improved the CBSR position.

The Revenue and Free Cash Flow actual performances reflect constant currency and includes discontinued operations, making them consistent with the basis on which the targets were set.

Remuneration Report continued

Non-Financial Performance

Rupert Soames	<p>Rupert's objectives focused on:</p> <ul style="list-style-type: none"> Leading the creation of effective Business Development plans Leading the delivery of the transformation plan with agreed in-year savings Implementing the Corporate Renewal Programme ensuring commitments are delivered Continuing to improve employee engagement through transformation of culture Achieving the planned Rights Issue and refinancing of the Group Executing the planned disposal of the offshore private sector (BPO) business Working with the new Chairman to ensure he became effective in the shortest possible time 	<p>The Committee deemed performance to be very strong. Rupert has shown strong and visible leadership during 2015, successfully completing the Rights Issue, and delivering the transformation plan to achieve agreed in-year savings. The pipeline for new business is now growing again and there have been measurable increases in levels of employee and leadership engagement. The process of disposing of the offshore private sector (BPO) business was completed by year end, despite numerous challenges. The Corporate Renewal Programme was implemented and continued to be embedded with new values being launched. The new Chairman regards the support Rupert has provided to him in becoming effective in role as first class. Based on Rupert's achievement the Committee has awarded above target performance for the non-financial element relating to these objectives.</p>
Angus Cockburn	<p>Angus' objectives focused on:</p> <ul style="list-style-type: none"> Leading the assessment of contractual risk Embedding improvements to management of financial reporting and accounts Reviewing the effectiveness of internal audit and risk management Leading the finance function transformation Achieving the planned Rights Issue and refinancing of the Group 	<p>The Committee deemed performance to be very strong against all objectives. Examples of successes include successfully completing the Rights Issue, embedding of formal monthly management accounts processes to deliver timely and accurate financial reporting, a review of the internal audit function with steps taken to develop an appropriately rigorous risk management framework, and the implementation of a new, improved finance model with strengthened capability. Based on Angus' achievement the Committee has awarded above target performance for the non-financial element relating to these objectives.</p>
Ed Casey	<p>Ed's objectives focused on:</p> <ul style="list-style-type: none"> Development of business development plans Leading delivery of a transformation plan to achieve cost savings Embedding new standards for bid governance and contract management Achieving the planned disposal of the offshore private sector (BPO) business Developing the approach to risk management 	<p>The Committee deemed performance to be very strong against all objectives. Examples of successes include delivery of the transformation plan to achieve agreed in-year savings. The process of disposing of the offshore private sector (BPO) business was completed by year end, despite numerous challenges and the pipeline for new business is now growing again. Good progress has been made in embedding new standards for bid governance and in developing the approach to risk management. Based on Ed's achievement the Committee has awarded above target performance for the non-financial element relating to these objectives.</p>

Note:

- All Executive Directors are entitled to participate in the Deferred Bonus Plan (the DBP) in 2016, up to a maximum of 50% of the bonus determined in respect of 2015 performance.

Performance Share Plan (PSP)

The LTI amount included in the 2015 single total figure of remuneration includes the PSP award which was awarded in 2013. For the PSP awards which completed their performance period on 31 December 2015, achievement against the measure is shown in the table below:

Performance condition	Weighting	Threshold – 25% vesting	Maximum – 100% vesting	Actual	Percentage of max achieved
EPS growth. For threshold performance 25% of the award vests rising on a straight-line basis to 100% at maximum performance.	50%	5.5%	10.5%	-53.31%	0%
Relative TSR. For median performance 25% of the award vests rising on a straight-line basis to 100% for upper quartile performance.	50%	Median	Upper Quartile	Below Median	0%
Total					0%

The awards made to the Executive Directors were as follows:

2013 PSP share awards	No of shares awarded	No of shares vesting	Vesting date	Value of vesting £
Ed Casey	93,553	0	15 April 2016	0

Notes:

- Ed Casey's PSP award was made prior to him being appointed to the Board.
- Rupert Soames and Angus Cockburn joined the Company in 2014 and therefore do not have outstanding 2013 PSP awards.

Single Figure – Non-Executive Directors remuneration (audited information)

Non-Executive Directors' remuneration consists of cash fees paid monthly with increments for positions of additional responsibility. In addition, an inter-continental travel allowance and reasonable travel and related business expenses are paid. No bonuses are paid to Non-Executive Directors. Non-Executive Directors' fees are not performance related.

Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding requirement.

The fees and terms of engagement of Non-Executive Directors are reviewed on an annual basis, taking into consideration market practice and are approved by the Board.

	Board fee (including Chairmanship fees) £		Allowances ³ £		Total £	
	2015	2014	2015	2014	2015	2014
Roy Gardner¹						
Chairman; Chairman of Nomination Committee and Member of Audit, Remuneration, Nomination and Corporate Responsibility & Risk Committees	129,167	N/a	5,000	N/a	134,167	N/a
Alastair Lyons²						
Prior to 1 July 2015: Chairman; Chairman of Nomination Committee and Member of Remuneration Committee	135,978	270,000	Nil	10,000	135,978	280,000
Mike Clasper						
Senior Independent Director; Member of Audit and Nomination Committees	88,000	60,833	5,000	5,000	93,000	65,833
Ralph D. Crosby Jnr						
	50,000	50,000	35,000	30,000	85,000	80,000
Tamara Ingram						
Member of Corporate Responsibility & Risk and Remuneration Committees	63,000	52,500	5,000	5,000	68,000	57,500
Rachel Lomax						
Chairman of Corporate Responsibility & Risk Committee; Member of Audit Committee	70,000	58,333	5,000	5,000	75,000	63,333
Angie Risley						
Chairman of Remuneration Committee; Member of Nomination Committee	60,000	60,000	5,000	5,000	65,000	65,000
Malcolm Wyman						
Chairman of Audit Committee; Member of Nomination and Remuneration Committees	67,500	72,917	Nil	5,000	67,500	77,917
Total	663,645	624,583	60,000	65,000	723,645	689,583

Notes:

1. Sir Roy Gardner initially joined the Board on 1 June 2015 as a Non-Executive Director before being appointed as Non-Executive Chairman on 1 July. Fees shown are for the seven months he served in 2015.
2. Alastair Lyons stepped down from the Board and left the Company on 1 July 2015, fees shown are for the six months he served in 2015.
3. £5,000 is payable for each occasion that requires inter-continental travel outside of the director's country of residence.

Remuneration Report continued

Annual NED Fees

Role	Base fee 1 April 2015 £	Base fee 1 April 2014 £	Percentage change
Chairman ¹	250,000	270,000	(7.4%)
Senior Independent Director	25,000	25,000	No change
Board fees	50,000	50,000	No change
Audit Committee Chairmanship	12,500	12,500	No change
Audit Committee Membership	5,000	5,000	No change
Corporate Responsibility & Risk Committee Chairmanship	15,000	15,000	No change
Corporate Responsibility & Risk Committee Membership	8,000	8,000	No change
Remuneration Committee Chairmanship	10,000	10,000	No change
Remuneration Committee Membership	5,000	5,000	No change
Travel to international meetings	5,000	5,000	No change

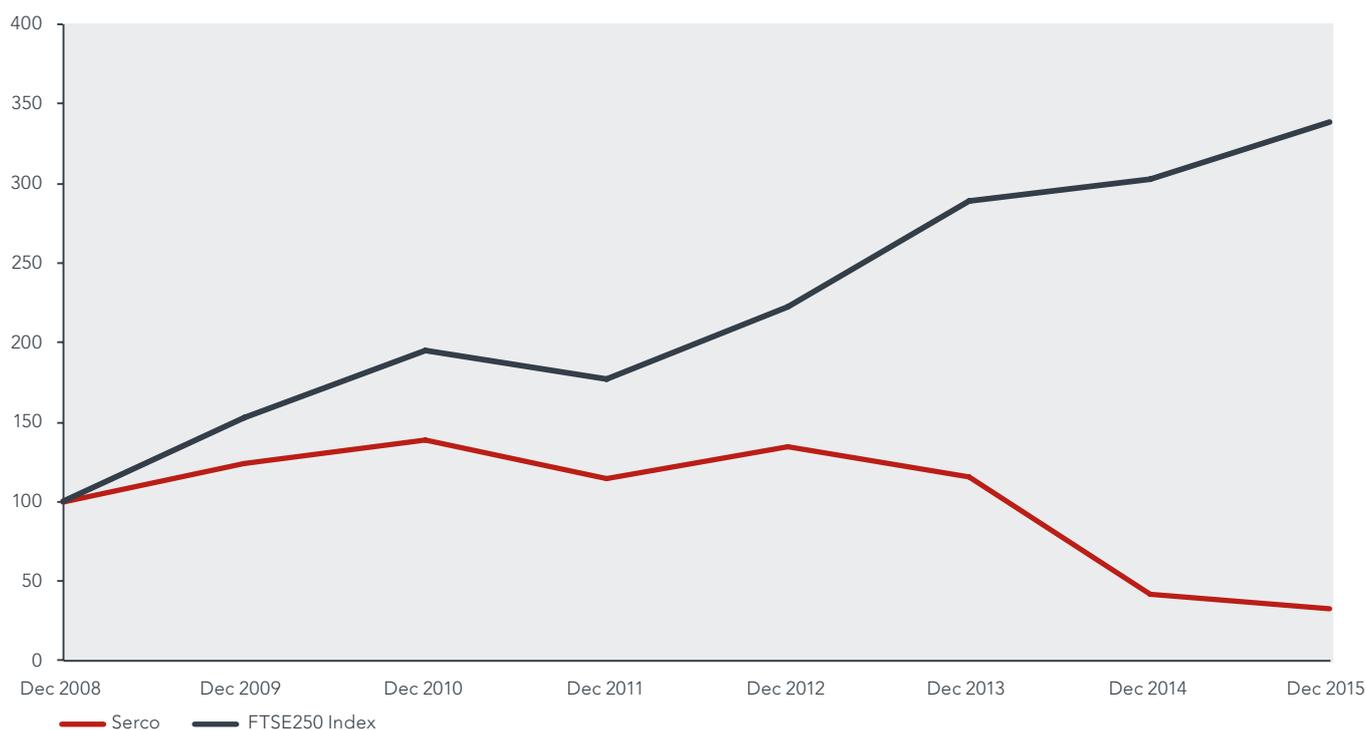
Note:

1. The Chairman fee reduced when Roy Gardner was appointed on 1 July 2015.

Performance graph and table

This graph shows the value as at 31 December 2015, of a £100 investment in Serco on 31 December 2008 compared with £100 invested in the FTSE250 index on the same date. It has been assumed that all dividends paid have been reinvested. The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company chose the FTSE250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.

Serco Performance Graph



CEO's pay in last seven financial years

Year ended 31 December	Group CEO	CEO single figure remuneration (£)	Annual bonus outcome (as % of maximum opportunity)	LTI vesting outcome (as % of maximum opportunity)
2009	Christopher Hyman	3,625,830	90%	295.42%
2010	Christopher Hyman	2,646,894	91%	168.77%
2011	Christopher Hyman	2,826,038	81%	80%
2012	Christopher Hyman	2,582,185	72%	63.60%
2013	Christopher Hyman	893,451	N/a	0%
	Ed Casey	294,782	74%	0%
2014	Ed Casey	1,605,064	71%	0%
	Rupert Soames	747,655	0%	N/a
2015	Rupert Soames	2,226,284	87%	N/a

Percentage change in CEO's remuneration

There were changes to the post-holder of CEO in 2014 and therefore a calculation of the change in CEO's remuneration between 2014 and 2015 is not possible. Rupert Soames, CEO did not receive a base pay increase in 2015 (as agreed at appointment), and there was also no increase in his annualised rate of benefits. Rupert chose to waive his 2014 annual bonus so no payment was made to him. The average percentage changes for employees in the leadership team were 1.78%, 0% and a 7.13% decrease respectively. This group has been chosen as it represents the most appropriate comparator group for reward purposes for our UK-based CEO.

Relative importance of spend on pay

The table below details the percentage change in dividends and overall expenditure on pay compared with the previous financial year.

Serco considers overall expenditure on staff pay in the context of the general finances of the Company. This includes the determination of the annual salary increase budget, the annual grant of shares and annual bonus for the business.

	2015 vs 2014	2015	2014
Dividend per share	-100.0%	Zero	3.10p
Overall expenditure on wages and salaries	-6.4%	£1541.8m	£1646.8m

Dividend per share, and Overall expenditure on wages and salaries have the same meaning as in the Notes to the Company Financial Statements.

Pensions (audited information)

As at 31 December 2015, there were no Executive Directors actively participating in or accruing additional entitlement in the Serco Pension and Life Assurance Scheme which is a defined benefits scheme.

Payments for loss of office (audited information)

There were no loss of office payments in 2015.

Payments to Past Directors (audited information)

No payments were made in the year to past Directors other than the payments made to Andrew Jenner on him ceasing to be a Director, details of which can be found on the Company website in the investor area under Remuneration Information.

Remuneration Report continued

Awards made in 2015

Deferred Bonus Plan (DBP) (audited information)

The CEO's participation in the 2015 DBP is based on the Bonus which he was awarded but which he chose to waive payment of.

For matching share awards in 2015, Aggregate EPS is the sole measure. The range for the three-year performance period is 10.30p at threshold and 12.50p at maximum. No matching shares will vest where performance is below threshold. For threshold performance, each invested share will be matched by half a matching share. For maximum level performance each invested share will be matched (on a gross investment basis) by two shares. For performance between threshold and maximum, the number of matching shares will be determined on a straight line basis.

The definition of EPS is Statutory Earnings Per Share before exceptional items (adjusted to reflect tax paid on a cash basis), measured as an aggregate over the three-year performance period.

Director	Scheme	Basis of Award (% of salary)	Award date	Market price at award (p) ¹	Face value £	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	Deferred Bonus Plan (conditional share award)	106.87%	29 May '15	138	908,437	25%	658,288	31 December 2017

Note:

- Rupert Soames investment shares were already owned, 138 pence was used to determine the number of shares he was entitled to invest as this was the market price of the investment shares that were purchased for other participants in the DBP.

Performance Share Plan (PSP) (audited information)

In 2015 the Executive Directors received awards equivalent to 200% of salary for the CEO and COO and 175% for the CFO.

The shares will normally only vest at the end of the performance period, if the Executive Directors are still in employment with Serco and the performance measures have been met. The measures are:

Performance Measure	Weighting of Measure	Performance Target	Performance period end date
Aggregate EPS	1/3rd	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 10.30p (threshold, 25% vesting) to 12.50p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.	31 December 2017
Relative TSR	1/3rd	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE250 (excluding investment trusts), measured from the 30-day period following the completion of the Rights Issue to the 30-day period following announcement of the Company's 2017 results.	30 days following the announcement of the Company's 2017 results.
ROIC	1/3rd	Pre-tax Return on Invested Capital (ROIC) of 8.4% (threshold, 25% vesting) to 10.2% (maximum, 100% vesting), measured as an average over the three-year performance period.	31 December 2017

The structure for vesting is the same for all measures and no shares vest where performance is below Threshold.

Each element of the PSP award is subject to a post-vesting holding requirement that takes the total term of the award (i.e. performance period plus holding period) to a minimum of five years. Pre-vesting malus and post-vesting clawback is also applicable to these awards.

Directors	Scheme	Basis of Award (% of salary)	Award date	Market price at award (pence) ¹	Face value £	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	Performance Share Plan (nominal cost options)	200%	29 May '15	136.9	1,700,000	25%	1,241,782	See above
Angus Cockburn	Performance Share Plan (nominal cost options)	175%	29 May '15	136.9	875,000	25%	639,152	See above
Ed Casey	Performance Share Plan (conditional share award)	175%	29 May '15	136.9	1,210,863	25%	884,487	See above

Note:

1. The market price at award was the preceding day's Middle Market Quotation (MMQ).

Statement of voting at the general meeting

At the last annual general meeting, votes on the Remuneration Report were cast as follows:

	For % Number	Against % Number	Withheld % Number
2014 annual report on remuneration	98.87%	1.13%	N/a
	760,294,709	8,671,241	24,080
2013 annual report on remuneration	99.61%	0.39%	N/a
	367,080,126	1,442,674	2,302,116
2013 remuneration policy	98.08%	1.92%	N/a
	358,418,242	7,033,412	5,373,262
2012 remuneration report	95.82%	4.18%	N/a
	346,071,397	15,084,901	5,923,160
2011 remuneration report	93.72%	6.28%	N/a
	351,474,463	23,547,217	8,299,355

Notes:

1. A 'Vote Withheld' is not a vote in law and is not counted in the calculation of the proportion of votes 'For' or 'Against' a Resolution.

Remuneration Report continued

External appointments

The Board believes that the Group can benefit from its Executive Directors holding appropriate non-executive directorships of companies or independent bodies. Such appointments are subject to the approval of the Board. Fees are retained by the Executive Director concerned.

During the year, Rupert Soames and Angus Cockburn served as Non-Executive Directors of Electrocomponents plc and GKN plc respectively. Ed Casey served as a Director of Talen Energy Corporation. Fees payable in the year were £55,000, £60,000 and USD61,250 and deferred stock with a face value of USD75,833 respectively.

No other fee-paying external positions were held by the Executive Directors.

Directors' shareholding and share interests (audited information)

Current shareholdings are summarised in the table below. Shares are valued for these purposes at the year-end price, which was 94.5p per share at 31 December 2015.

	Share ownership requirements (% of salary)	Number of shares owned outright (including connected persons)	Vested but unexercised share options	Restricted share awards subject to performance conditions	Restricted share awards not subject to performance conditions	Share ownership requirements met ³	Weighted average exercise price of vested options	Weighted average exercise price of restricted share awards
Rupert Soames	200%	607,000	–	2,861,349	108,527	See note 3	N/a	0.02
Ed Casey	150%	125,840	–	1,401,389	–	No	N/a	Nil
Angus Cockburn	150%	169,200	–	1,286,211	89,585	See note 3	N/a	0.02
Roy Gardner	N/a	25,000	N/a	N/a	N/a	N/a	N/a	N/a
Mike Clasper	N/a	56,000	N/a	N/a	N/a	N/a	N/a	N/a
Ralph D. Crosby Jnr	N/a	–	N/a	N/a	N/a	N/a	N/a	N/a
Tamara Ingram	N/a	–	N/a	N/a	N/a	N/a	N/a	N/a
Rachel Lomax	N/a	40,000	N/a	N/a	N/a	N/a	N/a	N/a
Angie Risley	N/a	20,508	N/a	N/a	N/a	N/a	N/a	N/a
Malcolm Wyman	N/a	–	N/a	N/a	N/a	N/a	N/a	N/a

Notes:

1. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2. Executives are required to retain in shares 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding requirement.
3. Rupert Soames and Angus Cockburn were recruited to the Board in 2014, they have two and three years respectively from appointment to build their investment. On joining in 2014 Rupert invested 100% of salary, in May 2015 he invested a further 50% of salary ensuring his first two shareholding requirement hurdles were met. Angus invested 25% of salary on joining ensuring his first shareholding requirement hurdle was met.

Gain on exercise of share awards

	Number of options exercised	Exercise price (p)	Market value on exercise (p)	Gain on exercise of share award £
Rupert Soames	19,911	0	103.6	20,628
Aggregate gain on exercise of share awards				20,628

Other shareholding information (audited information)**Shareholder dilution**

Awards granted under the Serco Group plc share plans are met either by the issue of new shares or by shares held in trust when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Investment Association (formerly the ABI) in respect of all share plans is 10% in any rolling ten-year period and in respect of discretionary share plans is 5% in any rolling ten-year period. Based on the Company's issued share capital at 31 December 2015, our dilution level was 2.83% against all share plans and 1.79% against discretionary share plans.

The Group has an employee share ownership trust which is administered by an independent trustee and which holds ordinary shares in the Company to meet various obligations under the share plans.

The Trust held 10,659,290 and 10,540,181 ordinary shares at 1 January 2015 and 31 December 2015 respectively.

Rights Issue

The options and awards granted under the Serco Employee Share Plans were adjusted using a standard formula called the 'TERP' (Theoretical Ex Rights Price) formula. The TERP formula uses a theoretical ex-rights price and the last 'cum rights' share price (this is the last price when the shares were traded with the right to take part in the Rights Issue included).

The theoretical ex-rights price was calculated as 132.00p (the theoretical ex-rights price used here is not the same as the theoretical ex-rights price referred to in the Prospectus as it is based on the price on the last dealing day cum rights rather than the closing price on 11 March 2015) and the last cum rights price was 163.00p. The adjusted number of shares in each Award was increased by a factor of 1.23484848 and each exercise price was reduced by a factor of 0.80981595.

The Remuneration Committee

The Committee determines the overall remuneration policy for senior management and the individual remuneration of the Executive Directors and the members of the Executive Committee. This includes the base salary, bonus, long-term incentives, pensions and terms of employment (including those terms on which service may be terminated). The Committee also determines the remuneration of the Chairman.

Terms of reference

The terms of reference of the Committee, a copy of which can be found on the Group's website, are reviewed annually to ensure that they remain appropriate. Details of the Directors' attendance at meetings of the Committee can be found in the Corporate Governance Report on page 96.

Remuneration Report continued

Members of the Committee

All members of the Committee are independent. Non-Executive Directors of the Group are initially appointed for a three-year term, and that appointment may be terminated on three months' written notice.

Remuneration Committee members and attendees (the Committee met six times during 2015):

Remuneration Committee members	Position	Comments
Angie Risley	Chairman of Remuneration Committee from 14 May 2012	
Roy Gardner	Member from 1 June 2015	
Alastair Lyons	Member from 10 May 2011	Resigned from the Board on 1 July 2015
Malcolm Wyman	Member from 1 January 2013	
Tamara Ingram	Member from 3 March 2014	

Remuneration Committee attendees during the year	Position	Comments
Rupert Soames	CEO	Attended by invitation
Ed Casey	COO	Attended by invitation
Angus Cockburn	CFO	Attended by invitation
Geoff Lloyd	Group HR Director	Attends as an executive responsible for advising on the remuneration policy
Tara Gonzalez	Group HR Director, Reward	Attends as an executive responsible for advising on the remuneration policy
David Eveleigh	Group General Counsel & Company Secretary	Attends as the secretary to the Committee
Steve Williams	Deputy Company Secretary	Attends as the secretary to the Committee

No person is present during any discussion relating to their own remuneration arrangements.

Summary of the Committee's activities during the financial year

Meeting	Regular items	Ad hoc items
February	Consider salary review proposals for the Executive Directors and members of the Executive Committee; review the final draft of the Remuneration Report; confirmation of bonus payable; review of achievement of performance conditions for the LTI vesting.	Agree the treatment of the share awards under the Rights Issue; Approve changes to the PSP, DBP, EOP and Sharesave rules.
April	Review the performance measures for the LTI awards; review bonus objectives.	Consider the feedback from shareholder consultation.
May	Approve the performance measures for the LTI awards; review bonus objectives.	Update on the Rights Issue adjustments to share awards; Review of wider employee arrangements and conditions across the Group.
August	Review bonus objectives; briefing on market trends and Corporate Governance update; update on in-flight share awards.	Consider the treatment of the Contract and Balance Sheet Review items for the bonus plan.
October	Review performance of the Executive Directors against bonus objectives; review initial draft of the Remuneration Report; review Committee terms of reference; review the Committees annual programme of work.	Update on changes to National Living Wage.

Advisers to the Remuneration Committee

The Committee has been advised during the year by PricewaterhouseCoopers LLP ('PwC'). PwC were selected as advisers to the Committee through a competitive tendering process in 2012 and no conflicts of interest were identified.

PwC have provided advice throughout the year mainly around the following key executive reward areas:

- Support in reviewing the Directors' Remuneration Report
- Advice on calibration of performance targets
- Advice on the impact of the Rights Issue on outstanding share awards
- Informing the Committee on market practice and governance issues
- Responding to general and technical reward queries.

The advisers attended each meeting of the Remuneration Committee. Consulting services have also been provided to the Group by PwC in relation to retirement benefits and pay data, accounting and taxation services.

Fees paid to PwC as advisers to the Committee during the year totalled £75,600, fees are charged on an hourly rate basis. PwC are members of the Remuneration Consultants' Group, which oversees the voluntary code of conduct in relation to executive consulting in the UK.

The Committee reviews the objectivity and independence of the advice it receives from PwC each year. It is satisfied that PwC is providing robust and professional advice. In the course of its deliberations, the Committee considers the views of the Chief Executive on the remuneration and performance of the other members of the Executive Committee. The Committee have also received legal advice from Linklaters LLP and Clifford Chance LLP during the year.

Approved by the Board of Directors and signed on its behalf by:

David Eveleigh
Secretary

25 February 2016