

Remuneration Report

Dear Shareholder

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the financial year ended 31 December 2016.

This introduction provides the context for the Committee's decision-making during the year, and summarises the key points from the Report, including those relating to the future policy, performance and incentive plan outcomes and the Committee activities.

Context

In 2013 and 2014, the Company went through a period of crisis, during which many members of the management team left the business. In 2014 a new management team was appointed; some £1.3bn of provisions and write-downs were taken; and in early 2015, as part of a Rights Issue which raised £550m the new management set out a three-phase strategy to turn Serco around. The first phase – Stabilisation – involved rebuilding the core of the business, including the balance sheet; the second phase – Transformation – started in 2015 and is set to run to early 2018. The third phase – Growth – starts in 2018.

Our performance in 2016

As reported in the Chairman's Statement on page 4 substantial progress has been made in 2016 in the delivery of the Transformation phase, as set out in our Strategic Report on page 13. Customer confidence and trust has been rebuilt, as evidenced by a 30% increase in our bid pipeline and a 40% increase in our order intake in 2016; employee engagement has increased; costs have been reduced by some £450 million, and trading performance has been stronger than expected at the beginning of the year. All this has been reflected in a strong share price performance during the year. There is more work to do, and 2017 will be a critical year for the management team as they drive towards the completion of the Transformation phase.

Shareholder engagement and planned changes to policy

Included within this Report is our Directors' Remuneration Policy (the "Policy"). Under the regulations, our Remuneration Policy is required to be presented to shareholders for re-approval by shareholders every three years, and therefore together with our Annual report on Directors' Remuneration, will be voted on by shareholders at our Annual General Meeting, ("AGM") on 11 May 2017.

The requirement to put the Policy back for a vote comes at a time when the business is at a critical stage of its turnaround, with the Transformation stage just over half-way through. The Committee has therefore considered

the extent to which the current Policy remains aligned to the ongoing transformation, and has also looked ahead to what may be required in 2018 and beyond to support the next key phase in the delivery of the business strategy, which will be the Growth phase. The Committee has also given consideration to how well the Policy is aligned to wider market practice and to more recent corporate governance developments.

Our aim is to focus on value creation and share ownership to align executives with the completion of the strategic business transformation and delivery of the outcomes committed to shareholders. The current Policy focuses management on maximizing earnings and returns on invested capital in each year. The current focus on rewarding long-term success for consistently delivering progress, in line with or above investor expectations, is key to ensuring Serco retains the high calibre individuals who were appointed in 2014 to turn Serco around, and to develop and deliver our five-year plan. We have consulted with our major shareholders and the large majority of those who responded supported the continuation of the current arrangements.

The Committee is therefore asking shareholders to approve the renewal of the current Policy for a single year, with a view to doing a further review of Policy during 2017 and putting a new three year Policy to shareholders at the AGM in 2018.

The single-year extension to the current Policy allows a new Policy to be aligned to the strategic requirements of the third phase of our turnaround, which starts in 2018. The Committee also recognise that since the Policy was overwhelmingly approved by shareholders in 2014, certain aspects of the current arrangements have been overtaken by evolving market practice. In particular having two long-term incentive vehicles (a Performance Share Plan and a Deferred Bonus Plan), with one of these being based on a share matching arrangement, is not universally supported. The Committee wishes therefore to conduct a further review during the course of 2017 to design a new Policy, which, amongst other considerations, will result in the share matching element being removed. The timing of this will also provide the Committee with the opportunity to give full consideration to the emerging corporate governance policies and best practice guidelines, including the Government's White Paper expected to be released in late Spring 2017.

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.

The Committee will therefore be asking shareholders to approve the renewal of the existing Policy at the AGM in 2017 for a single year, with a further review to be undertaken and a new three-year Policy to be developed and put to shareholders ahead of being tabled for approval at the AGM in May 2018.

Remuneration outcomes in respect of the 2016 financial year

Long-term incentives

The long-term incentive awards made under the PSP in 2014 were based on targets set prior to the Rights Issue and, in line with good practice, were not adjusted. As a result of the issues identified through the Contract and Balance Sheet Review in 2014, and the subsequent impact on Group performance, the element of the long-term incentives granted to the new Executive Directors both on joining and in 2014, that are based on the financial targets being tested as at 31 December 2016, will lapse as a result of the financial targets attached to these awards not being achieved.

Short-term incentives

For the 2016 financial year, the Group Bonus Plan (the Plan) in which Executive Directors participate was focused on three core measures which comprised 70% of the overall opportunity: Group Revenue, Group Trading Profit and Group Free Cash Flow. The remaining 30% of the opportunity is based on role-specific objectives related to the delivery of the business transformation.

Financial performance has been strong; on both Trading Profit and Free Cash Flow the achievements of the business were in excess of the stretching targets set by the Committee at the beginning of the year and therefore these components have been earned in full. The level of Revenue achieved over the period was above threshold and as such 33% of this component of the bonus was awarded.

The financial bonus outcomes have been calculated after appropriate adjustments were made (agreed at the beginning of the year as part of the target-setting process and in line with the approach disclosed in respect of 2015). The Committee has once again 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 cross-referencing to information shared with the Audit Committee. This year the external auditors verified the extraction of the figures for bonus purposes from the audited information, followed by a formal sign-off by the Audit Committee prior to

decisions being made by the Remuneration 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 and that the transparency regarding this introduced in the 2015 DRR has continued in respect of 2016.

Performance against role-specific objectives has also been strong. Each of the Executive Directors has between 8 and 12 objectives aligned to our 4 priorities: Winning Good Business, Executing Brilliantly, Making Serco a Place People are Proud to Work, and Making Serco Profitable and Sustainable. 2016 has been a successful year; the Transformation phase of the strategy is well underway; the pipeline of new prospects has grown substantially, as has order intake. The Viewpoint Engagement score amongst the Leadership population is up 17 percentage points. The performance of each member of the Executive team is subject to a detailed review against their objectives as part of the decision-making on any bonus to be awarded in respect of non-financial elements.

After thorough consideration, as a result of the achievement of strong financial and non-financial performance over the year against the targets set, a bonus award of 82.3% of maximum (123.5% of salary) has been determined for Rupert in respect of 2016 performance. The corresponding bonus amounts for Angus and Ed are 81.6% of maximum (106.0% of salary) and 80.1% of maximum (120.1% of salary) respectively.

There was unanimous support for the decision to make these bonus awards to reflect the contribution that each member of the team has made to strengthen the business and position it for success.

The Committee is mindful of the importance of open and timely disclosure of bonus targets and the role they play in the Committee's ability to explain to Shareholders the decisions made. The Committee has also kept under review the commercial sensitivity of targets as the Company progresses through transformation. We are pleased to continue with our disclosure practice in disclosing targets in the year to which they relate. The targets, and the assessment of performance against them, for the 2016 Plan are therefore disclosed in this year's Report on page 112.

We intend to consult further with shareholders on the quality of our disclosure as part of the full review of remuneration to be undertaken during the course of 2017.

Remuneration Report continued

Approach for 2017

Salary reviews – no change

Base salaries, for our Executive Directors were set in a way which reflected the needs of the business at the time they were appointed in 2014; shareholders gave overwhelming support to their appointment and subsequently to their remuneration. No increases have been made to base salary since the individuals were appointed in 2014 and no changes are planned for 2017; for the third consecutive year, with effect from 1 April 2017, the salaries for the Executive Directors will remain unchanged.

Short-term incentives – no change

The target and maximum bonus opportunity will remain at 75% target /150% maximum of salary for Rupert Soames and Ed Casey, and 65% target /130% maximum of salary for Angus Cockburn. 70% of the bonus will continue to be based on financial measures, which are Revenue (20% weighting), Trading Profit (40% weighting) and Free Cash Flow (40% weighting). The remaining 30% will once again be individually set and based on key strategic goals related to the delivery of the business transformation.

Long-term incentives – no change

The Committee intends to make the next set of Performance Share Plan (PSP) and Deferred Bonus Plan (DBP) awards in 2017 in accordance with the current policy approved in May 2014. The performance measures will remain the same as those used for the 2016 awards with the PSP targets based on aggregate EPS, relative TSR and average ROIC with an equal weighting on each. The DBP has served the business well in reducing the amount of annual bonus paid as cash, and providing a mechanism by which the Executive Directors may invest a significant proportion of their annual bonus earned in respect of past performance, with the opportunity to earn a matching award based on future EPS performance. The choice of performance measure has incentivised executives to consistently deliver earnings in line with or above investor expectations during a challenging business transformation. Our major shareholders confirmed their continued support for this to ensure the new Executives appointed to deliver the business turn around are focused on leading the business back into sustainable growth.

Committee changes

The Committee was delighted to welcome Mike Clasper and John Rishton as Non-Executive Directors (NEDs) to the Committee on 1 August 2016 and 13 September 2016 respectively. Both Mike and John bring extensive knowledge across a range of industries and are already proving to be a great addition to the Remuneration Committee.

Closing remarks

2016 has been a year of significant progress in delivering the turnaround. I believe that the Remuneration Committee has rigorously made the necessary decisions to ensure that reward is clearly linked to performance and shareholder interests, and that any incentive payments awarded reflect what has been delivered. Serco has a highly effective executive management team and a clear strategy to transform the business and position it for success in attractive markets. We will continue to engage with shareholders to ensure that our leadership team are rewarded appropriately to incentivise them to complete the Transformation and move forward to restoring the growth, margins and returns of the business.



Angie Risley
Chair of the Remuneration Committee

At a glance: implementation of Remuneration Policy for 2017 and key decisions for 2016

The table below summarises:

- How key elements of the Remuneration Policy presented here, and once approved to apply from the 2017 AGM, will be implemented in 2017; and
- Key decisions taken by the Remuneration Committee in relation to the remuneration of Directors in respect of the 2016 financial year.

Implementation of Remuneration Policy for 2017

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)	COO (Ed Casey)
Base salary from 1 April 2017	£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 measures¹	<ul style="list-style-type: none"> • 70% financial targets: 40% Trading Profit, 40% Free Cash Flow and 20% Revenue. • 30% non-financial targets linked to key strategic goals. • Annual bonuses are subject to a Trading Profit underpin. 		
Deferred Bonus Plan (DBP)	Directors are eligible to participate in the 2017 DBP in line with the Policy approved at the AGM in 2014. A maximum of 50% of the 2016 bonus (paid in 2017) 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 measures²	Vesting of awards made under the DBP will be determined by reference to the Group's EPS performance measured over three years.		
Performance Share Plan (PSP)	Maximum 200% of salary	Maximum 175% of salary	Maximum 175% of salary
PSP measures²	<p>Awards granted under the PSP in 2017 will be subject to Group performance over a three year period ending 31 December 2019:</p> <ul style="list-style-type: none"> • 1/3rd 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. • 1/3rd Relative TSR – Total Shareholder Return (TSR) when ranked relative to companies in the FTSE 250 (excluding investment trusts). • 1/3rd Average 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 must 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"> • Malus provisions will apply to the PSP and DBP awards during the three-year performance period prior to vesting. • Clawback provisions will apply to the annual bonus plan. • 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 to the previously approved policy	The requirement to put the Policy back for a vote comes at a time when the business is at a critical stage of its turnaround, with the Transformation stage just over half-way through. The Committee is asking shareholders to approve the renewal of the current Policy for a single year, with a view to doing a complete review of the Policy during 2017, and putting a new three-year Policy to shareholders at the AGM in 2018.		

1. The Committee deems the specific details of the performance measures and targets to be commercially sensitive as they are intrinsically linked to the forward looking strategy of the business. Full disclosure will be provided in the Annual Report on Remuneration for the year in which final performance is assessed provided these details are no longer considered sensitive.
2. The Committee sets the performance targets in respect of the PSP and DBP immediately prior to the grant of the award and therefore these are not yet determined. Details of the performance targets will be disclosed in the Annual Report on Remuneration for the year in which the awards are made.

Remuneration Report continued

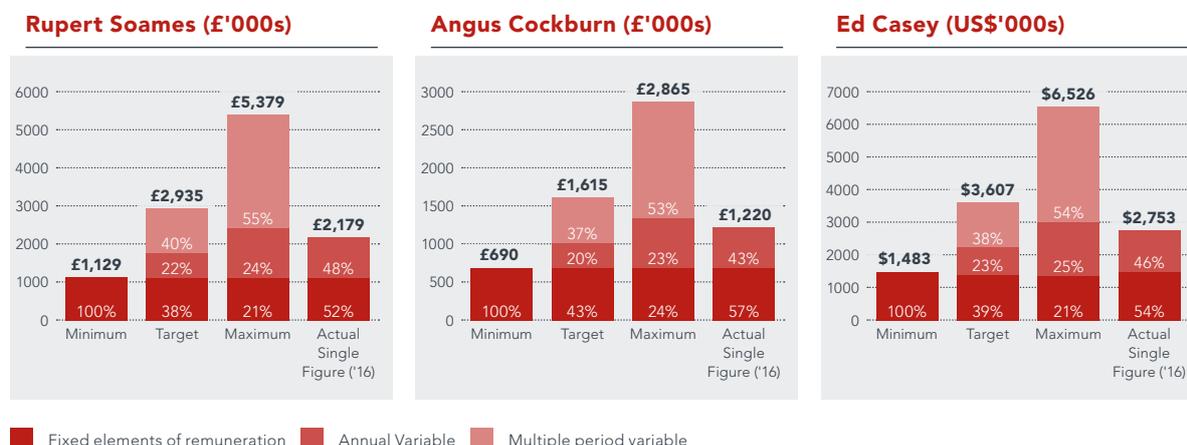
Key decisions made in respect of Directors' remuneration in 2016

Executive Directors

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)	COO (Ed Casey)
1 April 2017 salary review	No change	No change	No change
2016 Bonus outcome:			
• Currency value	£1,049,325	£530,075	\$1,274,824
• % of salary	123.5%	106.0%	120.1%
• % of maximum	82.3%	81.6%	80.1%
2014 PSP vesting (EPS performance condition for the period ending 31 December 2016)	Nil	Nil	Nil
Non-Executive Directors			
Chairman fee effective 1 July 2016	£250,000 (no change)		

Illustration of application of Remuneration Policy in 2017

The following charts illustrate the value that may be delivered to Executive Directors under different performance scenarios for the year ending 31 December 2017. Also shown, for comparison, is the actual value delivered in the year ended 31 December 2016 (excluding the value received from buy-out awards vesting in the year).



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration
 - Base salary as applicable from 1 April 2017
 - Estimated value of benefits to be provided in 2017 in line with the Remuneration Policy (based on the value of actual benefits provided in 2016)
 - Pension contribution/cash supplement equal to 30% of salary
- Annual bonus, deferred bonus plan and performance share plan participation as set out in the Policy table. In all cases, Target performance results in delivery of 50% of maximum opportunity. The Deferred Bonus Plan and Performance Share Plan values reflect the "face value" at grant of shares that could be received for Target and Maximum performance.
- The maximum matching award level under the DBP assumes maximum deferral and a 2:1 match against a maximum bonus.

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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.

Directors' Remuneration Policy

In this section, the Committee presents the Remuneration Policy report for shareholder vote at the 2017 AGM.

As set out in the Chair's Letter, given where the Company is with the business transformation, the Committee deemed it was not appropriate to make changes to the Remuneration Policy at this time. The Company is still in the process of completing the transformation and delivering on the objectives committed, and communicated, to shareholders. There is strong agreement that there is a need to ensure stability within our Remuneration Policy, until such time as the transformation is nearing completion. The Committee will therefore be asking shareholders to re-approve the existing Policy at the AGM in 2017.

As set out in the Chair's letter, it is intended that the Policy will be subject to a review with further consultation with our major shareholders during the latter part of 2017 and a revised Policy tabled at the AGM in May 2018.

In the tables and narrative below, we have set out details of each element that may comprise the remuneration package of a Director, what the opportunity is under that element, and importantly how each element supports the business and aligns the interests of the Directors with the wider stakeholders, including shareholders, in the Company.

The approved Directors' Remuneration Policy as applicable to remuneration for the year ending 31 December 2016 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.

We approach Executive Directors' remuneration on a total reward basis to provide the Remuneration Committee with a view of total remuneration rather than just the competitiveness of the individual elements. Analysis is conducted by looking at each of the different elements of remuneration (including salary, annual bonus, performance share plan and pension) in this context. This ensures that in applying the Remuneration Policy executive pay is sufficient to achieve the goals of the Remuneration Policy without paying more than is necessary. The leverage of fixed:variable pay also ensures that significant reward is only delivered for exceptional performance.

This remuneration framework is echoed throughout the organisation with the approach to pay for the wider workforce reflecting these core principles where appropriate.

Remuneration Report continued

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, with the relevant performance measures completely aligned to the core requirements of a successful business transformation.

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 106 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 the individual's ability, and experience. In some circumstances there may be phased movement to that market 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>Unchanged since appointment</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>A range of benefits may be provided to Executive Directors.</p> <p>These include, but are not limited to, company car or car allowance, 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, education costs for 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>

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 that are aligned to the business strategy during a one-year period.</p> <p>Reward ongoing stewardship and contribution to core values.</p>	<p>The Committee sets objectives at the start of each performance year. The annual performance measures and objectives are determined with reference to the Group's overall strategy and annual business plan and priorities for the year. At the end of the performance year the bonus result is determined by the Committee based on performance against the objectives and targets set.</p> <p>Annual bonuses are paid after the end of the financial year to which they relate. There is an optional deferral of 50% of the total earned bonus into Serco shares under the Deferred Bonus Plan.</p> <p>On change of control, the 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> <ul style="list-style-type: none"> • 150% of salary for CEO • 130% of salary for CFO • 150% of salary for COO <p>On-target bonus:</p> <ul style="list-style-type: none"> • 75% of salary for CEO • 65% of salary for CFO • 75% of salary for COO <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 longer term returns for shareholders and to align executives to shareholder interests through an increased shareholding.</p>	<p>Executive Directors can elect to defer, for three financial years, up to 50% of their net 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 granted as conditional share awards.</p> <p>Dividend equivalents are accrued in respect of matching shares awarded and are delivered as additional shares to the extent that the matching award vests.</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. 25% of the matching award vests for threshold performance.</p>	<p>EPS is the sole measure to determine the vesting of matching shares.</p> <p>The performance condition is measured over three years, awards vest at the end of the three year period to the extent that the performance condition is met.</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>

Remuneration Report continued

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 normally made annually.</p> <p>Dividend equivalents are accrued in respect of PSP shares awarded and are delivered as additional shares to the extent that the PSP award vests.</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 rising on a straight-line basis to full vesting for maximum performance.</p>	<p>Vesting is dependent on at least two performance conditions chosen from:</p> <ul style="list-style-type: none"> • EPS • Relative TSR • Absolute Share Price or TSR <p>The measures are independent and are measured over three years. The weighting of each is determined prior to award. The 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 pension related benefits to encourage executives to build savings for retirement.</p>	<p>Executive Directors may participate in the Group defined contribution pension plan.</p> <p>US employees are eligible to join the Serco 401k plan.</p> <p>Employer contributions are reviewed against local market practices annually.</p> <p>Executive Directors may choose to receive some or all of their employer pension contribution in cash to invest as they see fit.</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 plan 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 awards that are subject to performance conditions are not taken into account in determining an Executive Director's shareholding for these purposes. Share price is measured as at the end of the relevant 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>The shareholding guidelines are 200% of salary for the CEO, and 150% of salary for the CFO and COO.</p> <p>The Committee has the discretion to increase the shareholding requirements of the Executive Directors.</p>	<p>None</p>

Notes to the policy table:

Performance measures and targets

The table below sets out a rationale for the performance conditions applicable to the Annual Bonus, Deferred Bonus Plan and Performance Share Plans, and how targets are 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 selects the financial measures based on the Company's current Key Performance Indicators (KPIs). Non-financial measures are 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 and has been selected as the performance measure for the DBP 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, thus aligning the Directors' with the interests of shareholders. 	<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. The Committee takes care to ensure that specific EPS targets are suitably stretching. Relative TSR performance is measured against the constituents of the FTSE 250 as at the date of grant. As Serco is a constituent of the FTSE 250 it is felt that comparisons to the TSR performance of other companies in this Index provides a good measure of the relative performance of Serco.
Performance Share Plan	<ul style="list-style-type: none"> Performance targets will be based on a combination of performance conditions including at least two of the following; EPS, Relative TSR, Absolute share price. 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. Absolute share price or TSR targets drive the longer term improvement in our returns to shareholders. The rationale for the share price measure is to ensure that a full award is not delivered unless shareholders benefit from a significant increase in value over the three year performance period. 	<ul style="list-style-type: none"> Absolute share price and TSR targets are set to reflect what the Committee determines as stretch growth, taking into account recent price performance as well as growth forecasts and the economic environment to ensure targets are consistent with achievable levels of stretch financial performance. The Committee consults with a selection of the largest shareholders and the voting guidance services when determining targets for the Company's long-term incentive arrangements.

Malus and clawback

Malus and clawback provisions apply to awards under the PSP and DBP, and clawback provisions also apply to the annual bonus. Under the Policy, the Committee, at its discretion, may reduce or cancel (malus) or recover some or all of awards granted to Executive Directors in certain circumstances. Under the malus provisions the Committee may reduce or prevent vesting of an unvested PSP or DBP award in circumstances including but not limited to: material misstatement of the Group's audited financial results; material or misleading results announcement prior to vesting; or a clear and material contravention of the Company's ethics and values on the part of the participant or a team member, team, business area or profit centre for which the participant is responsible.

In the most serious of these circumstances the Committee may also invoke the clawback provisions against vested awards under the PSP, DBP and annual bonus. The clawback must be implemented within five years of the grant of the relevant PSP and DBP awards, and within two years in respect of bonus awards paid in cash.

Remuneration Report continued

Use of discretion

The Committee will operate the annual bonus plan, DBP and PSP according to their respective rules, as approved by Shareholders, and in accordance with the Listing Rules, where applicable. The Committee retains discretion, consistent with market practice, in a number of areas with regard to the operation and administration of these plans.

These include, but are not limited to:

- The participants;
- The timing of grant of an award;
- The vehicle of an award;
- The size of an award;
- The determination of vesting or bonus payment;
- Discretion required when dealing with a change of control or restructuring of the Group;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- The annual review of performance measures and weighting, and determining the performance measures for the awards granted from year to year.

In relation to the PSP, DBP and annual bonus plan, the Committee retains the ability, in exceptional circumstances, to change performance measures, targets and/or the relative weighting of performance measures part-way through a performance period if there is a significant event (such as a major transaction or, in the case of the bonus only, a transition in role) which causes the Committee to believe the original performance conditions are no longer appropriate. In exercising this discretion the Committee will determine that the original conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration.

In exceptional circumstances the Committee also 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.

Considerations of employment conditions elsewhere in the Group

The Remuneration Policy described here 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 this philosophy has been cascaded below Executive Directors to achieve alignment with the remuneration strategy 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 exceed certain pension tax allowances may be offered cash allowances in lieu of pension benefits.
Annual bonus	<ul style="list-style-type: none"> • Approximately 370 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"> • Annual awards under the PSP are made to approximately 370 employees in the Global Leadership Team.

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.

Considerations of shareholder views

We have consulted with our largest shareholders and received support for the continuation of the current arrangements at least in the short-term whilst the major elements of the Transformation phase are executed during 2017. The Committee believes 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. With the Policy subject to further change, we intend to engage in further consultation with our major shareholders during the latter part of 2017 and a revised Policy will be tabled at the AGM in May 2018.

Approach to recruitment remuneration

Our overarching remuneration principles continue to apply in recruiting new hires or promotions to the Board – that is that we seek to offer a package that is sufficient to attract, retain and motivate while aiming to pay no more than is necessary. We take into account that, as a global business, Serco operates in diverse markets and geographies and many of its competitors for talent are outside the UK.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Remuneration Policy incorporating all elements as set out above.

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 either a pension contribution and/or a pension allowance equal to 30% of base salary.

As summarised below, the Remuneration Policy provides for a maximum combined total incentive under bonus, PSP and DBP 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).

Element of remuneration	Maximum percentage of salary
Maximum variable pay:	500%
normally comprising:	
• Annual bonus	150%
• Long-term incentives	350%

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

This is the maximum level of incentives excluding any to compensate for entitlements forfeited 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).

Remuneration Report continued

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.

Where a new Executive Director is an internal promotion, the Committee has discretion to allow the new Executive Director to continue to benefit from existing awards granted, or benefit entitlements (such as pension), that were in place 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 outside of those in the Remuneration Policy for NEDs, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances.

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

Service contracts and loss of office payments

The policy for service contracts for new Directors is shown in the table below. 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.

Specific provisions are in place for Ed Casey in that the notice period is 12 months from the Company (as is usual policy), and 4 months from the Director to more closely align with US employment practice.

Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office. 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 date of appointment for each Director is shown in the table on page 110.

Provision for Executive Directors	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. 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 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' 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.
Treatment of annual bonus on termination	<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 rules¹	<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.
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. • Bonuses may be paid on a pro-rata basis measured on performance up to the date of change of control. • PSP awards vest pro-rata for time and performance up to the date of change of control unless the Committee decides otherwise.
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.

1. 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.

Provision for NEDs	Detailed terms
Letters of appointment	<ul style="list-style-type: none"> • Appointed for initial three-year term. • Appointment may be terminated on three months' written notice. • All Non-Executive Directors are subject to annual re-election.
Loss of office policy	<ul style="list-style-type: none"> • No compensation or other benefits are payable on early termination.

Remuneration Report continued

Remuneration Policy for the Chairman and Non-Executive Directors

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>Fees</p> <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"> • Senior Independent Director 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>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 on page 117.</p>	<p>Non-Executive Director fees are not performance-related.</p>
<p>Benefits</p>	<p>An allowance is payable to directors for attendance at meetings outside their country of residence where such meetings involve intercontinental travel.</p> <p>In addition, reasonable travel and business related expenses are paid.</p>		<p>N/A</p>

Non-Executive Directors are not entitled to receive incentives and pension.

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

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
Roy Gardner	1 June 2015
Angie Risley	1 April 2011
Ralph D. Crosby Jnr	30 June 2011
Malcolm Wyman ¹	1 January 2013
Mike Clasper	3 March 2014
Tamara Ingram ²	3 March 2014
Rachel Lomax	3 March 2014
John Rishton ³	13 September 2016

1. Malcolm Wyman stepped down from the Board and left the Company on 31 October 2016.

2. Tamara Ingram stepped down from the Board and left the Company on 31 July 2016.

3. John Rishton was appointed to the Board on 13 September 2016.

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

Annual report on remuneration

The implementation of the Remuneration Policy for year ended 31 December 2016

The Remuneration Policy for the year ended 31 December 2016 was consistent with the policy approved by shareholders at the AGM in 2014.

Single Figure – Directors' remuneration (audited information)

Executive Directors' single figure

The following table shows a single total figure of remuneration in respect of qualifying services for 2016 for each Executive Director, together with comparative figures for 2015. Details of NEDs' fees are set out in the next section.

		Rupert Soames		Angus Cockburn		Ed Casey ⁵	
		2016	2015	2016	2015	2016	2015
Salary and fees	£	850,000	850,000	500,000	500,000	771,552	694,324
Taxable benefits ¹	£	24,258	18,154	40,310	18,154	102,541	20,836
Bonus ²	£	1,049,325	1,103,130	530,075	562,380	926,440	869,849
Long-Term Incentives ³	£	37,983	29,209	30,559	N/A	–	–
Pension ⁴	£	255,000	255,000	150,000	150,701	228,376	205,517
Total	£	2,216,566	2,255,493	1,250,944	1,231,235	2,028,909	1,790,526

- The value of the UK 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 2016 benefits relate primarily to his expatriate status, including costs of £80,527 for accommodation while in the UK. Where Serco settles the PAYE and NIC liability in respect of benefits provided, the value of the benefit has been grossed up at the individual's marginal tax rate.
- Performance bonuses earned in the period under review, but not paid until the following financial year. During the year Rupert Soames and Angus Cockburn participated in the DBP by deferring 50% of their 2015 bonuses via the purchase of Investment Shares. Any deferral of the 2016 bonuses, payable in 2017, will take place during 2017 and be reported in the 2017 DRR.
- Includes the gain on vesting of recruitment awards (conditional share awards) vesting in 2016 for Rupert Soames and Angus Cockburn. These awards were granted in compensation for non-performance based awards forfeited by Rupert Soames and Angus Cockburn on joining Serco, therefore no performance conditions applied to the vesting of these awards however these shares were not included in the single figure value for the year of grant. Rupert Soames' award over 29,628 shares vested on 6 August 2016 at a share price of £1.282 (being the share price on the last trading day prior to vest). Angus Cockburn's award over 23,837 shares vested in full on 5 August 2016 at a share price of £1.282. The 2014 awards granted under the PSP that were subject to EPS performance in the period to 31 December 2016, did not vest as the performance condition was not met (further details are provided below). The 2015 LTI value for Rupert Soames relates to a non-performance recruitment award (conditional share award) that vested on 16 April 2015 (19,911 shares with a share price of £1.47 on the date of vest). This was not included in the relevant single figure value for the year of grant.
- 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. Ed Casey's value includes the Serco contribution to his 401K plan.
- Ed Casey's remuneration is paid in US dollars and has been converted into GBP using the average exchange rate over the relevant financial year. For the purpose of the 2016 single figure USD1 = GBP 0.72672. For the purpose of the 2015 single figure USD1 = GBP 0.65398. The increase in the GBP value of Ed Casey's base salary and pension is due to the exchange rate difference between 2015 and 2016. His 2016 base salary and pension were unchanged from 2015 (salary USD 1,061,690, with an employer 401K contribution of USD 7,950 and cash alternative of USD 306,306). His 2016 bonus is USD 1,274,824 (USD 1,330,085 in 2015).

The annual base salaries of the Executive Directors for the year ended 31 December 2016 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

Remuneration Report continued

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2016, 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 Trading Profit (40%), Free Cash Flow (40%) and Revenue (20%) and the non-financial measures were individually set and based on key strategic goals. Payments under the 2016 annual bonus were subject to an Underlying Trading Profit underpin (after adjustment for in-year Onerous Contract Provisions (OCP) items) of £50.0m.

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

Financial performance

Performance Measure	Weighting for 2016 (% maximum bonus opportunity)	Threshold target (£m)	Maximum target (£m)	Actual performance (£m)	Achievement against measure (% maximum opportunity for this measure)
Revenue	14%	£2,802	£3,004	£2,859	33%
Free Cash Flow	28%	- £54.9	- £44.5	- £33.0	100%
Trading Profit	28%	£50.0	£59.2	£73.7	100%

Non-financial performance

Weighting for 2016 (% maximum opportunity)	30%
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	Rupert Soames	Angus Cockburn	Ed Casey
Achievement against measure (% maximum opportunity for this measure)	72.5%	70.0%	65.0%

Overall 2016 bonus outcome

	Rupert Soames	Angus Cockburn	Ed Casey
Total bonus payable as % of maximum	82.3%	81.6%	80.1%
Bonus opportunity as % of salary	150%	130%	150%
Bonus amount achieved as % of salary	123.5%	106.0%	120.1%
Bonus amount earned	£1,049,325	£530,075	\$1,274,824

Note: All Executive Directors are entitled to participate in the Deferred Bonus Plan (the DBP) in 2017, up to a maximum of 50% of the bonus determined in respect of 2016 performance.

For FY16, the Group Bonus Plan (the Plan) in which Executive Directors participate was focused on three core measures which comprised 70% of the overall opportunity: Group Revenue, Group Trading Profit and Group Free Cash Flow. The remaining 30% of the opportunity is based on role-specific objectives related to the delivery of the business transformation.

Financial performance has been strong; on both Trading Profit and Free Cash Flow the achievements of the business over the year were in excess of the stretching targets set by the Committee at the beginning of the year and therefore these components have paid out in full. The level of Revenue achieved over the period was between threshold and maximum and as such 33% of this component of the bonus was awarded.

The financial bonus outcomes have been calculated after appropriate adjustments were made (agreed at the beginning of the year as part of the target-setting process and in line with the approach disclosed in respect of 2015). The Committee has once again 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. This year the process was further strengthened by involving the Company's external auditors in verifying the extraction of figures appearing in the accounts and those tabled for bonus purposes, followed by a formal sign-off by the Audit Committee on the numbers used to determine bonus payments prior to decisions being made by the Committee. As a result of the rigour applied to this process, the Committee is satisfied that the annual bonus outcome fairly reflects management performance in the year and that the transparency regarding this introduced in the 2015 DRR has continued in respect of 2016.

Trading Profit of £100.3m is adjusted by the Committee to arrive at a figure for Trading Profit for bonus purposes; shareholders were consulted on the principles behind these adjustments in 2015, and the bonus outcome for 2015 reflected these principles, the purpose of which is to ensure that management are measured against their in-year performance and are not given credit for gains for which they have not materially influenced. The first adjustment is to put Trading Profit into constant currency, so that it is consistent with the targets set at the beginning of the year; this is a £5.7m reduction. The Committee then considers items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of £20.9m should be adjusted out of Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes.

The table below sets out the adjustments made by the Committee between Trading Profit and Trading Profit for bonus purposes in 2016.

	2016 (£m)
Trading profit	100.3
Constant currency adjustment	(5.7)
Trading profit at constant currency	94.6
Adjustment for bonus purposes	(20.9)
Trading profit for bonus purposes	73.7

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

Rupert's objectives focused on:

- Improving Business Development performance to rebuild the pipeline, with focus on both new business wins and total wins including re-competes and extensions.
- Supporting Divisions in dealing with commercial issues and managing key customer relationships.
- Leading the delivery of the on-going transformation plan with agreed in-year savings.
- Demonstrating effective leadership of both the management team and the Group as a whole, continuing to improve employee engagement through embedding a performance culture, ensuring there is clear understanding of what leadership means in Serco supported by appropriate development.
- Lead effective development of the strategic plan "refresh" with agreement of the Board to its implementation.
- Support the Chairman to ensure the effective working of the Board.

The Committee deemed performance to be very strong. Rupert has continued to show highly effective and visible leadership throughout 2016, and over the course of the last 12 months has delivered essential elements of the 'Transform' stage of our turnaround. This included completing the rationalisation of our portfolio to achieve a strategic focus on public services in five sectors and four geographies; continued progress in reducing the burden of loss-making contracts; rebuilding our business development capacity, which has supported an increase in our pipeline of larger new bid opportunities. Furthermore, significant progress has been made in building differentiated capabilities and strengthening our sector propositions, which includes the successful development of our three Centres of Excellence covering Health, Transport and Justice & Immigration. Rupert has refreshed Serco's values to Trust, Care, Innovation and Pride, which sit at the very core of how the business operates. The Committee have also been able to monitor that the values have been embedded successfully through our annual 'Viewpoint' employee engagement survey with further increases in employee engagement, which is a key determinant of the future success of the business. The Chairman regards the support Rupert has provided to him in ensuring the effective operation of the Board to be first class. Based on Rupert's achievement the Committee has awarded above target but below maximum performance for the non-financial element relating to these objectives.

Angus Cockburn

Angus's objectives focused on:

- Managing the tender process for new external auditors and ensuring the effective handover from Deloitte; completing the internal audit tender and successful transition to the new firm, and developing the strategy for Internal Audit Reviews.
- Completing the returns of cash to private placement noteholders.
- Improving the effectiveness and efficiency of the finance function through the Global Finance Transformation (GFT) with a number of key milestones agreed at the start of the year.
- Work with the Group Strategy Function to ensure that there is a five-year plan for each line of business.

The Committee deemed Angus's performance to be very strong against all objectives. Examples of successes include the tender process for new auditors, which was deemed to have been very well executed in a short timeframe; clear plans to transition from Deloitte to KPMG were executed seamlessly. A new Internal Audit strategy was developed and a new outsource partner, PWC, were appointed. The Internal Audit Strategy was approved by Audit Committee. Cash return to noteholders was executed successfully. Significant improvements have been made in contract finance reporting and overall efficiency of the finance function. The creation of a Global Finance Community has taken real shape this year. In addition, Angus worked closely with Group Strategy and delivered a five-year financial plan to support the strategy. This plan was designed in such a way that it can also be used for impairment reviews and viability assessment. Further examples of successes include the quality of engagement with investors and analysts ending with the successful Capital Markets event. Based on Angus's achievement the Committee has awarded above target but below maximum performance for the non-financial element relating to these objectives.

Ed Casey

Ed's objectives focused on:

- Improving Business Development performance to rebuild the pipeline, with focus on both new business wins and total wins including re-competes and extensions.
- Continue to refine Risk Management process and work to embed as part of our operational approach to running the business.
- Continue to improve our internal governance compliance to achieve more consistent operational performance, ensuring each Division has a robust Compliance & Assurance programme that has been reviewed and approved by Group.
- Re-dedicate business to "zero harm" HS&E culture and implement necessary changes to effect change. Deliver consistent measures across the Group, and a reduction in accident rates.
- Deliver agreed Transformation Plan to continue to improve quality and efficiency of internal shared services and achieve savings targets to ensure sustained competitiveness of the business.

The Committee deemed Ed's performance to be very strong against all objectives. Ed has been a driving force behind the improvement in pipeline and level of bid activity in 2016; Centres of Excellence have gained traction and have made a significant positive impact on Business Development and positioning for future growth. The quality and consistency of Business Development has improved and win rates have also shown improvement. The new risk operating model and training were delivered and the Group Risk Committee reporting has been significantly refreshed to reflect the Committee's needs. The implementation of the Contract Management Application is a significant achievement and will give the Company a tool to help improve how we manage our contracts. Much has been accomplished in 2016 to re-focus the Company on safety and strengthen the culture of "zero harm". For example, AsPac have trialled innovative training for Musculoskeletal Disorder Prevention and Resilience, and Mental Health First Aid to improve workplace injury prevention. In the UK, a new HSE call centre service was developed to coordinate reporting accidents, incidents and near misses. In terms of the Transformation Plan, savings delivered exceeded targets set at the start of the year; there is clear evidence of transformation taking place in all Shared Services (Procurement, HR, IT and Finance). Based on Ed's achievement the Committee has awarded above target but below maximum performance for the non-financial element relating to these objectives.

Performance Share Plan (PSP)

The LTI amount included in the 2016 single total figure of remuneration includes the element of the PSP award which was awarded in 2014, vesting subject to EPS performance in the period to 31 December 2016. Achievement against the measure is shown in the table below:

Performance condition	Weighting	Threshold – 25% vesting	Maximum – 100% vesting	Actual	Percentage of max achieved
Adjusted EPS. 25% of the award vests for threshold performance, rising on a straight-line basis to 100% at maximum performance.	1/6	22p	26p	7.07p	0%

The awards made to the Executive Directors subject to this performance condition were as follows:

2014 PSP share awards	Date of grant	No of shares awarded	No of shares vesting	Vesting date	Value of vesting £
Rupert Soames	27 June 2014	96,066	0	27 June 2017	£0
Ed Casey	27 June 2014	70,558	0	27 June 2017	£0
Angus Cockburn	31 October 2014	60,891	0	31 October 2017	£0

Remuneration Report continued

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 ¹ (£)		Taxable benefits ² (£)		Total (£)	
	2016	2015	2016	2015	2016	2015	2016	2015
Sir Roy Gardner ³	250,000	129,167	–	5,000	21,600	14,400	271,600	148,567
Mike Clasper ⁴	90,083	88,000	–	5,000	–	–	90,083	93,000
Ralph D. Crosby Jnr	50,000	50,000	30,000	35,000	8,954	–	88,954	85,000
Tamara Ingram ⁵	36,750	63,000	–	5,000	–	–	36,750	68,000
Rachel Lomax ⁶	70,000	70,000	–	5,000	–	–	70,000	75,000
Angie Risley ⁷	60,000	60,000	–	5,000	–	–	60,000	65,000
Malcolm Wyman ⁸	56,250	67,500	5,000	–	6,831	–	68,081	67,500
John Rishton ⁹	19,583	–	–	–	–	–	19,583	–
Total	632,667	527,667	35,000	60,000	37,385	14,400	705,052	602,067

1. £5,000 is payable for each occasion that requires inter-continental travel outside of the Director's country of residence.
2. Taxable benefits in 2016 relate to taxable travel and subsistence expenses reimbursed in connection with attendance at Board meetings (2015 £nil). Roy Gardner also received secretarial services in 2016 of £21,600 (£14,400 in 2015).
3. Sir Roy Gardner is Chairman of the Board, Chairman of the Nomination Committee and a Member of the Remuneration and Corporate Responsibility Committees.
4. Mike Clasper is Senior Independent Director, Chairman of the Corporate Responsibility Committee and a Member of Audit, Remuneration, Nomination and Group Risk Committees.
5. Tamara Ingram was a Member of the Corporate Responsibility and Remuneration Committees. She stepped down from the Board on 31 July 2016.
6. Rachel Lomax is Chairman of the Group Risk Committee and a Member of Audit Committee.
7. Angie Risley is Chairman of Remuneration Committee and a Member of Nomination and Corporate Responsibility Committees.
8. Malcolm Wyman was Chairman of Audit Committee and a Member of the Group Risk, Nomination and Remuneration Committees. He stepped down from the Board on 31 October 2016.
9. John Rishton joined the Board on 13 September 2016 and is Chairman of the Audit Committee and a Member of the Remuneration Committee and Group Risk Committees.

Annual NED fees

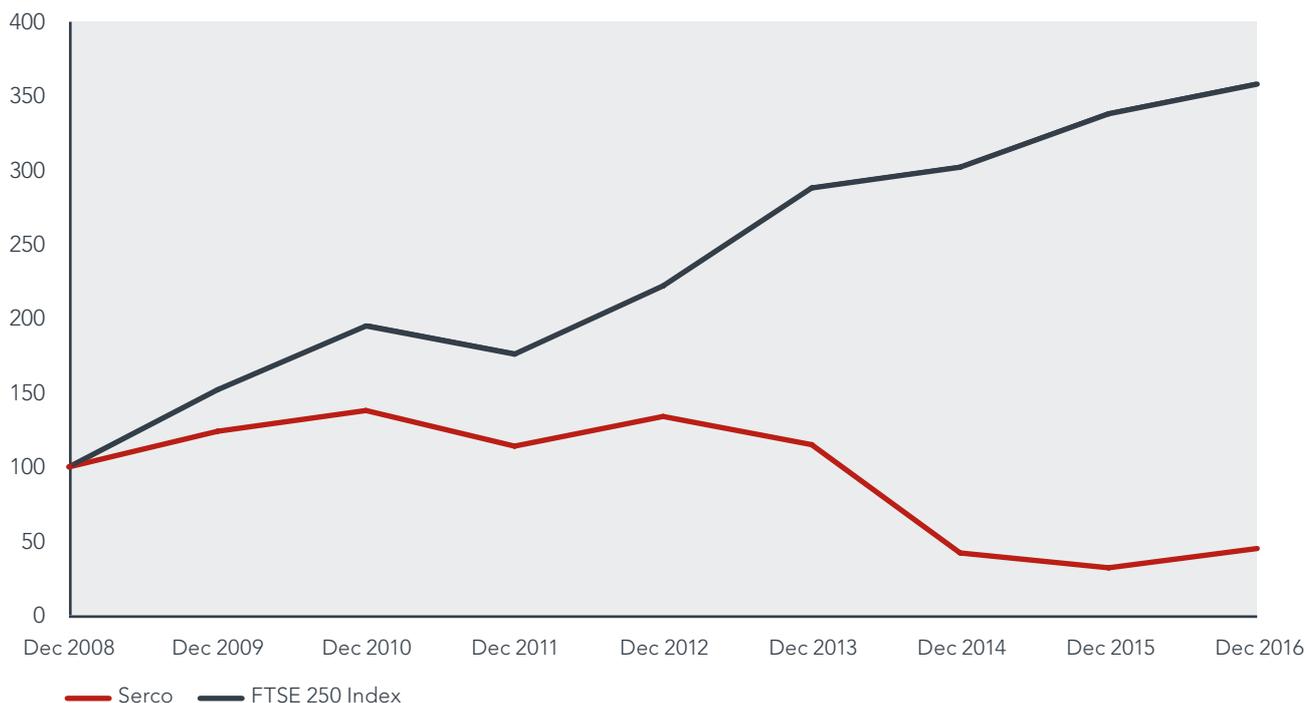
Role	Base fee 1 April 2016 £	Base fee 1 April 2015 £	Percentage change
Chairman	250,000	250,000	No change
Senior Independent Director	25,000	25,000	No change
Board fees	50,000	50,000	No change
Audit Committee Chairmanship	12,500	12,500	No change
Audit Committee Membership	5,000	5,000	No change
Group Risk Committee (previously Corporate Responsibility & Risk Committee) Chairmanship	15,000	15,000	No change
Group Risk Committee (previously 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
Allowance for travel to international meetings	5,000	5,000	No change

No additional fee is payable for Chair or Members of the Corporate Responsibility Committee or Nomination Committee.

Performance graph and table

This graph shows the value as at 31 December 2016, of a £100 investment in Serco on 31 December 2008 compared with £100 invested in the FTSE 250 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 FTSE 250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.

Serco Performance Graph



Remuneration Report continued

CEO's pay in last eight 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	2,255,493	87%	100% ¹
2016	Rupert Soames	2,216,566	82%	23.6%

1. Rupert Soames had a non-performance recruitment award which vested in full in 2015.

Percentage change in CEO's remuneration

The table below shows the percentage change in the salary, benefits and bonus of the CEO compared to that for the average UK employee. The UK employee sub-set of the Company's global employee population has been chosen as the group which provides the most appropriate comparator; this comprises some 23,000 of the 47,520 employees Serco employs worldwide. Inflation and local pay practices form a key driver in the salary and benefits provided in each location, and as the CEO is based in the UK we have chosen employees within the same country.

	Salary	Benefits ²	Bonus
CEO	0%	34%	-5%
Average change for all other UK employees	3.23% ¹	-3%	44% ³

1. This represents the change in pay for employees employed throughout the period to exclude the impact of changes in the mix of our employee population.
2. The nature of benefits provided to employees in 2016 compared to 2015 remains the same. The percentage change represents a reduction in the cost to the Company of the benefits over the period. The increase in CEO's benefits, although a high percentage, relates to a £6,100 increase in taxable benefits, representing 0.2% of his total pay.
3. The bonus element is shown for those employees eligible for such payments. These are calculated each year in March, after the publication of the Remuneration Report, so the figures shown here for employees are for bonuses paid in 2016, related to the 2015 performance, whereas the figure for the CEO relates to a calculation of the bonus earned, but not yet paid, related to performance in 2016.

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.

	2016 vs 2015	2016	2015
Dividend per share	0%	nil	nil
Overall expenditure on wages and salaries	-0.5%	1,516.0	1,523.3

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 2016, 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 2016.

Payments to Past Directors (audited information)

No payments were made in the year to past Directors.

Awards made in 2016**Deferred Bonus Plan (DBP) (audited information)**

The table below summarises the Matching Share Awards granted to Executive Directors' in 2016 in relation to their participation in the DBP.

Executive Directors received a Matching Share Award (in the form of a conditional share award) on a 2:1 basis in respect of their gross bonus deferred (i.e. for every one Investment Share that could have been purchased from the gross bonus deferred, two Matching Shares are granted). Matching Share Awards granted in 2016 vest subject to Aggregate EPS over the three year performance period ending 31 December 2018. 25% of the Matching Share Award will vest for threshold performance (Aggregate EPS of 7.5p), rising on a straight-line basis to 100% vesting for maximum performance (Aggregate EPS of 9.1p or above).

The definition of EPS is Statutory Earnings Per Share before exceptional items (adjusted to reflect tax paid on a cash basis).

Directors	Basis of Award (% salary)	Grant date	Market price at award (p) ¹	Face value (£) ²	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	130%	03 May 2016	95.5	1,103,129	25%	1,154,540	31 December 2018
Angus Cockburn	112%	03 May 2016	95.5	562,380	25%	588,589	31 December 2018

1. Closing share price on 3 May 2016.

2. Calculated using the closing share price on the date of grant.

Pre-vesting malus and post-vesting clawback is applicable to these awards.

Remuneration Report continued

Performance Share Plan (PSP) (audited information)

In 2016 the Executive Directors received awards equivalent to 200% of salary for the CEO and COO and 175% for the CFO.

The awards will vest at the end of the performance period, if the Executive Directors are still in employment with Serco and to the extent that the performance conditions have been met.

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 7.5p (threshold, 25% vesting) to 9.1p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.	31 December 2018
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 FTSE 250 (excluding investment trusts), measured from the 30-day period following the announcement of the Company's 2015 results to the 30-day period following announcement of the Company's 2018 results.	30 days following the announcement of the Company's 2018 results.
Average 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 2018

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	Type of interest awarded ¹	Basis of award (% salary)	Grant date	Market price at award (p) ²	Face value (£) ³	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	Nominal Cost Option	200%	06 April '16	96.05	1,700,000	25%	1,769,911	See above
Angus Cockburn	Nominal Cost Option	175%	06 April '16	96.05	875,000	25%	910,983	See above
Ed Casey	Conditional Share Award	175%	06 April '16	96.05	1,314,717	25%	1,368,783	See above

1. Rupert Soames and Angus Cockburn received grants in the form of nominal cost options with a 2 pence per share exercise price. Due to US tax treatment of discounted options Ed Casey's award was made in the form of a conditional share award.
2. Closing share price on 5 April 2016.
3. Calculated using the closing share price on the day immediately prior to the grant date.

Statement of voting at the general meeting

At the previous AGMs, votes on the Remuneration Report were cast as follows:

	For % Number	Against % Number	Withheld % Number
2015 Annual Report on Remuneration	96.68%	3.32	N/A
	814,337,337	27,947,300	610,006
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

Note: 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.

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. Rupert Soames stepped down as a Non-Executive Director of Electrocomponents plc on 20 July 2016. Ed Casey served as a Director of Talen Energy Corporation until 6 December 2016 when he stepped down as a Non-Executive Director of this company. Fees payable in the year were £31,369, £60,000 and USD105,000 plus deferred stock with a face value of USD130,000 respectively.

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

Remuneration Report continued

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 143.3p per share at 31 December 2016.

Name	Share ownership requirements (% of salary) ¹	Number of shares owned outright (including connected persons) at 31 December 2016 (or date of resignation) ²	Shares		Share options ⁵	Total share interests at 31 December 2016 Not subject to performance conditions
			Subject to performance conditions ³	Not subject to performance conditions ⁴	Subject to performance conditions ⁶	
Rupert Soames	200%	1,066,603	1,812,828	58,988	3,972,972	6,911,391
Ed Casey	150%	125,840	2,676,619	–	–	2,802,459
Angus Cockburn	150%	336,857	588,589	65,748	2,197,194	3,188,388
Roy Gardner	N/A	45,000	N/A	N/A	N/A	45,000
Mike Clasper	N/A	56,000	N/A	N/A	N/A	56,000
Ralph D. Crosby Jnr	N/A	–	N/A	N/A	N/A	–
Tamara Ingram	N/A	–	N/A	N/A	N/A	–
Rachel Lomax	N/A	40,000	N/A	N/A	N/A	40,000
Angie Risley	N/A	20,508	N/A	N/A	N/A	20,508
Malcolm Wyman	N/A	–	N/A	N/A	N/A	–
John Rishton	N/A	–	N/A	N/A	N/A	–

- Rupert Soames has met his contractual shareholding investment of 200% of salary by the second anniversary of appointment. Angus Cockburn has invested 25% on joining Serco and is on track to have invested 150% of salary by the third anniversary of appointment. Despite this, based on the share price at 31 December 2016, neither Rupert nor Angus have met their shareholding guidelines as set out above. Ed Casey has not met his shareholding guideline.
- Includes shares owned by connected persons. There were no changes in Directors' interests in the period 1 January 2017 and the date of this report.
- Includes awards made to Ed Casey under the Performance Share Plan and awards made to Rupert Soames and Angus Cockburn under the Deferred Bonus Plan. All awards are in the form of conditional share awards.
- These are the special recruitment awards that were made to Rupert Soames and Angus Cockburn in compensation for non-performance-based awards that were forfeited in connection with them joining Serco (as disclosed in the 2014 DRR). These awards are in the form of conditional share awards.
- All options are in the form of nominal cost options subject to a 2 pence per share exercise price. There are no interests in the form of share options that are not subject to performance conditions, nor are there any share options that are vested but unexercised and no share options were exercised during the year.
- Includes awards under the Performance Share Plan and the special recruitment awards that were made to Rupert Soames and Angus Cockburn in compensation for performance-based awards that were forfeited in connection with them joining Serco (as disclosed in the 2014 DRR). These are all nominal cost options with a 2 pence per share exercise price.

Other shareholding information

Shareholder dilution

Awards granted under the Company 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 2016, our dilution level was within these limits.

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 10,540,181 and 9,864,986 ordinary shares at 1 January 2016 and 31 December 2016 respectively.

The Remuneration Committee

The Committee determines the overall Remuneration Policy for senior management and the individual remuneration of the 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 78.

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 Report continued

Remuneration Committee members and attendees

The Committee met five times during 2016.

Remuneration Committee members during 2016	Position	Comments
Angie Risley	Chairman of Remuneration Committee from 14 May 2012	
Roy Gardner	Member from 1 June 2015	
Malcolm Wyman	Member from 1 January 2013	Resigned from the Board on 31 October 2016
Tamara Ingram	Member from 3 March 2014	Resigned from the Board on 31 July 2016
Mike Clasper	Member from 1 August 2016	Joined as an interim member in 2016
John Rishton	Member from 13 September 2016	Joined the Board on 13 September 2016

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 (until June 2016)	Deputy Company Secretary	Attends as the secretary to the Committee
Rebecca Dunn (from June 2016)		

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	Considered base pay of Executive Directors and members of the Executive Committee; considered previous year's performance against targets and confirmation of any bonus payable; review of achievement of performance conditions for the LTI vesting in respect of awards made in 2013; set performance targets and objectives for 2016; review the draft of the 2015 Remuneration Report.	
March	Reviewed and approved the performance measures for the LTI awards for 2016 awards and agree grant policy.	Considered the feedback from shareholder consultation.
May	Considered requirement for review of comparator groups for benchmarking packages; considered timing of future Policy Review aligned to current status of business transformation.	Reviewed wider employee arrangements and conditions across the Group.
August	Briefing on market trends and Corporate Governance update; update on in-flight share awards.	
December	Reviewed performance of the Executive Directors against bonus objectives; reviewed proposed approach to structure of the Remuneration Report; reviewed Committee Terms of Reference; reviewed the Committee's annual programme of work.	

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:

- Advice on the review of Remuneration Policy.
- Support in reviewing the Directors' Remuneration Report.
- Informing the Committee on market practice and governance issues.
- Assistance with general and technical reward queries.

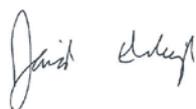
The advisers attended each meeting of the Remuneration Committee. Consulting services have also been provided to the Group by PwC in relation to pay and benefits data.

Fees paid to PwC as advisers to the Committee during the year totalled £39,500, 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.

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



David Eveleigh
Secretary

22 February 2017