

Remuneration Report

Report on Directors' remuneration

Remuneration linked to transformation for growth

Our revised remuneration policy aligns directors' reward with business performance and delivery of our strategic priorities.

Dear Shareholders

As the new Chair of the Remuneration Committee and on behalf of the Board, I am pleased to present my first Directors' Remuneration Report for Serco Group plc for 2017.

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.

Context to the Committee's decisions in the year

Since 2014 the business has been through a major transformation, with the setting of a new business strategy, a Rights Issue, disposal of several businesses, rationalisation of the portfolio and mitigation of loss making contracts. It is now a much stronger business, with a solid balance sheet and a restored reputation with customers.

Our overall remuneration framework has a number of specific objectives. It is designed to focus on value creation and share ownership to align the high calibre executives who were appointed in 2014, with the completion of the transformation and the delivery of the outcomes committed to shareholders. There are multiple considerations in the design of the overall framework. First and foremost is to ensure long term shareholder value creation and the Group's performance relative to sector peers. Second, is the balance of short-term and long-term incentives. Third, is the recognition of the Group performance and the individual's specific contribution to this, as well as the level of reward available to employees in the wider Group. Fourth, is to consider the precise numerical results through the lenses of both what management have contributed to what has been achieved and to the way this has been done, specifically ensuring the individuals embody the Serco Values of Trust, Care, Innovation and Pride in the way they do business.

Summary of key decisions for 2017

- Confirmation of 2017 vesting of the 2014 Performance Share Plan (PSP) elements which vested at nil as neither the EPS nor the relative TSR minimum performance requirements were met.
- Determination of vesting of Recruitment Awards granted to the CEO and CFO on joining Serco. The relative TSR elements did not vest as the minimum performance was not achieved. The Committee assessed each Director's performance against their Strategic Objectives and determined that, in each case, that element of the award should vest in full.
- Assessment of performance for the 2017 Annual Bonus. It was determined that the CEO should receive a bonus of 75.0% of maximum, the CFO a bonus of 75.3% of maximum, and the COO a bonus of 73.8% of maximum.
- Assessment of performance for the 2015 Deferred Bonus Plan (DBP) and 2015 PSP Awards with performance periods ending in FY17 and vesting in 2018.
- Determination of awards granted in April 2017 under the PSP and DBP Matching Share Awards granted in May 2017.
- Determination of nil salary increase for the CEO and CFO in 2018.
- Completion of a further review of Directors' Remuneration in conjunction with major shareholders.
- Determination of arrangements in connection with the cessation of employment of the COO from 31 December 2017. It was agreed that a bonus for 2017 would be paid on the normal date but that all unvested share awards would lapse in full.

Linkage of variable pay outcomes to performance measured in FY17

KPI	Plan	2017 performance	2017 incentive outcome
Trading Profit	Annual Bonus	£70.8m ¹	●
Revenue	Annual Bonus	2,832m ¹	●
Free Cash Flow	Annual Bonus	(£6.7m) ¹	●
Relative TSR	PSP	Below Median	●
Average ROIC	PSP	11.9%	●
Aggregate EPS	PSP & DBP	19.53p	●

Note:

¹ At constant currency.

- Below Threshold
- Between Threshold and Target
- Between Target and Max

In 2017 the Executive Team delivered a trading result in line with expectations, as well as over £3bn of order intake and a further improvement in employee engagement. The transformation of the business continues at pace and significant improvements have been delivered in efficiency and competitiveness. There was unanimous support for the decision to make awards to reflect the contribution that each member of the executive team has made to strengthening the business and position it for success.

Rationale for the 2018 remuneration policy requiring approval at the 2018 AGM

At the 2017 AGM, shareholders overwhelmingly supported the renewal of the current policy for a single year with a view to the Remuneration Committee undertaking a further review of policy during 2017. This allowed the new policy presented here to be aligned to the requirements of the third phase of our strategy implementation which begins in 2018. In undertaking the review the Committee took into consideration what was appropriate for the business as we move into the 'enabling growth' phase of the business transformation, as well as considering feedback from investors, best practice and market practice, and the key principles of good corporate governance. Our aim was to ensure remuneration remains aligned with our key corporate goals and shareholders' expectations, and that it motivates and compensates senior management fairly for their contribution to the business.

As a result of the review, and following consultation with our major shareholders, the Committee has made a number of changes to the remuneration framework.

The removal of the Deferred Bonus Plan (DBP) Share Matching Plan and revisions to the suite of performance conditions for PSP awards will:

- more closely align executive remuneration with that for sector peers by significantly reducing the overall quantum for variable pay (from 500% to 375% maximum opportunity for the CEO, with a similar reduction for the CFO);
- deliver a reduction of 20% in total maximum pay opportunity for the CEO and 19% for the CFO;

- strengthen alignment with the business strategy through the balance of short and long term reward and the choice of performance measures; and
- simplify our remuneration arrangements to one long-term incentive plan.

This reduction in maximum earnings opportunity is being made against the context of the fourth consecutive year of no change to base pay for the CEO or CFO. With the COO role not being replaced and the additional responsibility being taken on at Executive Director level by the CEO and CFO, the overall result is a significant reduction in total cost of Executive Director pay. Serco is fortunate to have not only a high calibre Executive team but also one which understands the context in which we operate and therefore support the changes.

PSP awards to be granted from 2018 onwards will maintain the emphasis on the achievement of financial metrics but permit up to 25% of the PSP to be linked to key non-financial, strategic, KPIs that are clearly aligned to our strategy and are crucial to the delivery of sustainable growth. These KPIs will represent core areas where achievement can be tested and evidence-based. For 2018, the first year of operation, the Committee has concluded that a weighting of 15% for strategic measures and 85% for financial measures is appropriate. A higher weighting of up to 25% may apply in future years of operation.

The introduction of mandatory three year deferral into shares of all bonus earned above 100% of salary (with no matched opportunity) further reinforces the link between reward and sustained long-term performance. In line with the policy approved at the 2017 AGM, under the 2018 remuneration policy all elements of variable pay are subject to clawback provisions.

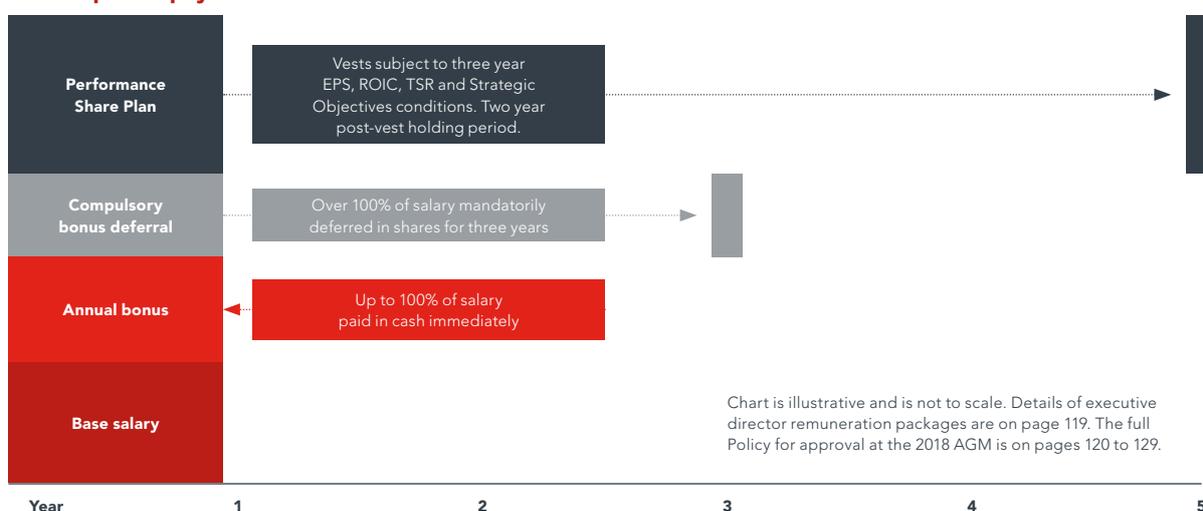
Remuneration Report continued

Rationale for the 2018 remuneration policy requiring approval at the 2018 AGM continued

Finally, to ensure continued good governance of remuneration, we will introduce further “best practice” measures, including the reduction of maximum pension contributions to 20% of salary for new Executive Directors.

Much thought was given to the balance of focus on short and long term delivery which are equally important to the Group’s future success. A small increase in maximum opportunity under the short term incentive, combined with the introduction with mandatory deferral into shares for a further three years of any bonus earned over 100% of salary, strengthens the link between reward and achieving critical targets in the short term whilst maintaining a focus on longer term, sustainable, growth.

The simplified pay structure



How our simplified variable pay structure aligns to the core KPIs for 2018

Core KPIs		Annual bonus	PSP
Financial	Non-financial		
Trading Profit		•	
Revenue		•	
Free Cash Flow		•	
	In-year non-financial objectives	•	
Relative TSR			•
Average ROIC			•
Aggregate EPS			•
	Growth-aligned strategic objectives		•

Shareholders’ approval is requested for the revised Remuneration Policy.

Concluding comments

On behalf of my colleagues on the Committee, we appreciate the input we have received from shareholders and representatives of institutional investors, whose comments have shaped the refresh of our Policy. The Committee believe that the recommended changes will ensure our arrangements are appropriate given the context in which Serco operates as a trusted partner of government; that our highly effective executive management team are rewarded for completing the transformation and are incentivised to move forward to restoring growth, margins and returns of the business.

On behalf of the Board

Lynne Peacock

Chair of the Remuneration Committee

21 February 2018

The Remuneration Committee

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework for ensuring that the executive management team are rewarded and incentivised appropriately for their contribution to Group performance. The Committee's primary focus is to ensure a clear link between reward and performance. This means ensuring that the policy, structure and levels of remuneration for Executive Directors reinforce the strategic aims of the business and are appropriate given the market context in which Serco operates.

The Committee's composition, responsibilities and operation comply with the principles of good governance as set out in the UK Corporate Governance Code, with the Listing Rules and with the Companies Act 2006. The Terms of Reference of the Committee, a copy of which can be found on the Group's website at www.serco.com/about/the-board-and-governance, are reviewed annually to ensure that they remain appropriate. The Committee conducted an annual assessment of its own performance in accordance with the annual effectiveness review of the Board. Following that review, the Committee concluded that it is fully effective in respect of its Executive and Chairman Remuneration duties with consideration being given as to how it may widen the scope to include a greater understanding of employee benefits and to further collate employee views around pay and benefits at Serco.

Members of the Committee and attendees

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.

2017 Scheduled Committee Meetings	Attendance (eligibility)
Chairman of the Remuneration Committee	
Angie Risley ¹	4(4)
Lynne Peacock ²	3(3)
Committee Members	
Sir Roy Gardner ³	3(5)
Mike Clasper ⁴	2(4)
John Rishton ⁵	5(5)
Kirsty Bashforth ⁶	1(1)

Notes:

- 1 Angie Risley resigned from the Board on 15 September 2017. Chair of the Remuneration Committee 14 May 2012 – 15 September 2017.
- 2 Lynne Peacock joined the Committee on 1 July 2017. Chair of the Remuneration Committee from 15 September 2017.
- 3 Sir Roy Gardner has been a Member of the Committee since 1 June 2015. He was unable to attend the September 2017 and December 2017 Committee Meetings due to unavoidable scheduling conflicts.
- 4 Mike Clasper was a Member of the Committee from 1 August 2016 until 4 December 2017. Mike was unable to attend the May 2017 and September 2017 Committee Meetings due to unavoidable scheduling conflicts.
- 5 John Rishton has been a Member of the Committee since 13 September 2016.
- 6 Kirsty Bashforth has been a Member of the Committee since 15 September 2017.

Remuneration Committee attendees during the year	Position	Comments
Rupert Soames	CEO	Attended by invitation
Angus Cockburn	CFO	Attended by invitation
Geoff Lloyd until August 2017/ Anthony Kirby from October 2017	Group HR Director	Attends as an executive responsible for advising on the People Strategy
Tara Gonzalez	Group Reward Director	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
Elaine Richardson until May 2017	Deputy Company Secretary	Attends as the secretary to the Committee
Chandrika Kher from May 2017		
PricewaterhouseCoopers LLP	External advisor to the Remuneration Committee	Attends as the independent advisors to the Committee

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

Remuneration Report continued

Summary of the Committee's activities during the financial year

Meeting	Regular items	Ad hoc items
February	Considered feedback from the shareholder consultation on the 2016 Policy Review; 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 granted in 2014; set performance targets and objectives for 2017; review the draft of the 2016 Remuneration Report.	Considered accelerated vesting of PSP awards for death in service case; considered Executive Committee terms and conditions for new hires; reviewed wider employee arrangements and conditions across the Group.
May	Considered administrative changes to the PSP Rules and the Share Dealing Code; considered basis for the Policy Review to inform the revised Remuneration Policy; considered AGM voting outcomes; reviewed the achievement of performance conditions for the Recruitment Awards granted in 2014.	Updates on Executive Committee appointments and exits.
August	Considered the 2017 Policy Review and recommendations for a new Remuneration Policy.	
September	Considered proposals for the revised Remuneration Policy; reviewed the achievement of performance conditions for the Recruitment Awards granted in 2014; considered the reporting requirement of the UK Gender Pay Gap regulations.	Considered amendments to the taxable benefits received by NEDs.
December	Reviewed proposed approach to structure of the Remuneration Report; reviewed its own Terms of Reference which were amended to reflect the UK Corporate Governance Code and the ICSA guidance note for effective remuneration committees; reviewed the Committee's annual programme of work.	Considered feedback from major shareholders and investor advisory bodies regarding proposed changes to the Remuneration Policy. Considered the detail of reporting under the UK Gender Pay Gap regulations. Considered the cessation of employment arrangements for COO Ed Casey.

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 the Remuneration Policy;
- support in reviewing the Directors' Remuneration Report;
- informing the Committee on market practice and governance issues; and
- 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 the 2017 Policy Review and pay and benefits data.

Fees paid to PwC as advisers to the Committee during the year totalled £69,100. 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 remuneration 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.

At a glance: implementation of the Remuneration Policy for 2018

The following charts illustrate the value that may be delivered to the Executive Directors under different performance scenarios for the year ending 31 December 2018. Also shown, for comparison, is the actual value delivered in the year ended 31 December 2017 (excluding the value received from Recruitment Awards vesting in the year) along with a comparison of the value that could have been delivered under the previous policy.



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



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

The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration
 - Base salary as applicable from 1 April 2018
 - Estimated value of benefits to be provided in 2018 in line with the Remuneration Policy (based on the value of actual benefits provided in 2017)
 - Pension contribution/cash supplement equal to 30% of salary
- Annual bonus 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 Performance Share Plan values reflect the “face value” at grant of shares that could be received for target and maximum performance.

Remuneration Report continued

Implementation of the Remuneration Policy for 2018 – Executive Directors

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)								
Base salary from 1 April 2018	£850,000	£500,000								
Pension	30% of salary	30% of salary								
Annual bonus	Max. 175% of salary On-target 87.5% of salary Compulsory three year deferral into Serco shares of bonus over 100% of salary	Max. 155% of salary On-target 77.5% of salary								
Annual bonus measures¹	<table border="1"> <tr> <td>28% Trading Profit</td> <td>28% Cash Flow</td> <td>14% Revenue</td> <td>30% in year Non-financial objectives</td> </tr> <tr> <td colspan="3">70% financial</td> <td>30% non-financial</td> </tr> </table>		28% Trading Profit	28% Cash Flow	14% Revenue	30% in year Non-financial objectives	70% financial			30% non-financial
28% Trading Profit	28% Cash Flow	14% Revenue	30% in year Non-financial objectives							
70% financial			30% non-financial							
Performance Share Plan (PSP)	Maximum 200% of salary	Maximum 175% of salary								
PSP measures² Assessed over the three year performance period	<p>Awards granted under the PSP in 2018 will be subject to Group performance over a three year period ending 31 December 2020:</p> <p>For 2018, 85% of the award will be based on financial measures split equally between:</p> <ul style="list-style-type: none"> Aggregate EPS – Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis), measured as an aggregate over the performance period. Relative TSR – Total Shareholder Return (TSR) when ranked relative to companies in the FTSE250 (excluding investment trusts). Average ROIC – Pre-tax Return on Invested Capital (ROIC), measured as an average over the performance period. <p>For 2018, the remaining 15% will be based on Strategic Objectives. Performance targets for the awards granted in 2018 will be based on improvements in order book and employee engagement, which are critical to delivering the business strategy over the next three years. For 2018, the first year of operation of strategic objectives within the PSP, the Committee has concluded that a weighting of 15% for strategic measures and 85% for financial measures is an appropriate balance.</p>									
Holding requirement	Vested shares from the PSP must be held for two years post vesting (after payment of tax).									
Shareholding guideline	200% of salary	150% of salary								
Malus and clawback	<ul style="list-style-type: none"> Malus provisions and clawback provisions apply to PSP awards during the three-year performance period prior to vesting and the two-year post-vesting holding period respectively. Clawback provisions will apply to the annual bonus plan. 									

Notes:

- 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 strategic plans 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.
- The Committee sets the performance targets in respect of the PSP 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 to the extent that they are not deemed commercially sensitive at that time. Full retrospective disclosure will be made of any details that are withheld once this information is no longer deemed commercially sensitive by the Committee.

Implementation of the Remuneration Policy for 2018 – Non-Executive Directors

Role	Base fee to apply from 1 April 2018 £	Base fee 1 April 2017 £	Percentage change
Element – Annual Board and Committee fees			
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
Corporate Responsibility Committee Membership ¹	5,000	N/A	New fees
Group Risk Committee Chairmanship	15,000	15,000	No change
Group 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
Element – travel allowance			
Allowance for travel to international meetings	5,000	5,000	No change

Note:

¹ In line with the Policy approved at the 2017 AGM, a fee of £5,000 per annum will be introduced for Membership of the Corporate Responsibility Committee to apply from 1 April 2018.

No additional fee is payable for Chair of the Corporate Responsibility Committee, or for the Chair or Membership of the Nomination Committee. In addition, in 2017 no fees were payable for Membership of the Corporate Responsibility Committee.

Remuneration Report continued

Directors' Remuneration Policy

For approval at the 2018 Annual General Meeting

The Directors' Remuneration Policy (the Policy) will take legal effect from the conclusion of the 2018 Annual General Meeting (AGM) subject to shareholder approval at the 2018 AGM.

As set out in the Chair's Letter, as we move into the 'enabling growth' phase of the business transformation the Committee has undertaken a complete review of Directors' remuneration with a view to ensuring that the Remuneration Policy is aligned to the strategic requirements of the business going forward. The Remuneration Policy review also sought to simplify the overall remuneration of Directors' and to address concerns from some shareholders in connection with the long term incentive arrangements in particular.

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 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 approved at the 2017 AGM is displayed on the Company's website, in the investor area.

The provisions in the Directors' Remuneration Policy as approved at the AGM in 2017 that relate to the Deferred Bonus Plan will continue to apply to all awards made under this plan prior to the approval of the new Policy at the AGM in 2018.

Remuneration Policy

Serco's Remuneration Policy supports the achievement of the Group'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; and
- 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 balance of fixed to 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.

Features of the 2018 Remuneration Policy

The remuneration package for Executive Directors continues to consist of base salary, annual bonus, a long-term share-based incentive, pension and other benefits. The Group's policy remains to ensure that a significant proportion of the package is related to performance, with the relevant performance measures aligned to the core requirements of the Group's forward-looking strategy. As set out in the Chair's Letter, changes have been made to ensure alignment with the Group's strategy as we enter the enabling growth phase of the transformation; to address areas of concern and deviations to current accepted remuneration practice; and to ensure the new policy is fit for the future success of the business. A summary of the changes to the 2017 Policy (as approved at the 2017 AGM) is set out below:

Element in 2017 Executive Directors' Policy	Changes made for 2018
Base Salary	No change but we have restated the purpose and operation of this element for clarity.
Benefits	No change.
Annual Bonus	Changes made to the maximum opportunity under this element and to introduce the compulsory deferral into shares of bonus earned over 100% of salary: CEO – increased from 150% of salary to 175% CFO – increased from 130% of salary to 155% of salary The performance framework has been restated for clarity.
Deferred Bonus Plan	This element is no longer part of the Remuneration Policy for Executive Directors. This results in a reduction in the total variable pay opportunity of 125% of salary for the CEO (with a similar reduction for the CFO). The provisions of this element will continue to apply to Executive Directors' in respect of awards granted under this plan prior to approval of the 2018 Policy only (the last of which is anticipated to vest in May 2021).
Performance Share Plan	Formally rebalance the performance measures and introduction of Strategic Objectives to the suite of performance measures enabling a more holistic approach to ensuring reward is fully aligned to Company performance. Awards granted in 2018 will vest based on 85% equally weighted between TSR, EPS, ROIC and 15% on Strategic Objectives. The operation and other aspects of the performance framework have been restated for clarity.
Pension	Reduction in the maximum opportunity for new Executive Directors' from a maximum of 30% of salary to 20% of salary) and clarification of the operation of this element.
Shareholding guideline	No change.
Element in 2017 Non-Executive Directors' Policy	Changes made for 2018
Fees	No change.
Benefits and expenses	No change.

Remuneration Report continued

Future policy table – Executive Directors

For the avoidance of doubt it is intended that the new Directors' Remuneration Policy will apply in its entirety to all payments made to Directors' from the date of shareholder approval.

The following table sets out the proposed Executive Director Remuneration Policy to apply for three years following shareholder approval at the 2018 AGM. The 2018 Policy for Non-Executive Directors' can be found on page 128 and the table set out on page 124 provides further information of how pay policies are set for the broader employee population.

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
Base Salary			
To recognise an individual's experience, responsibility and performance of the role, and by providing the basis for a competitive remuneration package; to help recruit and retain executives of the necessary calibre to execute Serco's strategic objectives.	<p>Pay levels are designed to attract and retain experienced, skilled executives reflecting the skills and role of the individual.</p> <p>Base salaries are set by reference to:</p> <ul style="list-style-type: none"> • the relevant experience and time in role of the individual; • individual performance; • compensation of similarly situated executives of companies in an appropriate peer group; and • the wider economic environment. <p>In some circumstances an executive may start on a lower salary than would be competitive in the market, with a phased increase applying depending on performance in role and individual ability.</p> <p>Salaries are normally reviewed annually and any changes are usually effective from 1 April. Salary reviews take account of the individual's performance and contribution to the Company during the year.</p>	<p>Whilst there is no prescribed, formulaic maximum, 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. Such cases would include where there has been a significant change in role size or complexity which has resulted in the salary falling below a market competitive level given the enhanced responsibilities of the role.</p>	Review takes account of individual performance and contribution to the Company during the year.
Benefits			
To provide a competitive level of benefits.	<p>A range of benefits may be provided to Executive Directors. 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>	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.	None

How the element supports our strategic objectives

	Operation	Opportunity	Performance framework
Annual Bonus			
<p>Incentivise Executives to achieve specific, predetermined goals that are aligned to the business strategy during a one-year period.</p> <p>Compulsory deferral into shares increases alignment of the short term incentive with shareholders.</p> <p>Reward ongoing stewardship and contribution to core values.</p>	<p>The Committee sets objectives and their weightings 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 compulsory deferral into shares vesting after three years of any bonus earned over 100% of salary. The Committee has discretion to permit a dividend equivalent to accrue during the vesting period. Dividend equivalents are delivered to participants in the form of additional shares or cash to the extent that the award vests.</p> <p>Awards made to Executive Directors are subject to malus and clawback provisions. Further details are given below.</p>	<p>Maximum bonus opportunity is 175% of salary for CEO and 155% of salary for other Directors. This represents the maximum bonus payable for exceptional/"stretch" performance.</p>	<p>Performance is assessed annually.</p> <p>Both financial and non-financial measures are used, with a weighting of no less than 70% financial. Financial measures are based on the Company's Key Performance Indicators (KPIs) for the year such as Trade Profit, Cash Flow and Revenue and take into consideration analyst consensus and the Company's forecasts. Non-financial measures are based on personal performance against key strategic objectives for that year.</p> <p>Given the direct link of the performance measures and targets to the Group's strategic plan, the details of these are deemed by the Committee to be commercially sensitive and therefore are not disclosed in advance to shareholders. However, the Committee commits to full retrospective disclosure of the performance measures, targets and achievement of those targets following the end of the performance period and to the extent that this information is no longer commercially sensitive in respect of the non-financial strategic objectives.</p> <p>Awards for on-target performance are 50% of the maximum opportunity. At minimum (threshold) performance the award that may be received is 0% of the maximum opportunity.</p> <p>All bonus payments are ultimately at the discretion of the Committee, taking into consideration the Director's personal contribution to business performance over the relevant year and leadership behaviours demonstrated in making that contribution.</p> <p>Performance conditions do not apply to the deferred element.</p>

Remuneration Report continued

How the element supports our strategic objectives

	Operation	Opportunity	Performance framework
Performance Share Plan (PSP)			
Recognises achievement against the longer term objectives linked to the Group's strategy and aligns incentives with shareholder value creation.	<p>Awards under the PSP are usually made in the form of nominal cost options or conditional share awards, but may also take the form of nil-cost options or market value share options.</p> <p>Awards are normally granted on an annual basis. However, the Committee will consider awards under the PSP twice a year.</p> <p>Awards will be subject to performance conditions.</p> <p>Awards are typically settled in Ordinary Shares however, at the discretion of the Board awards may be converted to a cash equivalent based on the value of the shares at the vesting date (in cases where due to local law it is not possible to deliver shares), or subject to net settlement.</p> <p>The Committee has discretion to permit a dividend equivalent to accrue during the vesting period. Dividend equivalents are delivered to participants in the form of additional shares or cash to the extent that the award vests.</p> <p>Shares are subject to a two year post vesting holding period. During this time the shares must be retained but are not subject to forfeiture provisions. Shares may be sold in order to satisfy tax or other liabilities as a result of the vesting of the award.</p> <p>Awards made to Executive Directors are subject to malus and clawback provisions. Further details are given below.</p>	<p>Maximum annual award of up to 200% of base salary for the CEO and 175% for other Directors.</p>	<p>Performance measures and weightings will be set by the Committee at the start of the three year performance period on the basis of the Group's strategic plan. At least 75% of the vesting of the LTIP is dependent on two or more financial performance conditions chosen from:</p> <ul style="list-style-type: none"> • EPS • TSR • ROIC <p>The Remuneration Committee has discretion to introduce additional financial measures aligned to the Group's strategy.</p> <p>In addition, up to 25% of the LTIP vesting may be based on the achievement of strategic measures. The Remuneration Committee has discretion to restrict the vesting against the non-financial element if, on assessment of the Company's performance as a whole including the financial performance, the formulaic outcome of the non-financial measures is not reflective of this.</p> <ul style="list-style-type: none"> • EPS for these purposes is EPS before exceptionals and is an important measure of shareholder value which can also be influenced by executive decision-making. EPS targets are set in reference to analyst forecasts and Group business plans. The Committee takes care to ensure that specific EPS targets are suitably stretching. • Relative TSR reflects our performance relative to other companies in which investors could choose to invest. 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. • Maintaining an attractive return on capital is core to our business strategy therefore ROIC is included in the suite of financial measures for the PSP. Pre-tax ROIC targets are set in reference to analyst forecasts for cash flow and trade profit, and Group business plans, and are inclusive of joint ventures to more closely align management with shareholders. • Strategic Objectives must be measurable and capable of objective assessment. Strategic Objectives will be aligned to the achievement of key milestones in the implementation of the Group's strategy. The specific Strategic Objectives will be disclosed in the Annual Report on Remuneration following the grant of an award but, due to the direct link of the performance measures and targets to the Group's strategic plan, the details of these are deemed by the Committee to be commercially sensitive and therefore are not disclosed in advance to shareholders. However, the Committee commits to full retrospective disclosure of the performance measures, targets and achievement of those targets following the end of the relevant performance period and to the extent that this information is no longer commercially sensitive. <p>25% of the award vests for threshold performance rising on a straight-line basis to full vesting for maximum performance.</p> <p>The Committee (with input from the Audit and Group Risk Committees as appropriate) considers Serco's underlying performance and external market reference points as well as performance against the specific targets set in determining the overall outcome of the PSP.</p>

How the element supports our strategic objectives**Operation****Opportunity****Performance framework****Pension**

To provide pension related benefits to encourage executives to build savings for retirement.

Executive Directors may participate in the Group defined contribution pension plan (or overseas Serco pension plan as appropriate).

Employer contributions are reviewed against local market practices annually.

Executive Directors may choose to receive some or all of their employer pension contribution in cash to invest as they see fit.

Employer pension contributions (or the equivalent) and/or combined with a cash supplement of up to 30% of base salary.

The maximum employer pension contribution (or the equivalent), and/or combined with a cash supplement, for new Executive Directors will be up to 20% of base salary.

None

Shareholding Guideline

To support long-term commitment to the Company and the alignment of employee interests with those of shareholders.

The Committee reviews the shareholding guideline with the Policy review to ensure the guidelines remain in line with market and best practice.

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 end of the relevant financial year.

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 guideline.

The shareholding guidelines are 200% of salary for the CEO, and 150% of salary for other Executive Directors.

The Committee has the discretion to increase the shareholding guideline of the Executive Directors.

None

Malus and clawback

Malus and clawback provisions apply to awards under the annual bonus and PSP. 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 Deferred Bonus or PSP 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 and annual bonus. The clawback must be implemented within five years of the grant of the relevant PSP award, and within two years in respect of bonus awards paid in cash, and five years from the grant date for the portion of the bonus delivered in shares.

Use of discretion

The Committee will operate the annual bonus plan 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.

Remuneration Report continued

Use of discretion continued

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 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 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 1,300 employees, including members of the Global Leadership Team, are eligible for a bonus award under Serco Bonus Plan.
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.

Consideration of shareholder views

As set out in the Chair's letter, we have consulted with our largest shareholders and received support and helpful comments which have been taken into consideration in shaping the future policy presented to you here. 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.

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 aligns the remuneration package on recruitment with the above Remuneration Policy incorporating all elements as set out above.

Base salary is set by the Committee taking into account all factors it considers relevant, including the Executive's 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.

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. Any new Executive Director would be offered either a pension contribution and/or a pension allowance equal to up to 20% of base salary.

As summarised below, the Remuneration Policy provides for a maximum combined total incentive under bonus and PSP of 375% of salary in any one year.

Element of remuneration	Maximum percentage of salary
Maximum variable pay:	375%
Normally comprising:	
• Annual bonus	175%
• PSP	200%

Note:

1 Maximum percentage of salary for annual bonus and PSP 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).

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.

Remuneration Report continued

Approach to recruitment remuneration continued

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.

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. Under this policy the Committee may at any time, with the agreement of a Director, alter aspects of their existing contracts so that they are in line with the policy for new Directors.

Copies of the Executive Directors' service contracts and Chairman and Non-Executive Directors' 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 129.

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.

Provision for Executive Directors	Detailed terms
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 unless in exceptional circumstances (e.g. in the case of death of the Executive) when the Committee determines to make the payment early. The Committee has discretion to reduce the entitlement of a 'good leaver' in line with performance and the circumstances of the termination. For new Executive Directors unvested deferred bonus share awards will lapse on cessation of employment except for 'good leavers'. 'Bad leaver' provisions will not apply to the existing Executive Directors in respect of unvested deferred bonus share awards on cessation of employment except in the event of termination relating to misstatement of results, misconduct or poor performance.
Treatment of unvested awards granted under the PSP¹	<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. Awards vest on the normal vesting date except in the case of the death of the participant when the Committee may accelerated the vesting to the date of death. 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. Unvested PSP awards and unvested share awards in respect of deferred annual bonus vest pro-rata for time and performance up to the date of change of control. For existing Executive Directors the unvested share awards in respect of deferred annual bonus will vest without time pro-rating.
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.

Notes:

- 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 clawback provisions would continue to apply in the event that such discretion were exercised.

Remuneration Report continued

Service contracts and loss of office payments continued

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 Policy for the Chairman and Non-Executive Directors

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<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 the 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 and expenses</p>	<p>An allowance is payable to Directors for attendance at meetings outside their country of residence where such meetings involve inter-continental travel.</p> <p>In addition, all reasonable travel and business related expenses incurred in connection with carrying out their duties are reimbursed.</p>	<p>The maximum travel allowance is £5,000 per occasion requiring inter-continental travel.</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 guideline.

Dates of Directors' service contracts/letters of appointment

Director	Date of appointment to the Board
Rupert Soames	8 May 2014
Angus Cockburn	27 October 2014
Ed Casey ¹	25 October 2013
Sir Roy Gardner	1 June 2015
Angie Risley ²	1 April 2011
Ralph D. Crosby Jnr ³	30 June 2011
Mike Clasper	3 March 2014
Rachel Lomax	3 March 2014
John Rishton	13 September 2016
Lynne Peacock	1 July 2017
Ian El-Mokadem	1 July 2017
Kirsty Bashforth	15 September 2017

Notes:

- 1 Ed Casey stepped down from the Board and left the Company on 31 December 2017.
- 2 Angie Risley stepped down from the Board and left the Company on 15 September 2017.
- 3 Ralph Crosby stepped down from the Board and left the Company on 1 July 2017.

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

Remuneration Report continued

Annual Report on Remuneration

The implementation of the Remuneration Policy for year ended 31 December 2017

The Remuneration Policy for the year ended 31 December 2017 was consistent with the policy approved by shareholders at the AGM in 2017.

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 2017 for each Executive Director, together with comparative figures for 2016. Details of NEDs' fees are set out in the next section.

All figures in £	Rupert Soames		Angus Cockburn		Ed Casey ⁵	
	2017	2016	2017	2016	2017	2016
Salary	850,000	850,000	500,000	500,000	826,717	771,552
Taxable benefits ¹	33,126	24,258	37,624	40,310	106,887	102,541
Pension ²	255,000	255,000	150,000	150,000	243,210	228,376
Total Fixed Remuneration	1,138,126	1,129,258	687,624	690,310	1,176,814	1,102,469
Bonus ³	956,505	1,049,325	489,580	530,075	912,287	926,440
Long Term Incentives ⁴	1,710,294	37,983	580,968	30,559	–	–
Total Variable Remuneration	2,666,799	1,087,308	1,070,548	560,634	912,287	926,440
Total	3,804,924	2,216,566	1,758,172	1,250,944	2,089,101	2,028,909

Notes:

- 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 2017 benefits relate primarily to his expatriate status, including costs of £87,489 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.
- 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.
- 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%, and Ed Casey by deferring 35.6%, of their 2016 bonuses via the purchase of Investment Shares. Any deferral by Rupert and Angus of their 2017 bonuses, payable in 2018, will take place during 2018 and be reported in the 2018 DRR.
- This is the estimated or actual value of Long-Term Incentives for which the performance period ended in the year. Also included is the gain on vesting of Recruitment Awards vesting in 2017 for Rupert Soames and Angus Cockburn for which there were no performance conditions but which were not included in the single figure value for the year of grant. These awards were granted in compensation for non-performance based awards forfeited by Rupert and Angus on joining Serco, therefore no performance conditions applied to the vesting of these awards. The 2014 PSP Award, and the performance related Recruitment Awards granted to Rupert and Angus, that were subject to TSR performance (for which the performance period ended 22 February 2017) did not meet the minimum criteria and therefore these awards lapsed in full. Further details are provided on page 134.
- 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 2017 single figure USD 1 = GBP 0.77601. For the purpose of the 2016 single figure USD 1 = GBP 0.72672. The increase in the GBP value of Ed Casey's base salary and pension is due to the exchange rate difference between 2016 and 2017. His 2017 base salary and pension cash alternative were unchanged from 2016 (salary USD 1,061,690 and cash alternative of USD 306,306), with a small reduction in his employer 401K contribution to USD 7,103 in 2017 (USD 7,950 in 2016). His 2017 bonus is USD 1,175,609 (USD 1,274,824 in 2016).

The annual base salaries of the Executive Directors for the year ended 31 December 2017 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	USD 1,061,690	1 April 2014	N/A

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2017, the Executive Director bonus was based on achieving a mix of financial and non-financial objectives which were weighted 70:30 respectively. 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 2017 annual bonus were subject to an Underlying Trading Profit underpin (after adjustment for in-year Onerous Contract Provisions (OCP) items) of £60.4m at constant currency rates.

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 2017 (% maximum bonus opportunity)	Threshold target (£m)	Maximum target (£m)	Actual performance ¹ (£m)	Achievement against measure (% maximum opportunity for this measure)
Revenue	14%	£2,866	£3,073	£2,832	0%
Free Cash Flow	28%	£(38.2)	£(8.7)	£(6.7)	100%
Trading Profit	28%	£60.4	£72.4	£70.8	94%

Note:

¹ At constant currency.

Non-financial performance

Weighting for 2017 (% maximum opportunity) 30%

	Rupert Soames	Angus Cockburn	Ed Casey
Achievement against measure (% maximum opportunity for this measure)	69%	70%	65%

Overall 2017 bonus outcome

	Rupert Soames	Angus Cockburn	Ed Casey
Total bonus payable as % of maximum	75.0%	75.3%	73.8%
Bonus opportunity as % of salary	150%	130%	150%
Bonus amount achieved as % of salary	112.5%	97.9%	110.7%
Bonus amount earned	£956,505	£489,580	USD 1,175,609

For FY17, the Serco Bonus 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 at 94% and 100% of maximum respectively. The level of Revenue achieved over the period was below threshold and as such none of this component of the bonus was awarded.

The financial bonus outcomes have been calculated after appropriate adjustments, which were agreed at the beginning of the year as part of the target-setting process and in line with the approach disclosed in respect of 2016. 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. The Company's external auditors verified 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 out-turn fairly reflects management performance in the year.

Trading Profit of £54.0m 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 early 2015, and the bonus outcome for both 2015 and 2016 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 Committee has applied 2017 in a consistent manner the principles established in 2015 and 2016.

Remuneration Report continued

Variable pay outcomes (audited information) continued

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 £6.8m reduction. The Committee then considers items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of £23.6m should be added to Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes in 2017; this compares with the £20.9m which was subtracted from Trading Profit in 2016. The main difference between the two years is that in 2016 there was an £11.8m net credit to Trading Profit related to Onerous Contract Provisions charges and releases which were excluded from Trading Profit for bonus purposes, whilst in 2017 there was a debit of £19.5m similarly excluded.

For the purposes of comparison the table below sets out the adjustments made by the Committee between Trading Profit and Trading Profit for bonus purposes in 2015, 2016 and 2017.

£'m	2017	2016	2015
Trading profit	54.0	100.3	137.6
Constant currency adjustment	(6.8)	(5.7)	7.7
Trading profit at constant currency	47.2	94.6	145.3
Adjustment for bonus purposes	23.6	(20.9)	(32.9)
Trading profit for bonus purposes	70.8	73.7	112.4
Underlying Trading Profit at constant currency	63.4	73.4	95.9

Non-Financial Performance

Rupert Soames

Rupert's objectives included:

- 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 relationships.
- Supporting 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 2017 and over the course of the last 12 months has delivered significant further progress in implementing the strategy and transformation. The Group signed contracts with a total value of £3.4bn during the year delivering a strong performance with the largest order intake since 2012. Over 30 contract awards were worth more than £10m each and the large value of the new business won resulted in this being approximately 70% of the total value signed, with the balance represented by secured extensions or re-bids of existing work. The Committee continue to monitor the successful embedding of values through the annual employee engagement survey "Viewpoint" which has shown the fourth successive year of improvement; engagement 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 continue to be first class. Based on Rupert's achievement the Committee has awarded an above target but below maximum performance for the non-financial element relating to these objectives.

Angus Cockburn

Angus's objectives included:

- Improving Business Development performance to rebuild the pipeline, with focus on both new business wins and total wins including re-competes and extensions.
- The development of a new Finance Operating Model.
- Improving the effectiveness and efficiency of the finance function through the Global Finance Transformation with a number of key milestones agreed at the start of the year which built on progress made in the previous year.

The Committee deemed Angus's performance to be very strong against all objectives. With profits at top end of expectations we set out some 15 months ago, net debt lower than we expected, fully funded pension schemes, and strong order intake, Angus made a critical contribution to delivering a solid performance in 2017 in a difficult market. Contract and Balance Sheet Onerous Contract Provision liability now stands at £168m, down from £220m in 2016 and £447m in 2014. Significant work has been undertaken to stress-test the Group's financial plan against key sensitivities within the Group's principal risks. The Global Finance Transformation has gathered pace and significant improvements have been made against the key milestones agreed at the start of the year. In terms of the Transformation Plan, operating costs reduced in proportion to the scale of revenue reduction; further shared services and overhead savings of around £20m were achieved, taking total overhead savings over the last three years to over £100m. Based on Angus's achievement the Committee has awarded an 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 and embed Risk Management process and work to embed as part of our operational approach to running the business.
- Continue to strengthen "zero harm" HS&E culture and implement necessary changes to effect change. Deliver consistent measures across the Group, and achieve targeted reduction in accident rates.

The Committee deemed Ed's performance to be very strong. Ed made a significant positive impact on the development of the pipeline with £3bn of pipeline opportunities added over the course of 2017. The acquisition of BTP Systems was completed for USD 20m, bringing deep skills in defence satellite communication and radar engineering technical services, together with a pipeline of USD 200m. Significantly improved risk management processes and consistently improved reporting to the Group Risk Committee. In 2017 the policies relating to safe and healthy operations were reviewed and strengthened Group Standards with definitions of safety critical risks. Ed continued to build our health and safety focus across the Group; examples include in the UK, several Royal Society for the Prevention of Accidents Gold Awards won in 2017, including at RAF Fylingdales and Forth Valley Royal Hospital. Continuous improvement has been driven in health and safety across our businesses, including new tools and training in Serco Americas to reduce risks and improve safety management in air traffic control and naval engineering, and new tools in Serco AsPac to improve roadside welfare safeguards for our road safety camera operators. Based on Ed's achievement the Committee has awarded an above target but below maximum performance for the non-financial element relating to these objectives.

Note:

- 1 Rupert Soames and Angus Cockburn are entitled to participate in the Deferred Bonus Plan (the DBP) in 2018, up to a maximum of 50% of the bonus determined in respect of 2017 performance. Ed Casey is unable to participate following the cessation of his employment on 31 December 2017.

Remuneration Report continued

Performance Share Plan (PSP)

The LTI amount included in the 2017 single total figure of remuneration includes the element of the 2014 Performance Share Plan (PSP) awards subject to TSR performance in the period to the announcement of the Company's 2016 results on 22 February 2017, and the elements of the 2015 PSP awards subject to EPS and ROIC performance in the period to 31 December 2017. The awards granted to Rupert Soames and Angus Cockburn were in the form of nominal cost options. Ed Casey's awards are in the form of conditional share awards.

The performance assessment and vesting outcome for each award is as follows:

Award	Performance condition	Relative weighting	Threshold ² – 25% vesting	Maximum – 100% vesting	Actual	Percentage of max. achieved
2014 PSP	Relative TSR ¹	1/3	Median ranking	Upper Quartile ranking	Below Median	0%
2015 PSP	Adjusted EPS	1/3	10.3p	12.5p	19.53p	100%
2015 PSP	Average pre-tax ROIC	1/3	8.4%	10.2%	11.9%	100%

Notes:

- The Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the period starting on the 27 June 2014 and ending on 22 February 2017 with the announcement of the Company's results for the 2016 financial year.
- In all cases 25% of the award vests at threshold performance, rising on a straight-line basis to 100% vesting at maximum performance.

Executive Director	Award	Date of grant	No. of shares awarded	No. of shares vesting	Vesting date	Share price at vest	Value of vesting
Rupert Soames	2014 PSP (TSR)	27 June 2014	192,132 ¹	–	27 June 2017	£1.159	£0
	2015 PSP (EPS)	29 May 2015	413,928	413,928	29 May 2018	£1.0552 ²	£428,486
	2015 PSP (ROIC)	29 May 2015	413,927	413,927	29 May 2018	£1.0552 ²	£428,485
Angus Cockburn	2014 PSP (TSR)	31 October 2014	121,746 ¹	–	31 October 2017	£1.166	£0
	2015 PSP (EPS)	29 May 2015	213,051	213,051	29 May 2018	£1.0552 ²	£220,544
	2015 PSP (ROIC)	29 May 2015	213,050	213,050	29 May 2018	£1.0552 ²	£220,543
Ed Casey	2014 PSP (TSR)	27 June 2014	141,116 ¹	–	27 June 2017	£1.159	£0
	2015 PSP (EPS)	29 May 2015	294,829	–	29 May 2018	£1.0552 ²	£0 ³
	2015 PSP (ROIC)	29 May 2015	294,829	–	29 May 2018	£1.0552 ²	£0 ³

Notes:

- The number of shares under award was adjusted on the Rights Issue in 2015. These are the adjusted number of shares awarded.
- As these awards are still to vest at the time of reporting the share price used is the Q4 average closing share price to 31 December 2017.
- Ed Casey's unvested awards lapsed in full on his cessation of employment therefore the value in connection with his 2015 PSP awards with a performance period ending in 2017 is £nil.

Deferred Bonus Plan (DBP)

The performance period for the 2015 Deferred Bonus Plan (DBP) Matching Share Award (a conditional share award) wholly subject to EPS performance ended on 31 December 2017. 25% of this award vested for threshold performance of an Adjusted EPS of 10.3p rising on a straight-line basis to 100% vesting for at or above maximum performance of an Adjusted EPS of 12.5p. The Adjusted EPS for the period was measured as 19.53p therefore the 2015 DBP Matching Share Award will vest in full.

Executive Director	Date of grant	No. of shares awarded	No. of shares vesting	Vesting date	Share price at vest	Value of vesting
Rupert Soames	29 May 2015	658,288	658,288	29 May 2018	£1.0552 ¹	£694,606

Note:

- As these awards are still to vest at the time of reporting the share price used is the Q4 average closing share price to 31 December 2017.

Recruitment Awards

The 2017 LTI value includes the elements of the Recruitment Awards (in the form of nominal cost options) with performance periods ending in the relevant year which were granted in 2014 to Rupert Soames and Angus Cockburn in respect of unvested performance awards forfeited on joining Serco. These elements of the Recruitment Awards were (i) subject to relative TSR performance in the period to the announcement of the Company's 2016 results on 22 February 2017 (40% of the award), and (ii) Strategic Objective performance (20% of the award) in the period ending 27 June 2017 (in respect of Rupert's award) and 31 October 2017 (in respect of Angus's award). The remaining 40% of these awards is subject to an Absolute Share Price performance condition for which the performance period will end in 2018.

For the TSR element, 25% of the award would vest for median ranking compared to the comparator group rising on a straight-line basis to 100% vesting for upper quartile or better ranking when compared to the comparator group. The comparator group for the TSR performance was the constituents of the FTSE 250 excluding investment trusts. The relative TSR performance assessed was below median and therefore this element lapsed in full.

The Remuneration Committee made the following assessment of performance against the Strategic Objectives and determined that in both cases the award should vest in full.

Executive Director	Strategic Objectives set	Assessment of performance
Rupert Soames	<p>Rupert's objectives focused on:</p> <ul style="list-style-type: none"> Improving cash conversion; Implementing transparent KPI reporting; Development of strong management talent within the finance function; and Improving operating margin. 	<ul style="list-style-type: none"> Significant progress has been made in improving cash conversion and minimising net debt. Rupert has ensured that the Company now has a comprehensive management accounts pack and has been instrumental in introducing standardised and transparent Divisional reports. The Finance function has been transformed with the recruitment of Angus Cockburn, whom Rupert has supported in the recruitment of additional core talent into this team. Since the year of grant (2014) there has been a significant improvement in operating margin. <p>Based on Rupert's achievement the Committee determined that 100% of this award should vest.</p>
Angus Cockburn	<p>Angus's objectives focused on:</p> <ul style="list-style-type: none"> Implementing the Company's corporate plan; Rebuilding the Senior Management Team; Improving cash conversion; and Improving operating margin. 	<ul style="list-style-type: none"> Angus has been central to the development and implementation of our corporate plan, and most specifically around the Rights Issue, the assessment of the write-downs and provisions in November 2014, and the subsequent implementation of an effective reporting process. Angus has completely overhauled the Finance Team, including the recruitment of a number of high-class individuals, transforming it into an effective global team. Since the year of grant (2014) there has been a significant improvement in operating margin. <p>Based on Angus's achievement the Committee determined that 100% of this award should vest.</p>

Remuneration Report continued

Recruitment Awards continued

Executive Director	Performance condition and relative weighting	Date of grant	No. of shares Awarded ¹	No. of shares vesting	Vesting date	Share price at vest	Value at vest
Rupert Soames	TSR (40%)	27 June 2014	153,953	–	27 June 2017	£1.192	£0
	Strategic Objectives (20%)		76,977	76,977			£90,232
Angus Cockburn	TSR (40%)	31 October 2014	112,714	–	31 October 2017	£1.166	£0
	Strategic Objectives (20%)		56,356	56,356			£64,584

Note:

1 The number of shares under award was adjusted on the Rights Issue in 2015. These are the adjusted number of shares awarded.

Also included is the value of Recruitment Awards in the form of conditional share awards granted in 2014 to Rupert and Angus in respect of unvested awards forfeited on joining Serco that were not subject to performance conditions. These awards vested in full in 2017 and were not previously included in the single figure value for the year of grant.

Executive Director	Date of grant	No. of shares Awarded ¹	No. of shares vesting	Vesting date	Share price at vest	Value at vest
Rupert Soames	27 June 2014	58,988	58,988	10 April 2017	£1.161	£68,485
Angus Cockburn	31 October 2014	39,849	39,849	10 April 2017	£1.161	£46,265
		25,899	25,899	18 April 2017	£1.121	£29,033

Note:

1 The number of shares under award was adjusted on the Rights Issue in 2015. These are the adjusted number of shares awarded.

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 ¹⁰ (£)		Taxable benefits ¹¹ (£)		Total (£)	
	2017	2016	2017	2016	2017	2016	2017	2016
Sir Roy Gardner ¹	250,000	250,000	–	–	1,688	21,600	251,688	271,600
Mike Clasper ²	92,603	90,083	–	–	–	–	92,603	90,083
Ralph D. Crosby Jnr ³	25,000	50,000	25,000	30,000	10,229	8,954	60,229	88,954
Rachel Lomax ⁴	70,000	70,000	–	–	–	–	70,000	70,000
Angie Risley ⁵	42,619	60,000	–	–	–	–	42,619	60,000
John Rishton ⁶	73,227	19,583	–	–	3,468	–	76,695	19,583
Ian El-Mokadem ⁷	29,000	–	–	–	–	–	29,000	–
Lynne Peacock ⁸	31,468	–	–	–	–	–	31,468	–
Kirsty Bashforth ⁹	16,151	–	–	–	426	–	16,577	–
Total	630,068	539,667	25,000	30,000	15,811	30,554	670,879	600,220

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

Notes:

- 1 Sir Roy Gardner is Chairman of the Board, Chairman of the Nomination Committee and a Member of the Remuneration and Corporate Responsibility Committees.
- 2 Mike Clasper is Senior Independent Director, Chairman of the Corporate Responsibility Committee and a Member of Audit, Remuneration (until 4 December 2017), Nomination and Group Risk Committees.
- 3 Ralph Crosby stepped down from the Board on 1 July 2017.
- 4 Rachel Lomax is Chairman of the Group Risk Committee and a Member of Audit Committee.
- 5 Angie Risley is Chairman of Remuneration Committee and a Member of Nomination and Corporate Responsibility Committees. She stepped down from the Board on 15 September 2017.
- 6 John Rishton is Chairman of the Audit Committee and a Member of the Remuneration Committee and Group Risk Committees.
- 7 Ian El-Mokadem joined the Board on 1 July 2017 and is a Member of the Group Risk and Corporate Responsibilities Committees.
- 8 Lynne Peacock joined the Board on 1 July 2017 and is Chairman of Remuneration Committee and a Member of the Audit Committee.
- 9 Kirsty Bashforth joined the Board on 15 September 2017 and is a Member of the Remuneration and Corporate Responsibility Committees.
- 10 Up to £5,000 is payable for each occasion that requires inter-continental travel outside of the director's country of residence.
- 11 Taxable benefits in 2016 and 2017 relate to reimbursed taxable travel and subsistence business expenses. Sir Roy Gardner also received secretarial services in 2016 of £21,600.

Performance graph and table

This graph shows the value as at 31 December 2017, of a £100 investment in Serco on 31 December 2008 compared with £100 invested in the FTSE250 index on the same date. It has been assumed that all dividends paid have been reinvested. The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company chose the FTSE250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.

Serco Performance Graph



Remuneration Report continued

CEO's pay in last nine 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%
2010	Christopher Hyman	2,646,894	91%	169%
2011	Christopher Hyman	2,826,038	81%	80%
2012	Christopher Hyman	2,582,185	72%	64%
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%
2016	Rupert Soames	2,216,566	82%	24%
2017	Rupert Soames	3,804,924	75%	91%

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 21,000 of the 42,700 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 ³
CEO	0%	37%	(9%)
Average change for all other UK employees	1.28% ¹	(5%)	(18%)

Notes:

- 1 This represents the average pay increase for all UK employees that was applied in the 2017 annual pay review cycle.
- 2 The nature of benefits provided to the CEO and to employees in 2017 compared to 2016 remains the same. The percentage change represents a reduction in the cost to the Company of the benefits over the period. The increase in the CEO's taxable benefit value (with the increase equivalent to 1% of salary) relates to taxable travel which was provided in line with the approved Remuneration Policy.
- 3 The bonus element is shown for those employees eligible for such payments. The figures shown here relate to a calculation of the bonus earned, but not yet paid, related to performance in 2017 compared to the 2016 bonuses paid in April 2017. The reduction in the average employee bonus is due to the different performance outcomes at Divisional and Business Unit levels compared to 2016 which impacts the bonuses for the comparator population.

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.

	2017 vs 2016	2017	2016
Dividend per share	0%	nil	nil
Overall expenditure on wages and salaries	(0.2%)	£1,513.6m	£1,517.2m

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

Pensions (audited information)

As at 31 December 2017, 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)

The Committee determined that Ed Casey would not receive any additional payments on the termination of his employment. In recognition of his contribution to the Company throughout the whole performance year the Committee determined that he would remain entitled to receive his 2017 Annual Bonus as disclosed in the single figure table and accompanying notes, which will be paid in March 2018. All unvested share awards lapsed in full on cessation of employment. In line with his expatriate arrangement Ed will receive UK and US tax return assistance for the final year of his assignment. No further payments will be made.

Payments to Past Directors (audited information)

No payments were made in the year to past Directors.

Remuneration Report continued

Awards made in 2017

Performance Share Plan (PSP) (audited information)

In 2017 the Executive Directors received awards equivalent to 200% of salary for the CEO and COO and 175% of salary 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 as measured over the three year performance period ending 31 December 2019.

Performance Measure	Weighting of Measure	Performance Target
Aggregate EPS	1/3rd	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 13.5p (threshold, 25% vesting) to 16.5p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.
Relative TSR	1/3rd	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE250 (excluding investment trusts), measured over the three year performance period.
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.

The structure for vesting is the same for all measures, with straight-line vesting between threshold and maximum, 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 (ie 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 2017	113.00	1,700,000	25%	1,504,424	31 December 2019
Angus Cockburn	Nominal cost option	175%	06 April 2017	113.00	875,000	25%	774,336	31 December 2019
Ed Casey ⁴	Conditional share award	175%	06 April 2017	113.00	1,500,761	25%	1,328,107	31 December 2019

Notes:

- 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.
- Closing share price on 5 April 2017.
- Calculated using the closing share price on the trading day immediately prior to the grant date.
- All unvested PSP awards for Ed Casey lapsed on the cessation of his employment.

Deferred Bonus Plan (DBP) (audited information)

The table below summarises the Matching Share Awards granted to Executive Directors' in 2017 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 2017 vest subject to Aggregate EPS over the three year performance period ending 31 December 2019. 25% of the Matching Share Award will vest for threshold performance (Aggregate EPS of 13.5p), rising on a straight-line basis to 100% vesting for maximum performance (Aggregate EPS of 16.5p 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	Face value (£) ¹	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	123%	09 May 2017	1,049,323	25%	873,926	31 December 2019
Angus Cockburn	106%	09 May 2017	530,073	25%	441,470	31 December 2019
Ed Casey ⁴	84%	09 May 2017	693,837	25%	577,860	31 December 2019

Notes:

- The face value has been determined using the share price on 8 May 2017 of 120.07p per share (being the price paid by the Directors to acquire their Investment Shares in connection with this award of DBP Matching Shares). This share price was used to determine the number of shares granted under the Matching Share Award.
- The Investment Shares that Ed Casey invested into the DBP in respect of 2016 bonus earned will be released to him. The Matching Share Award lapsed in full on cessation of his employment.

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

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 ¹
2016 Remuneration Policy	93.39%	6.61%	N/A
	736,257,238	52,086,742	29,512
2016 Annual Report on Remuneration	96.30%	3.70%	N/A
	759,195,936	29,155,876	21,680
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.

Remuneration Report continued

External appointments

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

During the year Angus Cockburn served as a Non-Executive Director of GKN plc. Fees payable in the year were £63,000. Since the end of the year, Angus has been appointed (with effect from 20 February 2018) as the Senior Independent Director of GKN plc following which, in addition to his Non-Executive Director fees, he will receive additional fees of £10,000 per annum for this additional responsibility.

No other fee-paying external positions were held by the Executive Directors during the year ending 31 December 2017.

Directors' shareholding and share interests (audited information)

Current shareholdings are summarised in the table below. Shares are valued for shareholding guideline purposes at the year-end price, which was 98.90p per share at 29 December 2017 (being the last trading day of the financial year).

Executive Directors

Name	Share ownership requirements (% of salary) ²	Number of shares owned outright (including connected persons) at 31 December 2017 (or date of cessation) ³	Value invested ⁴ (£)	Shares		Share options ⁶		Total share interests at 31 December 2017 (or date of cessation) ³
				Subject to performance conditions ⁵	Subject to performance conditions ⁷	Exercised during the year ⁸		
Rupert Soames	200%	1,368,417	2,070,653	2,686,754	4,958,268	76,977	9,013,439	
Angus Cockburn	150%	516,926	604,684	1,030,059	2,619,823	56,356	4,166,808	
Ed Casey ¹	150%	283,965	571,648	4,370,912	–	–	4,654,877	

Notes:

- All of Ed Casey's interests in shares subject to performance conditions were unvested at the point of cessation of employment on 31 December 2017 and were lapsed in full as of this date.
- The CEO, Rupert Soames, and CFO, Angus Cockburn, are expected to have met their shareholding guidelines during the course of 2018.
- Includes shares owned by connected persons. There were no changes in Directors' interests in the period 1 January 2018 and the date of this report.
- Based on the share price at the point of acquisition of each tranche of shares held outright at 31 December 2017 by the Executive Director and/or their connected persons.
- Includes awards made to Ed Casey under the Performance Share Plan and awards made to Rupert Soames, Angus Cockburn and Ed Casey under the Deferred Bonus Plan. All awards are in the form of conditional share awards. There are no interests in the form of conditional share awards that are not subject to performance conditions.
- 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.
- 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.
- Rupert Soames and Angus Cockburn exercised vested options in respect of their Recruitment Awards that were subject to Strategic Objective performance conditions for which the performance period ended, and vesting occurred, in the year.

Non-Executive Directors

Non-Executive Directors do not participate in any share-based incentives and do not hold any interests in shares other than shares owned outright.

Name	Number of shares owned outright (including connected persons) at 31 December 2017 (or date of resignation) ¹
Sir Roy Gardner	75,000
Mike Clasper	56,000
Ralph D. Crosby Jnr	–
Rachel Lomax	40,000
Angie Risley	20,508
John Rishton	43,086
Ian El-Mokadem	50,000
Lynne Peacock	15,000
Kirsty Bashforth	–

Notes:

- 1 Includes shares owned by connected persons. There were no changes in Directors' interests in the period 1 January 2018 and the date of this report.
- 2 Non-Executive Directors do not have shareholding guidelines and there are no interests in shares held by Non-Executive Directors where the individual does not own those shares outright.

Other shareholding information

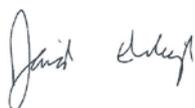
Shareholder dilution

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 2017, 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 9,864,986 and 8,728,497 ordinary shares at 1 January 2017 and 31 December 2017 respectively.

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



David Eveleigh
Secretary

21 February 2018