
Remuneration Report

Report On Directors' Remuneration

Remuneration Committee members

Lynne Peacock (Chair)
Kirsty Bashforth
Sir Roy Gardner
John Rishton

Reward aligned to performance

Dear Shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report ("the Report") for Serco Group plc for the year ended 31 December 2018. The 2018 Report sets out how the Directors' Remuneration Policy ("the Policy"), approved at the 2018 AGM, has been implemented for 2018 and how the Policy will be implemented in 2019. No changes to the Policy are proposed for the coming year. A summary of the approved Policy is reproduced here for reference and the full Policy can be found in our 2017 Directors' Remuneration Report which is available on the Company's website.

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 decisions

Since the arrival of our current Executive Directors in 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.

As reported by the Chairman in his introduction to this year's Annual report, 2018 has been another successful year as we continued through the transformation phase of the 2015 plan and began to see the return to growth.

Despite market challenges, particularly in the UK, the management team has delivered a strong trading result, above that expected at the start of the year. Although bolstered by some non-recurring items, the strong profit growth in 2018 and increased margins also reflect both significant improvements in operational performance and cost reduction delivered through the transformation of the business to date. Order intake of £2.9bn has delivered a book-to-bill ratio of over 100%. Progress on delivering transformation savings and other cost efficiencies will continue into 2019, however 2018 marked the start of the delivery of the third phase of our corporate strategy, growth.

Implementing the Remuneration Policy approved in 2018

The Committee values its relationship with, and continued support from, shareholders and we were pleased to receive strong support for our new Directors' Remuneration Policy at the 2018 AGM. Through the new Policy we refreshed the focus on value creation and share ownership, and reinforced the alignment of the high calibre executives (appointed in 2014) with the completion of the transformation and the delivery of the outcomes previously committed to shareholders. The Policy, which is supported by our Executive Team, aims 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.

During 2018 we have achieved simplification of our long-term incentive arrangements, with the removal of the Deferred Bonus Plan, which also resulted in a significant reduction in remuneration opportunity for both the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Good practice measures have also been introduced in 2018, including the mandatory 3 year deferral into shares of any bonus earned over 100% of salary in respect of performance over 2018 (these bonuses are disclosed in the report that follows).

As previously communicated, the last award under the legacy Deferred Bonus Plan was made to the Executive Directors in 2018 in respect of the deferral of part of the bonuses earned against performance in 2017 and in line with the Remuneration Policy approved by Shareholders in respect of remuneration for that financial year.

Summary of key decisions taken in 2018

- Confirmation of 2018 vesting of the 2015 Performance Share Plan (PSP) awards which vested at 66.67% and the 2015 Deferred Bonus Plan (DBP) Matching Share Awards which vested in full.
- Determination of vesting of the 2014 PSP and Recruitment Awards granted to the CEO and CFO that were subject to Absolute Share Price performance conditions assessed during the year. The Absolute Share Price elements did not vest as the minimum performance was not achieved.
- Assessment of performance for the 2018 Annual Bonus. It was determined that the CEO should receive a bonus of 77.1% of maximum and the CFO a bonus of 75.6% of maximum.
- Assessment of performance for the 2014 PSP Awards five year EPS element, 2016 DBP and 2016 PSP Awards (EPS and ROIC tranches) with performance periods ending in FY18 and vesting in 2019.
- Determination of DBP Matching Share Awards granted in connection with the deferral of 2017 bonuses under the 2017 Remuneration Policy, and awards granted under the PSP in June 2018.
- Determination of a nil salary increase for the CEO and a 2% increase for the CFO in 2019.
- Review of the TSR performance condition and peer group used in the PSP awards and confirmation that this appropriately aligns the PSP awards with shareholder experience.
- Preparation of new share plan rules including the determination of a revised list of triggers for both malus and clawback to be applied in line with the approved Policy reflecting current market practice and the latest Corporate Governance Code Guidance.

Remuneration linked to delivery of the strategic plan – 2018 variable pay outcomes

Overall, the Company's strong performance has delivered the incentive outcomes in 2018 summarised below.

KPI	Plan	2018 performance	2018 incentive outcome
Trading Profit	Annual Bonus	£105.9m ¹	●
Revenue	Annual Bonus	£2,902.0m ¹	●
Free Cash Flow	Annual Bonus	(£25.0m) ¹	●
Relative TSR	PSP	Below Median	●
Average ROIC	PSP	11.7%	●
Aggregate EPS	PSP & DBP	17.58p	●

1. At constant currency.

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

Remuneration Report continued

Report On Directors' Remuneration continued

In addition to these specific performance targets, the Committee also considered the Company's performance as a whole when deciding on levels of payout for the Annual Bonus and PSP, as well as when determining any salary increases for the coming year, to ensure that the overall remuneration packages continue to reflect Company performance.

Annual bonus payments are based on a combination of financial targets (70% weighting) and personal objectives linked to the delivery of the Group's operational and strategic priorities (30%). The strong financial performance in the year saw significant increases to trading profit in 2018 with trading profit for bonus purposes assessed to be £105.9m, and the achievement of positive Free Cash Flow of £25m for the first time in four years. The Committee also considered the performance of each Executive Director against his personal objectives and, taking into consideration all factors, it was agreed that bonuses of 77.1% and 75.6% of maximum should be awarded to the CEO and CFO respectively. These bonuses, to the extent they are over 100% of salary, are subject to mandatory deferral into shares for three years, therefore 26% of the bonus awarded to the CEO and 15% of the bonus awarded to the CFO will be deferred. Full details of the annual bonus outcomes are set out on pages 116 to 118.

Long term incentives with performance periods ending in 2018 were determined to have mixed vesting outcomes reflecting the challenges faced by the Group since the awards were granted. In particular, it was determined that the final tranche of the 2014 PSP awards (subject to a five year EPS condition and due to vest in 2019) will not vest. This means that overall 0% of the 2014 annual PSP award, granted to the Executive Directors, vested. The performance period for the TSR tranche of the 2015 PSP award ended in 2018. Despite the recent financial performance of the Group, over the relevant performance period the minimum TSR required for vesting was not met. When combined with the EPS and ROIC tranches of the 2015 PSP awards, which were disclosed in the 2017 DRR, the overall vesting outcome was 66.67% which the Committee agreed was an appropriate outcome. Of the annual PSP and DBP awards granted in 2016, which will vest in 2019, the performance period for the EPS (both PSP and DBP) and ROIC (PSP only) tranches has now completed. On assessment of the financial performance, the maximum EPS and ROIC targets were exceeded. The Committee determined that it was appropriate for these tranches to vest in full recognising the achievements made by the Executive team and senior management in transforming the business. The long term incentive outcomes are discussed further on pages 119 to 120.

Implementation of the remuneration policy in 2019 Salary

Base salaries for the CEO and CFO were set in a way which reflected the needs of the business at the time they were recruited in 2014, and the experience they both brought to the roles. Given the circumstances at the time, and their positions as experienced leaders of a FTSE 100 business, the Committee recognised that it would have to pay highly (relative to FTSE 250 companies) to attract them to what was then a business with a number of very significant challenges to face. Shareholders gave overwhelming support to their appointment and subsequently to their remuneration.

Following the departure of the Chief Operating Officer (COO) at the end of 2017, the key duties he fulfilled have been shared amongst the remaining Executive Directors and the Executive Committee. Recognising the additional responsibilities taken on following the departure of the COO, the key role the CFO has played in the transformation of Serco and the value he continues to bring to the business, the Committee has determined to increase his base salary in 2019 by 2%. This is in line with the increase for the wider workforce. This is the first increase in base salary for the CFO since joining Serco in 2014. No increase to base salary is proposed for the CEO, for the fifth successive year.

Bonus

Bonus targets are set to reflect the opportunities and challenges that the Company is likely to face in the coming year, and are based on trading profit, cash and revenue, together with key operational and strategically aligned personal objectives. Any bonus earned over 100% of salary will continue to be subject to compulsory deferral into shares for three years.

LTIP

In line with the policy approved in 2018, long-term incentive awards will be granted to Executive Directors with a combination of financial measure (85% of the award split equally between EPS, TSR and ROIC) and strategic objectives (15% of the award split equally between employee engagement and order-book goals). The Committee has determined that these measures remain aligned with the strategic plan and targets will be set taking into consideration the challenging market conditions and market consensus.

Consideration of wider workforce remuneration

Whilst the Committee's primary purpose is the governance of pay for Executive Directors, we continue to exercise oversight of remuneration for senior management and take into consideration pay policy across the wider workforce as part of our decision-making process. The Committee also reviews the gender pay gap reporting requirements (for which the 2018 report may be found on our website) and the remuneration practices across the Group. To further support our decision making and the alignment of executive pay with the wider workforce, we are incorporating more detailed updates from management on the pay and working practices across the workforce into our annual programme of work. This will be supported by the developments to our 'employee voice' mechanism through which we will improve the clarity and extent of the feedback from this key stakeholder group.

Shareholder engagement

Further to the 2017/18 consultation with our main shareholders and investor agencies on our new remuneration Policy, we contacted our top shareholders to share updates and invite feedback on how that Policy had been implemented during 2018, and the implementation plans for 2019, which are shared here in more detail. In addition, our Investor Relations team are in regular contact with our shareholders and share any feedback or queries on remuneration throughout the year so that we can maintain an ongoing dialogue.

Concluding comments

On behalf of my colleagues on the Committee, we appreciate the input and support we have received on the implementation of our Policy in 2018. The Committee believes that the Policy has, and will continue to, ensure that our executive management team are rewarded for and incentivised to achieve completion of the Transformation phase and the continued delivery of the Growth phase of our strategy.

On behalf of the Board:



Lynne Peacock

Chair of the Remuneration Committee
20 February 2019

Remuneration Report continued

The Remuneration Committee

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework that aligns the executive management team to shareholders' interests and is designed to reward and incentivise them 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 and the reward strategy throughout the rest of the business.

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 are available on the Company's website.

Members of the Committee and attendees

All members of the Committee are independent, Non-Executive Directors of the Group, initially appointed for a three-year term. That appointment may be terminated on three months' written notice. Lynne Peacock joined the Committee on 1 July 2017 and has been Chair of the Remuneration Committee since 15 September 2017. Sir Roy Gardner, John Rishton and Kirsty Bashforth have been members of the Remuneration Committee since 1 June 2015, 13 September 2016 and 15 September 2017 respectively.

In addition, the following individuals attended the Remuneration Committee meetings during the year:

	Position	Comments
Rupert Soames	CEO	Attended by invitation
Anthony Kirby	Group HR Director	Attends as an executive responsible for advising on the People Strategy
Nigel Crossley	Group Financial Controller	Attended by invitation
Tara Gonzalez	Group Reward Director	Attends as an executive responsible for advising on the Remuneration Policy
Lianne Dance from December 2018	Group Head of Reward	
David Eveleigh	Group General Counsel & Company Secretary	Attends as the secretary to the Committee
Chandrika Kher until February 2018/ Stuart Haydon from May 2018 as Interim	Deputy Company Secretary	Attends as the secretary to the Committee
PricewaterhouseCoopers LLP	External advisers to the Remuneration Committee	Attend when required as the independent advisers to the Committee

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

Summary of the Committee's activities during the financial year

Meeting	Regular items
February	Considered feedback from the shareholder consultation on the 2017 Policy Review; agreed new Remuneration Policy to be put to shareholders at the 2018 AGM; considered base pay of Executive Directors and members of the Executive Committee; considered performance against 2017 targets and confirmation of 2017 bonus payable; reviewed achievement of performance conditions for the long term incentives vesting in respect of awards granted in 2015; set performance targets and objectives for 2018; reviewed and approved the 2017 Remuneration Report; received an update on the 2017 UK Gender Pay Report; and received an update on draft remuneration related amendments to the UK Corporate Governance Code.
May	Considered administrative changes to the PSP Rules and the Share Dealing Code; considered AGM voting outcomes; confirmed the TSR vesting outcome for the relevant tranches of PSP and Recruitment Awards granted in 2014; approved the rules to support the new compulsory bonus deferral; considered the pay philosophy and principles relating to members of the Executive Committee and the approach to benchmarking the remuneration for these roles; received a market practice and Corporate Governance update regarding executive remuneration; and considered the forward agenda and timing of meetings for 2019.
September	Reviewed progress of Executive Directors against annual bonus targets and objectives; considered share based reward policy below main Board considering market trends and corporate governance updates with a view to preparing new plan Rules for 2019; considered shareholder engagement; received and discussed remuneration related governance updates in respect of the Directors' Remuneration Report, UK Corporate Governance Code and BEIS 'Delivering on Fair pay' recommendations; received an update on the review of the wider senior management team at Serco; and considered the review of the TSR comparator group following a review to ensure it remains appropriate.
December	Reviewed the proposed approach to the structure of the Remuneration Report; reviewed the Committee's annual programme of work; considered base pay of Executive Directors and Executive Committee members for 2019; considered the grant policy to apply to annual long-term incentive awards in 2019; received an update on in-flight share awards and performance tracking for these; considered the detail for the 2018 UK Gender Pay Report; reviewed new share plan Rules for 2019; and received an update on the global review of senior management and considered the proposed reward strategy, remuneration framework and incentive recommendations from this.

Advisers to the Remuneration Committee

The Committee has been advised during the year by PricewaterhouseCoopers LLP (PwC). PwC were selected as advisers to the Committee through a competitive tendering process in 2012 and no conflicts of interest were identified. PwC have provided advice throughout the year mainly around the following key executive reward areas:

- support in reviewing the Directors' Remuneration Report;
- design of performance conditions;
- informing the Committee on market practice and governance issues; and
- assistance with general and technical reward queries.

Fees paid to PwC as advisers to the Committee during the year totalled £42,100. 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 CEO on the remuneration and performance of the other members of the Executive Committee.

Remuneration Report continued

At a glance: implementation of Remuneration Policy for 2019

There are no changes proposed to the Policy approved by shareholders at our 2018 AGM, a summary of which is set out at the end of this report. Our pay structure which will continue to apply in 2019 is summarised as follows:

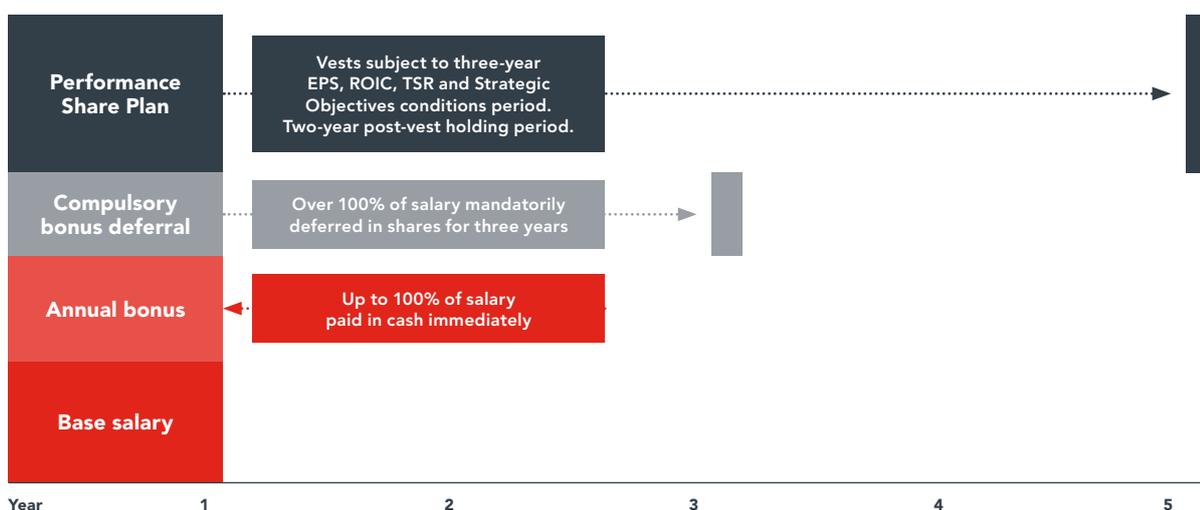


Chart is illustrative and is not to scale. Details of Executive Director remuneration for 2019 may be found on page 114. A summary of the Executive Remuneration Policy that was approved by shareholders at the 2018 AGM can be found on pages 126 to 131, the full approved 2018 Directors' Remuneration Policy is set out in the 2017 Director's Remuneration Report which is available via our website.

How our variable pay structure aligns to the core KPIs for 2019

Our aspiration is to be the best managed company in our sector. To achieve this we concentrate on doing four things really well; winning good business, executing brilliantly, being a place people are proud to work and being profitable and sustainable. Our variable pay for 2019 aligns to this through the targets set against a number of our core KPIs, each of which has an important role in realising this aspiration. Total Shareholder Return aligns variable pay with value created for shareholders.

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		✓

The following charts illustrate the value that may be delivered to Executive Directors under different performance scenarios for the year ending 31 December 2019.



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration:
 - base salary as applicable from 1 April 2019;
 - estimated value of benefits to be provided in 2019 in line with the Remuneration Policy (based on the value of actual benefits provided in 2018); and
 - 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. The Performance Share Plan value under the maximum scenario is also shown assuming 50% share price appreciation over the performance period.

Remuneration Report continued

Implementation of Remuneration Policy for 2019 – Executive Directors

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)								
Base salary from 1 April 2019 ¹	£850,000	£510,000								
Pension*	30% of salary	30% of salary								
Annual bonus	Max 175% of salary On-target 87.5% of salary	Max 155% of salary On-target 77.5% of salary								
	Compulsory three-year deferral into Serco shares of bonus over 100% of salary									
Annual bonus measures ²	<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 measures ³ Assessed over the three-year performance period	<p>Awards granted under the PSP in 2019 will be subject to Group performance over a three-year period ending 31 December 2021.</p> <p>For 2019, 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 FTSE 250 (excluding investment trusts). Average ROIC – Pre-tax Return on Invested Capital (ROIC), measured as an average over the performance period. <p>For 2019 the remaining 15% will be based on Strategic Objectives – performance targets for the awards granted in 2019 will be based on improvements in order book and employee engagement, which are critical to delivering the business strategy over the next three years. 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	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 apply to the annual bonus plan.									

- Following the resignation of the Chief Operating Officer at the end of 2017, the CFO took on additional responsibilities. He has also been instrumental in the delivery of the transformation to date and therefore it was agreed to award him a 2% increase for 2019 in line with the increases to be given to the wider workforce. This is the first increase in base salary for the CFO since joining Serco in 2014. No increase to base salary is proposed for the CEO for the fifth successive year.
- 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.

* the pension contribution rate for any new directors is set as a maximum of 20% of salary

Implementation of Remuneration Policy for 2019 – Non-Executive Directors

Following changes to the Non-Executive Directors and their committee memberships a review of the fees for Non-Executive Directors was undertaken. In line with the approved Non-Executive Directors' Remuneration Policy, the fees for the period from 1 January 2019 will be as follows.

	Base fee to apply from 1 January 2019 £	Base fee 1 April 2018 £	Change £
Element – Annual Board and Committee fees			
Chairman	250,000	250,000	No change
Senior Independent Director	15,000	25,000	(10,000)
Board fees	53,000	50,000	3,000
Audit Committee Chairmanship	12,500	12,500	No change
Audit Committee membership	5,000	5,000	No change
Corporate Responsibility Committee Chairmanship	12,500	No fee payable	New fee
Corporate Responsibility Committee membership	5,000	5,000	No change
Group Risk Committee Chairmanship	12,500	15,000	(2,500)
Group Risk Committee membership	5,000	8,000	(3,000)
Remuneration Committee Chairmanship	12,500	10,000	2,500
Remuneration Committee membership	5,000	5,000	No change
Element – travel allowance			
Allowance for travel to international meetings	No longer available	5,000	Removed

The fees for Non-Executive Directors were last reviewed with effect from 1 April 2018 when a membership fee of £5,000 per annum for the Corporate Responsibility Committee was introduced. No fee, however, was introduced for chairing this Committee as this was chaired by the Senior Independent Director who was already in receipt of an additional fee. Following changes to the roles held by Non-Executive Directors a fee has been introduced for chairing the Corporate Responsibility Committee and the Senior Independent Director fee has been reduced.

No additional fee is payable for the Chair or membership of the Nomination Committee.

The Chairman does not receive any additional fees for his committee memberships nor do the Executive Directors where they sit on Board committees.

Dates of Directors' service contracts/letters of appointment

Directors who served on the Board during the financial year ended 31 December 2018.

Director	Date of appointment to the Board
Rupert Soames	8 May 2014
Angus Cockburn	27 October 2014
Sir Roy Gardner	1 June 2015
Mike Clasper ¹	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. Mike Clasper resigned on 31 December 2018.

Each Director is subject to election at the first AGM following their appointment and re-election at each subsequent AGM.

Remuneration Report continued

Annual Report on Remuneration

The implementation of the Remuneration Policy for year ended 31 December 2018

The Remuneration Policy applied for the year ended 31 December 2018 was consistent with the Policy approved by shareholders at the AGM in 2018.

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 2018 for each Executive Director, together with comparative figures for 2017. Details of Non-Executive Directors' fees are set out in the next section.

All figures in £	Rupert Soames		Angus Cockburn	
	2018	2017	2018	2017
Salary	850,000	850,000	500,000	500,000
Taxable benefits ¹	38,865	40,232	53,889	63,317
Pension ²	255,000	255,000	150,000	150,000
Total fixed remuneration	1,143,865	1,145,232	703,889	713,317
Bonus ³	1,146,863	956,505	585,900	489,580
Long term incentives ^{4,5}	2,187,373	1,579,261	1,120,493	543,399
Total variable remuneration	3,334,236	2,535,766	1,706,393	1,032,979
Total	4,478,100	3,680,998	2,410,282	1,746,296

Notes:

- The taxable benefits relate to the provision of independent financial advice, a car or car allowance (fully inclusive of all scheme costs including insurance and maintenance), health care and private medical assessments, as well as taxable business expenses. 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. Rupert Soames' 2018 taxable benefit includes £23,367 company car benefit. Angus Cockburn's 2018 taxable benefit includes £21,716 (on a grossed up basis) for travel between his home, in Scotland, and London. The 2017 taxable benefit values have been restated to include taxable benefits provided in the period but not previously disclosed.
- 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.
- Performance bonuses earned in the period under review, but not paid until the following financial year. For 2018 this figure includes £296,863 of Rupert Soames' and £85,900 of Angus Cockburn's 2018 bonuses which will be subject to mandatory deferral into Serco shares for a three year period at the point the bonuses are paid in 2019. During the year Rupert Soames participated in the DBP for the last time, voluntarily deferring 25% of his 2017 bonus paid in 2018 via the purchase of Investment Shares.
- This is the estimated or actual value of long-term incentives for which the performance period ended in the year. The 2014 PSP Awards and 2014 Recruitment Awards granted to Rupert and Angus that were subject to an Absolute Share Price performance condition, and the 2015 PSP Awards that were subject to TSR performance (for which the performance period in each case ended 22 February 2018) did not meet the minimum criteria for each condition and therefore these awards lapsed in full. The 2014 PSP Awards granted to Rupert and Angus that were subject to a five year EPS performance condition (for which the performance period ended 31 December 2018) did not meet the minimum criteria and therefore these awards will also lapse in full in 2019. The 2016 PSP Awards that were subject to EPS and ROIC performance, and the 2016 DBP Awards subject to EPS performance, for which the performance periods ended 31 December 2018, are reported for 2018 on an estimated basis. Further details are provided on pages 119 to 120.
- The long-term incentive values reported for 2017 have been restated to reflect the actual share price at the relevant vest dates for the Awards.

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2018, 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 2018 annual bonus were subject to an Underlying Trading Profit underpin (after adjustment for in-year Onerous Contract Provisions (OCP) items) of £89.5m 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 2018 (% maximum bonus opportunity)	Threshold target (£m)	Target (£m)	Maximum target (£m)	Actual Performance ¹ (£m)	Achievement against measure (% maximum opportunity for this measure)
Revenue	14%	£2,970	£3,127	£3,283	£2,902.0	0%
Free Cash Flow	28%	£(6.4)	£9.2	£25.0	£25.0	100%
Trading Profit	28%	£89.5	£94.0	£107.5	£105.9	95%

1. At constant currency.

Non-financial performance

Weighting for 2017 (% maximum opportunity)	30%	
	Rupert Soames	Angus Cockburn
Achievement against measure (% maximum opportunity for this measure)	75.0%	70.0%

Overall 2018 bonus outcome

	Rupert Soames	Angus Cockburn
Total bonus payable as % of maximum	77.1%	75.6%
Bonus opportunity as % of salary	175%	155%
Bonus amount achieved as % of salary	134.9%	117.2%
Bonus amount earned	£1,146,863	£585,900

Financial performance for 2018 has been strong; both Trading Profit and Free Cash Flow performance exceeded the stretching targets set by the Committee at the beginning of the year, with significant growth in the Underlying Trading Profit and positive Free Cash Flow achieved for the first time since 2014. Therefore, these components were determined to pay out at 95% 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 £116.7m 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 outcomes for 2015, 2016 and 2017 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 2018 in a consistent manner to the principles established in 2015, 2016 and 2017.

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 +£4.4m increase. The Committee then considers items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of -£15.2m should be deducted from Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes in 2018; this compares with +£23.6m which was added to Trading Profit in 2017. The main difference between the two years is that in 2018 there was a +£13.0m net credit to Trading Profit related to Onerous Contract Provisions charges and releases which was excluded from Trading Profit for bonus purposes, whilst in 2017 there was a net charge 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, 2017 and 2018.

£'m	2018	2017	2016	2015
Trading Profit	116.7	54.0	100.3	137.6
Constant currency adjustment	4.4	(6.8)	(5.7)	7.7
Trading Profit at constant currency	121.1	47.2	94.6	145.3
Adjustment for bonus purposes	(15.2)	23.6	(20.9)	(32.9)
Trading Profit for bonus purposes	105.9	70.8	73.7	112.4
Underlying Trading Profit at constant currency	97.1	63.4	73.4	95.9

Remuneration Report continued

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 the delivery of the Global Transformation.
- Promote Serco Thought Leadership around UK Government contracting practices and support the launch of the Serco Institute.

The Committee deemed performance to be very strong overall. Rupert has continued to show highly effective and visible leadership throughout 2018 and over the course of the last 12 months has achieved significant further progress in delivering the plan set out in 2015. He has delivered further transformation of the business, removing over £20m of costs in 2018, and has started to deliver against the third phase of the plan - growth. The Group signed contracts with a total value of £2.9bn during the year delivering a strong performance with our closing order book at its highest level since 2013 at £11.5bn. Over 40 contract awards in 2018 were worth more than £10m each. In addition, in the first 6 weeks of 2019 we signed our largest ever contract (AASC – accommodation and asylum services) in the UK, and a significant contract in Australia (NGHS – defence healthcare provision in Australia), on the back of significant efforts made during 2018. Rupert has delivered thought leadership around UK Government contracting practices, which is particularly important in the wake of the challenges facing our market, and the Group has successfully launched the Serco Institute which is a platform for all interested parties to share ideas regarding the delivery of public services. The Committee continue to monitor the successful embedding of values through the annual employee engagement survey "Viewpoint". Engagement in 2018 remained broadly the same as in 2017 when the Group recorded its highest score since the survey began in 2011; engagement is a key determinant of the future success of the business. 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.
- Delivery of a refinancing strategy.
- Completion of 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.

Overall, the Committee deemed Angus's performance to be very strong against his objectives. Angus has made a significant contribution to the delivery of the strong performance in 2018 with significant growth in profits, net debt lower than we expected, positive free cash flow for the first time since 2014, and strong order intake. These are significant achievements in the current, challenging market in which Serco operates. Contract and Balance Sheet Onerous Contract Provision liability now stands at £79m, down from £146m in 2017 and £447m in 2014. Net debt reduced from £745m at the end of 2013 to £188m at the end of 2018, with Net Debt:EBITDA at 1.2x which is well within our medium-term target range of 1-2x. Angus delivered a successful refinancing of the Group's Revolving Credit Facility towards the end of 2018 providing £250m of committed funds for 5 years on substantially unchanged terms from the prior facility and at a lower amount (previously £368m) reflecting the much reduced need for debt in the business. The Global Finance Transformation has completed and Angus has delivered against the key milestones agreed at the start of the year. In terms of the Transformation Plan, operating costs reduced again in 2018 with a further £20m of costs removed from the business, which together with the strong profit performance resulted in margins expanding from 2.3% to 3.3%. 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.

Note:

1. Bonuses earned over 100% of salary are subject to mandatory deferral into Serco shares for 3 years.

Long term incentives

The long term incentives amount included in the 2018 single total figure of remuneration includes the following Performance Share Plan, Deferred Bonus Plan and Recruitment Awards.

Performance Share Plan (PSP)

A number of Performance Share Plan awards are included in the 2018 single figure of remuneration for the Executive Directors:

- the Absolute Share Price element of the 2014 Performance Share Plan (PSP) awards with a performance period ending on the announcement of the Company's 2017 results on 22 February 2018;
- the five year EPS element of the 2014 PSP awards with a performance period ending 31 December 2018;
- the TSR element of the 2015 PSP awards with a performance period ending on the announcement of the Company's 2017 results on 22 February 2018; and
- the elements of the 2016 PSP awards subject to EPS and ROIC performance in the period to 31 December 2018.

The above awards were granted in the form of nominal cost options.

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

Award	Performance condition	Relative weighting	Threshold* – 25% vesting	Maximum – 100% vesting	Actual	Percentage of max achieved
2014 PSP	Absolute Share Price	1/3	£4.50	£6.00	£0.91	0%
2014 PSP	Five year EPS	1/6	30.0p	35.0p	9.1p	0%
2015 PSP	Relative TSR ¹	1/3	Median ranking	Upper quartile ranking	Below median	0%
2016 PSP	Aggregate EPS ²	1/3	7.5p	9.1p	17.58p	100%
2016 PSP	Average pre-tax ROIC ³	1/3	8.4%	10.2%	11.7%	100%

Notes

1. The Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the period starting on the completion of the Rights Issue in 2015 and ending on 22 February 2018 with the announcement of the Company's results for the 2017 financial year.
2. The financial outturns supporting the three year aggregate EPS performance of 17.58p reflect reported values; being pre-IFRS 15 for 2016 and 2017, and post IFRS 15 for 2018. A separate internal assessment for the impact of IFRS 15 on Trading Profit was undertaken to support the Committee's assessment that the EPS performance related element of the 2016 PSP award should vest in full. The impact of IFRS 15 was determined to be relatively minor, and did not impact the vesting level of 100% for the EPS tranche of the 2016 PSP award.
3. ROIC targets for the 2016 PSP award were also set pre IFRS 15. The financial outturn above reflects the average of reported ROIC; being pre IFRS 15 for 2016 and 2017, and post IFRS 15 for 2018. As for the EPS vesting outcome, an adjusted calculation was also performed to assess the impact of IFRS 15 on the vesting outcome, and the impact on ROIC performance was determined to be minor, not affecting the vesting outcome.
4. 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	Value attributable to share price appreciation
Rupert Soames	2014 PSP (Abs SP)	27 June 2014	192,132 ¹	0	27 June 2018	£1.0080	£0	n/a
	2014 PSP (5yr EPS)	27 June 2014	96,066 ¹	0	27 June 2019	£0.9471 ²	£0	n/a
	2015 PSP (TSR)	29 May 2015	413,927	0	29 May 2018	£0.9670	£0	n/a
	2016 PSP (EPS)	6 April 2016	589,970	589,970	6 April 2019	£0.9471 ²	£546,958	£(7,909) ³
	2016 PSP (ROIC)	6 April 2016	589,970	589,970	6 April 2019	£0.9471 ²	£546,958	£(7,909) ³
Angus Cockburn	2014 PSP (Abs SP)	31 October 2014	121,747 ¹	0	31 October 2018	£0.9610	£0	n/a
	2014 PSP (5yr EPS)	31 October 2014	60,891 ¹	0	31 October 2019	£0.9471 ²	£0	n/a
	2015 PSP (TSR)	29 May 2015	213,051	0	29 May 2018	£0.9670	£0	n/a
	2016 PSP (EPS)	6 April 2016	303,661	303,661	6 April 2019	£0.9471 ²	£281,522	£(4,071) ³
	2016 PSP (ROIC)	6 April 2016	303,661	303,661	6 April 2019	£0.9471 ²	£281,522	£(4,071) ³

1. The number of shares under award was adjusted on the Rights Issue in 2015. These are the adjusted number of shares awarded.
2. As these awards are still to vest at the time of reporting the share price used (£0.9471) is the Q4 average closing share price to 31 December 2018.
3. The value included in the single figure reflects a small depreciation in the share price from that at grant (£0.9605) to the estimate of the share price at vest (based on the 2018 Q4 average share price).

Remuneration Report continued

Deferred Bonus Plan (DBP)

The performance period for the 2016 Deferred Bonus Plan (DBP) Matching Share Award (a conditional share award) wholly subject to EPS performance ended on 31 December 2018. 25% of this award vests for threshold performance of an Adjusted EPS of 7.5p rising on a straight-line basis to 100% vesting for at or above maximum performance of an Adjusted EPS of 9.1p measured as an aggregate over the three-year performance period. The Adjusted EPS for the period was measured as 17.58p therefore the 2016 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	Value attributable to share price appreciation
Rupert Soames	3 May 2016	1,154,540	1,154,540	3 May 2019	£0.9471 ¹	£1,093,458	£(9,672) ²
Angus Cockburn	3 May 2016	588,589	588,589	3 May 2019	£0.9471 ¹	£557,449	£(4,931) ²

Notes:

- 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 2018.
- The value included in the single figure reflects a small depreciation in the share price from that at grant (£0.9555) to the estimate of the share price at vest (based on the 2018 Q4 average share price).

Recruitment Awards

The 2018 LTI value includes the element 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 subject to an Absolute Share Price performance condition. For the Absolute Share Price element, 25% of the award would vest for an average closing share price over the 30 days following the announcement of the Company's 2017 results of £4.50 rising on a straight-line basis to 100% vesting for an average closing share price of £6.00. The share price assessed at the end of the performance period was £0.91 which is below that required for threshold vesting and therefore this element lapsed in full.

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 of vesting
Rupert Soames	Absolute Share Price (40%)	27 June 2014	153,953	0	27 June 2018	£1.0080	£0
Angus Cockburn	Absolute Share Price (40%)	31 October 2014	112,714	0	31 October 2018	£0.9610	£0

Note:

- 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) (£)		Taxable benefits ⁸ (£)		Total (£)	
	2018	2017	2018	2017	2018	2017
Sir Roy Gardner ¹	250,000	250,000	19,004	1,688	269,004	251,688
Mike Clasper ²	88,000	92,603	–	–	88,000	92,603
Rachel Lomax ³	70,000	70,000	–	–	70,000	70,000
John Rishton ⁴	75,500	75,227	2,520	3,468	78,020	78,695
Ian El-Mokadem ⁵	61,750	29,000	–	–	61,750	29,000
Lynne Peacock ⁶	65,000	31,468	–	–	65,000	31,468
Kirsty Bashforth ⁷	57,917	16,151	1,973	426	59,889	16,577
Total	668,167	564,449	23,497	5,582	691,663	570,032

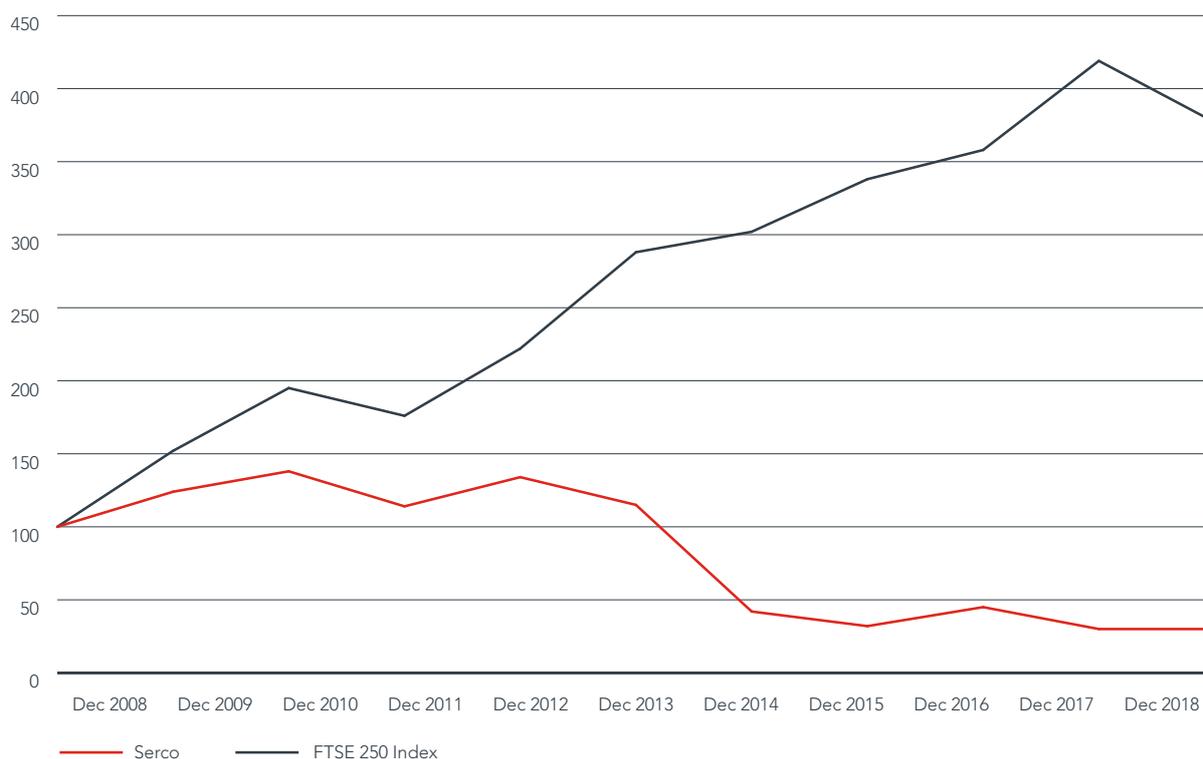
Notes to the Non-Executive Directors' Single Figure table:

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 was Senior Independent Director, Chairman of the Corporate Responsibility Committee and a member of Audit, Nomination and Group Risk Committees. He resigned on 31 December 2018.
3. Rachel Lomax is Chairman of the Group Risk Committee and a member of Audit Committee.
4. John Rishton is Chairman of the Audit Committee and a member of the Remuneration and Group Risk Committees. His 2017 fees have been restated to show fees actually received in respect of that financial year.
5. Ian El-Mokadem is a member of the Group Risk and Corporate Responsibility Committees.
6. Lynne Peacock is Chairman of Remuneration Committee and a member of the Audit and Nomination Committees.
7. Kirsty Bashforth is a member of the Remuneration and Corporate Responsibility Committees.
8. Taxable benefits in 2017 and 2018 relate to reimbursed taxable travel and subsistence business expenses. Sir Roy Gardner's taxable benefit value in 2018 includes £11,666.67 of taxable business expenses relating to 2017 which were reimbursed in 2018.

Performance graph and table

This graph shows the value as at 31 December 2018, of a £100 investment in Serco on 31 December 2008 compared with £100 invested in the FTSE 250 index on the same date. It has been assumed that all dividends paid have been reinvested. The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company chose the FTSE 250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.

Serco performance graph



Remuneration Report continued

CEO's pay in last ten 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%
2018 ¹	Rupert Soames	4,478,100	77%	73%

1. The 2018 single figure of remuneration for the CEO reflects the new approved Remuneration Policy which gave the CEO a higher maximum opportunity but which will be subject to compulsory deferral above a threshold. As set out in the notes to the single figure table, LTI awards with performance periods ending in 2018 include a number of shares under awards reportable in 2018 which did not (or will not) vest. The single figure also includes an amount in respect of past DBP awards which are no longer part of the current Policy. In line with our TSR performance relative to the FTSE 250, our awards subject to TSR have consistently not vested.

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 20,000 of the 50,000 individuals 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%	-3%	20%
Average change for all other UK employees	1.18% ¹	-1%	-8%

1. This represents the average pay increase for all UK employees that was applied in the 2018 annual pay review cycle.
2. The nature of benefits provided to the CEO and to employees in 2018 compared to 2017 remains the same. The percentage change between 2017 and 2018 reflects the reduction in the costs incurred in providing those same benefits.
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 2018 compared to the 2017 bonuses paid in April 2018. The reduction in the average employee bonus is due to the different performance outcomes at Divisional and Business Unit levels compared to 2017 which impacts the bonuses for the comparator population. The increase in the CEO's bonus is due to the change in opportunity in line with the approved Remuneration Policy and the performance outcomes compared to 2017. The CEO's 2018 bonus over 100% of salary is subject to compulsory deferral for three years into shares.

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.

	2018 vs 2017	2018	2017
Dividend per share	0%	nil	nil
Overall expenditure on wages and salaries	-4.9%	£1,438.7m	£1,513.6m

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

Pensions (audited information)

As at 31 December 2018, 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)

No payments for loss of office were made in the year.

Payments to past Directors (audited information)

No payments to past Directors were made in the year.

Awards made in 2018

Performance Share Plan (PSP) (audited information)

In 2018 the CEO received awards equivalent to 200% of salary, and the CFO received awards equivalent to 175% of salary.

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 2020.

Performance measure	Weighting of measure	Performance target
Aggregate EPS	28.33%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 13.7p (threshold, 25% vesting) to 16.7p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.
Relative TSR	28.33%	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three year performance period.
Average ROIC	28.33%	Pre-tax Return on Invested Capital (ROIC) of 9.9% (threshold, 25% vesting) to 12.2% (maximum, 100% vesting), measured as an average over the three-year performance period.
Order book	7.50%	Book-to-bill ratio of 100% (threshold, 50% vesting) to 105% (maximum, 100% vesting), measured as an average over the three-year performance period.
Employee engagement	7.50%	Employee engagement of 56% (threshold, 50% vesting) to 60% (maximum, 100% vesting), measured via the Serco Employee Engagement Survey in the final year of the 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. In determining the extent to which these awards will vest the Committee will consider the Group's underlying performance (with input from the Group Audit and Risk Committees as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

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	Basis of Award (% salary)	Grant date	Market price at award (p) ¹	Face value (£) ²	Percentage vesting at threshold performance	Number of shares	Performance period end date
Rupert Soames	Nominal cost option	200%	25 June 2018	96.95	1,700,000	25%	1,753,481	31 December 2020
Angus Cockburn	Nominal cost option	175%	25 June 2018	96.95	875,000	25%	902,527	31 December 2020

Notes:

1. Closing share price on 22 June 2018 (being the last trading day prior to the grant).
2. Calculated using the closing share price on the trading day immediately prior to the grant date.

Remuneration Report continued

Deferred Bonus Plan (DBP) (audited information)

The table below summarises the Matching Share Awards granted to Executive Directors in 2018 in relation to their participation in the DBP in respect of their 2017 bonuses paid in 2018.

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 (ie. for each Investment Share that could have been purchased from the gross bonus deferred, two Matching Shares are granted). Matching Share Awards granted in 2018 vest subject to Aggregate EPS over the three-year performance period ending 31 December 2020. 25% of the Matching Share Award will vest for threshold performance (Aggregate EPS of 13.7p), rising on a straight-line basis to 100% vesting for maximum performance (Aggregate EPS of 16.7p 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	56%	23 August 2018	478,252	25%	488,418	31 December 2020

Note:

- The face value has been determined using the share price on 22 August 2018 of 97.92p per share (being the price paid by the Director to acquire the 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.

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:

	Year of AGM	For % Number	Against % Number	Withheld % Number ¹
2017 Remuneration Policy	2018	88.51% 756,102,233	11.49% 98,143,929	n/a 61,479
2017 Annual Report on Remuneration	2018	86.95% 742,773,852	13.05% 111,481,844	n/a 51,945
2016 Remuneration Policy	2017	93.39% 736,257,238	6.61% 52,086,742	n/a 29,512
2016 Annual Report on Remuneration	2017	96.30% 759,195,936	3.70% 29,155,876	n/a 21,680
2015 Annual Report on Remuneration	2016	96.68% 814,337,337	3.32% 27,947,300	n/a 610,006
2014 Annual Report on Remuneration	2015	98.87% 760,294,709	1.13% 8,671,241	n/a 24,080
2013 Annual Report on Remuneration	2014	99.61% 367,080,126	0.39% 1,442,674	n/a 2,302,116
2013 Remuneration Policy	2014	98.08% 358,418,242	1.92% 7,033,412	n/a 5,373,262
2012 Remuneration Report	2013	95.82% 346,071,397	4.18% 15,084,901	n/a 5,923,160
2011 Remuneration Report	2012	93.72% 351,474,463	6.28% 23,547,217	n/a 8,299,355

Note:

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

External appointments

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

During the year Angus Cockburn also served as a Non-Executive Director, and was appointed the Senior Independent Director from 20 February 2018, of GKN plc until his resignation on 19 April 2018 following the acquisition of GKN by Melrose Industries plc. He retained the fee payable of £63,000 per annum as a Non-Executive Director and £10,000 per annum as Senior Independent Director (pro-rated for the period served in role). Angus was appointed as a Non-Executive Director and Chair of the Audit Committee of Ashted Group plc with effect from 9 October 2018 in respect of which he retained the total fee payable of £75,000 per annum (£60,000 per annum as a Non-Executive Director and £15,000 per annum as Chair of the Audit Committee).

No other fee-paying external positions were held by the Executive Directors during the year ended 31 December 2018.

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 £0.9560 per share at 31 December 2018 (being the last trading day of the financial year).

Executive Directors

Name	Share ownership requirements (% of salary) ¹	Number of shares owned outright (including connected persons) at 31 December 2018 (or date of cessation) ²	Value invested ³ (£)	Shares		Share options ⁵		Total share interests at 31 December 2018 (or date of cessation) ²
				Subject to performance conditions ⁴	Subject to performance conditions ⁶	Exercised during the year ⁷		
Rupert Soames	200%	2,272,945	£2,942,628	2,516,884	5,123,882	827,855	9,913,711	
Angus Cockburn	150%	733,132	£811,599	1,030,059	2,648,737	426,101	4,411,928	

Notes:

- The CEO, Rupert Soames, and CFO, Angus Cockburn, have both met their contractual investment commitments of investing 200% and 150% of salary, respectively. The CEO has also met his shareholding guideline.
- Includes shares owned by connected persons. There were no changes in Directors' interests in the period 1 January 2019 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 2018 by the Executive Director and/or their connected persons.
- Includes awards made to Rupert Soames and Angus Cockburn 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 2p 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 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 2p per share exercise price.
- Rupert Soames and Angus Cockburn exercised vested options in respect of their 2015 PSP awards that were subject to EPS and ROIC performance conditions tested at the end of 2017 and which vested during 2018.

Remuneration Report continued

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 2018 (or date of resignation) ¹
Sir Roy Gardner	100,000
Mike Clasper	56,000
Rachel Lomax	40,000
John Rishton	43,086
Ian El-Mokadem	50,000
Lynne Peacock	15,000
Kirsty Bashforth	10,000

Notes:

1. Includes shares owned by connected persons. There were no changes in Directors' interests in the period 1 January 2019 and the date of this report. 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 2018, 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 8,728,497 and 3,527,740 ordinary shares at 1 January 2018 and 31 December 2018 respectively.

Summary of the approved Remuneration Policy for Executive Directors

The 2018 Directors' Remuneration Policy ("the Policy") took effect following shareholder approval at the 2018 Annual General Meeting (held on 10 May 2018). The full Policy may be found on the Company's website. A summary of the approved policy for Executive Directors' is provided below. This summary does not replace or override the full approved policy which is available on our website within the 2017 Annual Report and Accounts.

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 holistic 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.

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Base salary</p> <p>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>	<p>Pay levels are designed to attract and retain experienced, skilled executives reflecting the skills and role of the individuals.</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>	<p>Review takes account of individual performance and contribution to the Company during the year.</p>

Remuneration Report continued

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Benefits</p> <p>To provide a competitive level of benefits.</p>	<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>	<p>The maximum opportunity for benefits is defined by the nature of the benefits and the cost of providing them. As the cost of providing such benefits varies based on market rates and other factors, there is no formal maximum monetary value.</p>	<p>None</p>

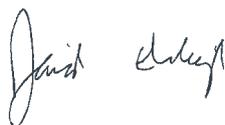
How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Annual bonus</p> <p>Incentivise executives to achieve specific, predetermined goals that are aligned to the business strategy during a one-year period.</p> <p>Compulsory deferral into shares increases alignment 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.</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>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
<p>Performance Share Plan (PSP)</p> <p>Recognises achievement against the longer-term objectives linked to the Group's strategy and aligns incentives with shareholder value creation.</p>	<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.</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> <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
<p>Pension</p> <p>To provide pension-related benefits to encourage executives to build savings for retirement.</p>	<p>Executive Directors may participate in the Group defined contribution pension plan (or overseas Serco pension plan as appropriate).</p> <p>Employer contributions are reviewed against local market practices annually.</p> <p>Executive Directors may choose to receive some or all of their employer pension contribution in cash to invest as they see fit.</p>	<p>Employer pension contributions (or the equivalent), and/or combined with a cash supplement, of up to 30% of base salary.</p> <p>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.</p>	None
<p>Shareholding guidelines</p> <p>To support long-term commitment to the Company and the alignment of employee interests with those of shareholders.</p>	<p>The Committee reviews the shareholding guideline with the Policy review to ensure the guidelines remain in line with market and best practice.</p> <p>Unvested awards that are subject to performance conditions are not taken into account in determining an Executive Director's shareholding for these purposes. Share price is measured as at end of the relevant financial year.</p> <p>Executives are required to retain in shares 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding guideline.</p>	<p>The shareholding guidelines are 200% of salary for the CEO, and 150% of salary for other Executive Directors.</p> <p>The Committee has the discretion to increase the shareholding guideline of the Executive Directors.</p>	None

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



David Eveleigh

Group General Counsel and Company Secretary
20 February 2019