

Annual Report
and Accounts

2021

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Serco is a leading international provider of public services. Our Purpose, or as some might call it, our mission, is to be a trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens.

We gain scale, expertise and diversification by operating internationally across five sectors and four geographies: Defence, Justice & Immigration, Transport, Health & other Facilities Management and Citizen Services, delivered in the UK & Europe, North America, Asia Pacific and the Middle East.

20+
COUNTRIES

500+
CONTRACTS

50,000+
EMPLOYEES



For more and the latest information please visit our website at:
www.serco.com

Strategic Report

Highlights

Revenue

£4.4bn

2020: £3.9bn

Underlying Trading Profit

£229m

2020: £163m

Underlying EPS, diluted

12.6p

2020: 8.4p

Dividend per share

2.41p

2020: 1.40p

Free cash flow

£190m

2020: £135m

Major incident frequency

**0.36 per
1m hours**

2020: 0.43 per 1m hours

Order book

£13.7bn

2020: £13.5bn

Reported operating profit

£216m

2020: £179m

Reported EPS, diluted

24.4p

2020: 10.7p

Underlying ROIC

23.7%

2020: 19.1%

Employee engagement

70 points

2020: 73 points

Lost time incident frequency

**4.1 per 1m
hours**

2020: 4.5

P.32-34

See KPIs on
pages 32-34
for definitions

P.4-12

See pages 4-12 for
more information
on our market and
business model

At a Glance

What we do

Serco delivers services to governments and other institutions who serve the public or protect vital national interests.

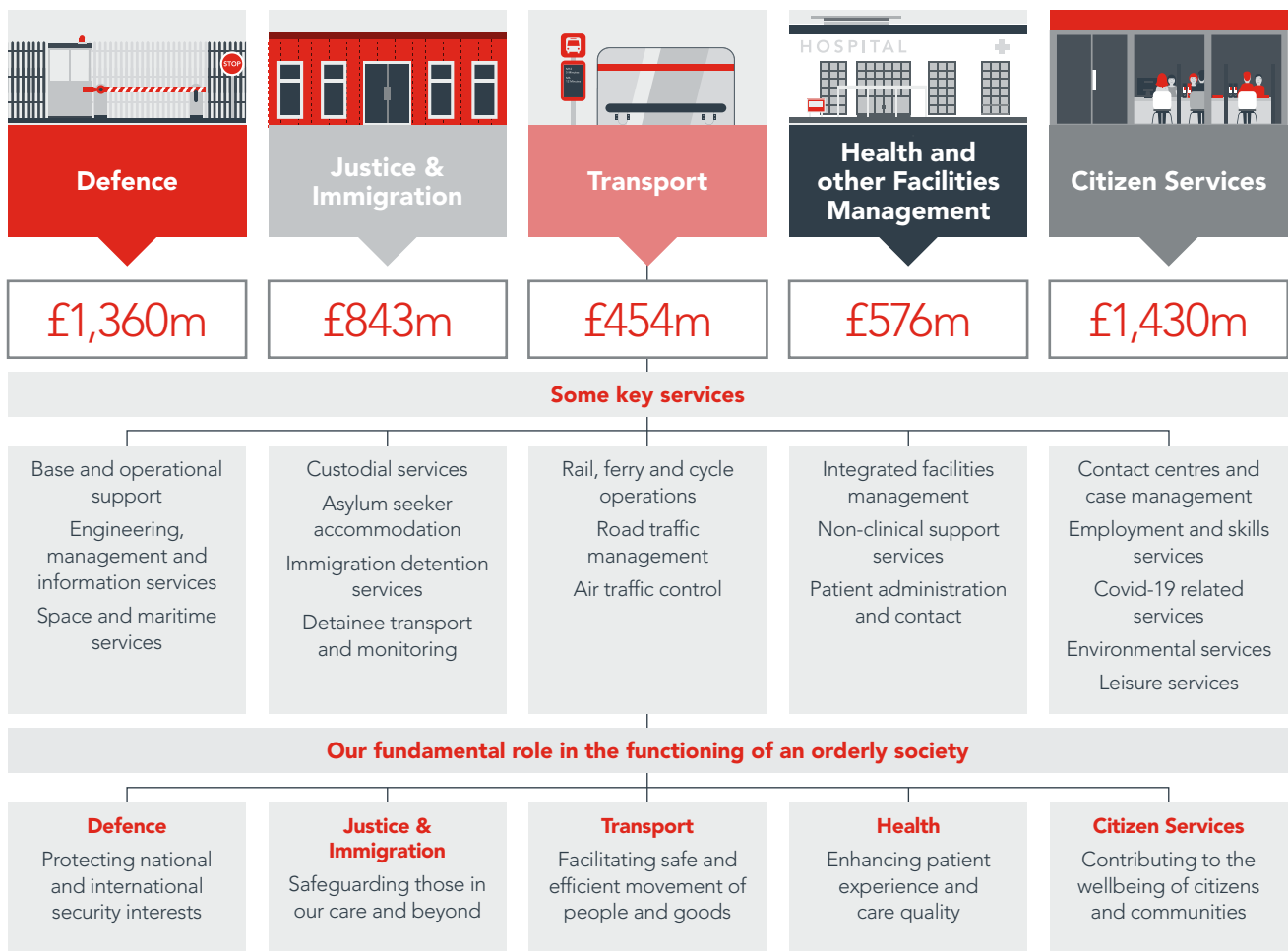
Serco's roots go back to 1929, and in 1988 the Group was listed on the London Stock Exchange. Now, Serco is a FTSE 250 company managing over 500 contracts worldwide and employing more than 50,000 people across our operations.

We deliver services through people, supported by effective processes, technology and skilled management. Our customers define what outcomes or services they need to deliver, and we develop new and more effective ways to deliver them. We provide innovative solutions to some of the most complex challenges facing governments, bringing our experience, capability and scale to

deliver the service standards, cost efficiencies and policy outcomes governments want. In this way we make a positive difference to the lives of millions of people around the world, often looking after some of the most vulnerable and disadvantaged in society and helping to keep nations safe.

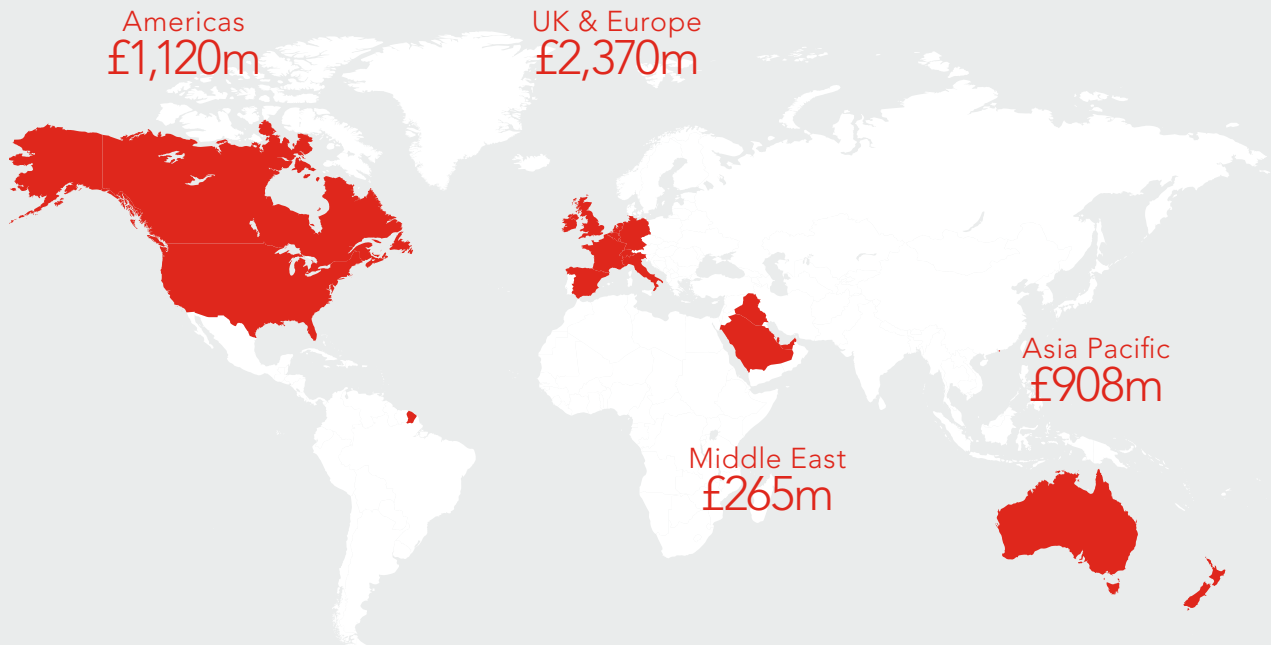
Our core sectors

Our business is focused across five core sectors, with revenue in 2021 of £4,425m or £4,663m, including our share of joint ventures and associates to reflect our total scale in each sector.



Where we operate

Serco's operations are across four geographic regions:

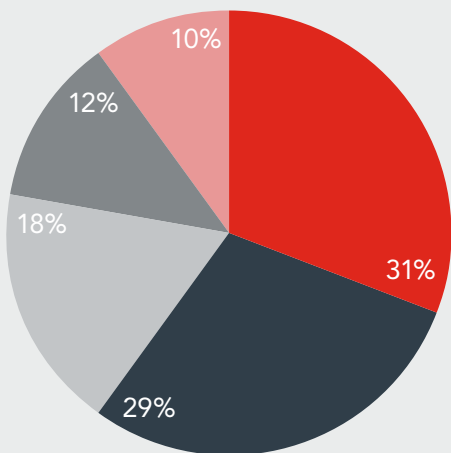


Revenue in 2021 (including share of joint ventures and associates).

Our business mix

Serco's revenue by sector and geographic division:

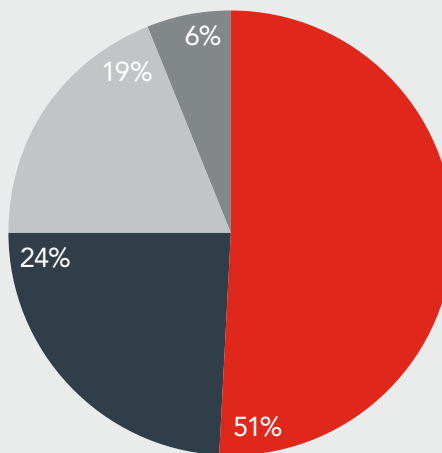
Revenue by Sector



Total revenue **£4,663m**

- Citizen Services
- Defence
- Justice & Immigration
- Health & other FM
- Transport

Revenue by Division



Total revenue **£4,663m**

- UK & Europe
- Americas
- Asia Pacific
- Middle East

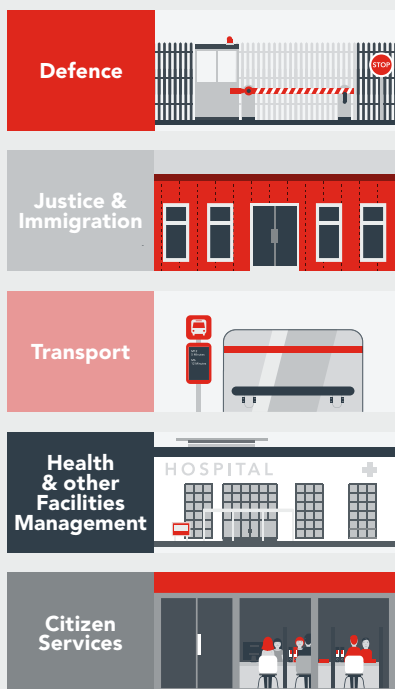


See pages 9-12 for more information on our business model

Revenue in 2021 (including share of joint ventures and associates).

Our Market

Our core sectors



2021 was the second year in which our market – in common with so many others – was dominated by the impact of Covid-19, and no one can be sure exactly how and when things will return to a more normal state. Our expectation is 2022 will be a year of transition during which the revenues we have generated supporting governments in their work responding to Covid-19 fade away, and that demand will return to more normal patterns of market growth of around 2-3% per year from 2023 onwards. Our ambition is to grow our business at about twice the rate of the market in the medium term.

Serco delivers services to governments and other institutions who serve the public or protect vital national interests. We focus on five sectors: Defence, Justice & Immigration, Transport, Health & other Facilities Management and Citizen Services, and deliver them in the UK, Continental Europe, North America, Asia Pacific and the Middle East.

Government as a purchaser of public services

Governments have two basic responsibilities: to develop policies which meet the needs and priorities of their citizens, and to ensure that those policies are delivered effectively and at a cost which represents value for money. Some policies can be delivered simply by enacting legislation, relying on individuals and corporations to deliver the policy themselves by acting in accordance with the law, with the police and judiciary acting as enforcers of behaviour. An example of this would be a policy that required a speed limit of 20 mph near schools, which can be enforced by the police in the normal course of law enforcement. Other policies require substantial specialist workforces to be employed to deliver them. One example would be a policy that, pending the adjudication of their applications, asylum seekers should be housed in the community, rather than in detention. Such a policy requires the government to employ – directly or indirectly – the people required to manage housing and welfare services. Another example of a policy that requires a dedicated workforce to deliver it would be air traffic control, which requires highly qualified staff to be deployed, often to remote locations.

Public services require people

The delivery of many areas of government policy is labour-intensive, and the number of people involved in the delivery of government services vastly outnumbers those involved in developing policy. In some countries, government is the largest employer, employing more people than any other sector or organisation. For example, according to the United States Bureau of Labor Statistics, nearly twice as many people (22.1 million as at November 2021) are employed by government bodies as are in manufacturing (~12.5 million as at November 2021) across the US, whilst in the UK the National Health Service is the single largest employer in Europe.

The labour-intensive nature of government service delivery demands strong management of the processes to recruit, organise and oversee the hundreds or even thousands of people required to deliver a public service efficiently. Many public servants are talented managers, but governments find it hard to attract and retain managers in the numbers required to deliver services in the face of private sector competition for these skills and current labour shortages. Serco helps governments by being a bridge between the drive, energy and innovation of the private sector, and the very specific culture and requirements of public service delivery.

The private sector as a supplier of public services

Governments have used private contractors to deliver public policy, often in very sensitive areas, for centuries. Where the line is drawn between public services that are operated by the state itself, or by its private contractors, varies greatly over time and across countries.

Our markets



In medieval times, fighting wars and tax collection were often outsourced, in whole or part, to private enterprise; this would be unthinkable now in most jurisdictions. The transportation of prisoners from the UK to Australia, which started in 1788 and continued until 1868, was carried out entirely by private contractors. Today, in the UK, frontline medical services provided by the National Health Service, which is widely perceived as a nationalised service, are largely provided by privately-owned businesses called General Practitioner Practices, and the vast majority of GPs are employed by private partnerships and companies rather than by the state. In Denmark, much of their emergency fire services are provided by private companies, something which would be anathema in neighbouring European countries. In the United States, the organisation responsible for marine navigation marks and buoyage is the US Coastguard, working on behalf of the federal government; in the UK this vital work is carried out by "The Master, Wardens and Assistants of the Guild Fraternity or Brotherhood of the most glorious and undivided Trinity and of St Clement in the Parish of Deptford Strond in the County of Kent" – otherwise known as the charity Trinity House. And in defence, in almost all jurisdictions some of the most sensitive and secret work is carried out on governments' behalf by private companies. Nature never draws lines, she smudges them, and so it is with the private provision of public services.

Some of the services which governments need in order to deliver public policy are identical to those required in the private sector, and suppliers can happily operate in both markets. Running payroll, supplying stationery or leasing properties is not vastly different in the public and private sectors. But some services – such as running prisons, providing defence or providing air traffic control – are unique to government and have no private sector equivalent. Many government services are bought only by government, and providing them is a specialist business, quite different from anything found in the private sector. However, many of them can be run most efficiently on behalf of government by private companies using techniques, management, technology and processes developed in the private sector.

Unique demands of public service delivery create barriers to entry

Providing government services to citizens, funded by taxpayers, is different, and in many ways more demanding, than providing services to the private sector or consumers. Politics, reputational risk, transparency and accountability to multiple stakeholders are sometimes seen only dimly in the private sector, but are writ large in the public sector, and need careful management.

Public procurement regulations are set by each jurisdiction and are far more complex than those generally seen in the private sector. Governments like to use their expenditure to further their policy initiatives, be it around diversity, targeting investment in particular geographies, governance or environmental goals. They set onerous financial reporting, audit, cyber, national security and information standard requirements. All these things make the market for government services tangibly different from its commercial counterpart.

It is not controversial to say that efficiency, flexibility and dynamism are not always core skills of government administration, and Serco has deep expertise in providing a bridge between the skills and culture of the private and public sectors. Overlaid on our private sector techniques, drive and energy is a public service ethos that means we can help deliver government services efficiently, but in a way that recognises the need for public accountability and trust, and the fact that we are often looking after some of the most vulnerable and disadvantaged people, or most vital services, in society.

Supplying governments requires unique skills and imposes significant cost and complexity. The combination of these market characteristics has the effect of creating barriers to entry that aren't apparent at first glance.

More recent history

For nearly thirty years between 1980 and 2010, Serco grew rapidly as the market for outsourcing public services developed around the world. Inspired by Thatcherism and the policies of President Reagan, privatisation and outsourcing became popular in many countries and drove rapid growth of an industry that had barely existed before. Suppliers became highly profitable and skilled at extracting value from government contacts.

As the global financial crisis of 2008 took hold, governments began to urgently seek ways of reducing costs, and the private sector, now representing a significant proportion of government expenditure, became the object of close government attention. Following the ending of the war in Afghanistan, military expenditure was sharply reduced, particularly in the US. 2010 saw in the UK the election of the Conservative-Liberal Democrat Coalition, with an avowed intent of reducing the deficit, and as a statement of intent demanded rebates of hundreds of millions of pounds from contractors; more importantly, the UK Government strengthened its commercial teams and procurement practices and set about transferring as much risk as it could to the private sector. It appeared to be a conclusion of UK Government at the time that if risk transfer was a benefit to them of outsourcing, surely the more risk you could force suppliers to take, the better. In the US, 'Lowest Price, Technically Acceptable' was increasingly used instead of an approach of overall 'Best Value' as a tender evaluation methodology.

Whilst these sorts of shifts in demand and in the relative power of customers and suppliers are common to all markets, the difference in dealing with government is the fact that government is often a monopoly purchaser; only governments buy prisons, defence services, or care of asylum seekers, so when they change their direction it can have very profound impacts on their supply chain.

The story of the UK government services outsourcing industry has been one of acute difficulty for much of the period since 2010. Over-supply, aggressive behaviour by both government and suppliers, and the ill-advised transfer of risks that private companies had no way to mitigate or manage led to the near-destruction of a once thriving industry, as multiple companies suffered huge losses on government contracts. As a consequence, the UK Government is now faced by a much more wary, and less vibrant, supply chain. Having discovered that it could attract new international competition into the market because barriers to entry seemed low, it has subsequently discovered that the barriers to exit from the market were genuinely low. An illustration of this is the number of responses the Government receives from suppliers to its tenders. In 2013, just 4% of public tenders in the UK had only one supplier respond but by 2020 this had increased to 20%*.

Having swung too far in favour of contractors, the balance of power in the public services market in the UK swung too far back to government after 2010; it is, we believe, beginning to work its way back towards a more balanced and sustainable position, and in recent years the UK Government has developed a series of "playbooks" which set out common approaches to procurement which over time should improve the attractiveness of the market. This moving of the relative power between buyer and seller is common to many markets as they mature, and we believe that if governments and their suppliers recognise the consequences of their past excesses and

* Source: Spend Network

Our Market continued

work co-operatively it will become possible to anchor the balance of power between customer and supplier in a place that delivers value for money for taxpayers, high quality and reliable services to users, innovation and improving efficiency, as well as fair returns to suppliers, which will in turn ensure that government benefits from a vibrant and diverse supply chain.

Since March 2020, the Covid-19 pandemic has had a profound, but essentially ephemeral, impact on the government services market. It has led to very large increases in expenditure in nearly all jurisdictions; much of which has been financial support to businesses and individuals, followed by provision of health services, vaccine development and purchase, establishment of testing laboratories and test kits. Across the whole of government's response, the private sector was mobilised to support their efforts, and there is widespread appreciation across governments that the private sector responded well to the extreme demands placed on it. The private sector has proved itself an invaluable partner to governments throughout the crisis, be it through developing vaccines, contributing management expertise, providing vastly increased virus testing and diagnostic capability, setting up emergency hospitals and more. And all at record speed.

We expect – indeed for all our sakes, hope – that demand for these services (which generated revenues of over £900m for Serco in aggregate in 2020 and 2021) will reduce significantly in 2022, and in our commentary and forward discussions of market size, we base our statements from a normalised base of 2022.

Drivers of demand

All about us markets are being disrupted and fundamentally changed; we live in a world where the largest retailer owns no shops, the largest taxi service owns no vehicles, the largest social networks own no content and the largest provider of overnight accommodation owns no property. In nearly every commercial market, disruption and change and long-term uncertainty are the norm.

In comparison, the business of government appears an island of stability; not unchanging, but certainly not disrupted or up-ended on anything like the same scale as commercial markets. Governments are, and will continue to be, required to deliver services to their citizens – be it in defence, transport, health, education or social care – and whilst the balance and mix might change or differ between jurisdiction, the essential job of governments of collecting taxes which they then use to provide services to the benefit of their citizens is highly unlikely to alter in our lifetimes.

We have developed a model which describes drivers of demand for our services, which we call the Four Forces, comprising:

- Demographic, technology and geopolitical changes – principally ageing populations, but also the increasing cost of defence and public infrastructure, which will drive demand for public services at rates above GDP growth
- The need to reduce public debt and expenditure deficits, made all the more acute by the increases in expenditure necessitated by Covid-19
- Rising expectations of service quality amongst public service users; and
- The unwillingness of voters and corporate taxpayers to countenance significant tax increases.

These Four Forces give, in our view a structural under-pin to the enduring need for governments to provide more public services, of higher quality and resilience, for less money. In short “more, and better, for less”.

The evidence that private companies can help governments deliver “more, and better, for less” is compelling. Research on outsourced services, commissioned by the Serco Institute, and carried out by Capital Economics, the independent economic research consultancy, has found:

- “The evidence from areas that have been subject to competition suggests that it is possible to deliver services more cost efficiently without damaging service quality...”
- “Our analysis on prison management, soft facilities management in healthcare and air traffic control suggests that potential average savings to the government of between 5% and 15% from introducing competitive markets is a relatively conservative estimate...”
- And perhaps most importantly: “...the private sector typically delivers services to the same standard or better than the public sector.”

So, on this foundation of rare stability of need is built the market for the provision of public services by private companies.

A large and growing market

People ask: how large is the market for the private sector provision of public services? This is hard to determine with precision, as the boundaries of the market are fiendishly hard to define. Does the maintenance contract for a mainframe computer operated by the government fall within the definition of the market? How should we treat services provided by government-owned agencies operating on an arm's-length basis? Within Defence, do we count supply and support of, say, missile systems, or just the types of services we currently supply? And how do we disentangle the very different definitions of, and accounting for, expenditure used by the various governments with whom we deal? The boundaries are also forever moving as governments take decisions to outsource new services or insource old ones, and as Serco stretches its addressable market into new areas through acquisitions and building new capabilities.

Over the years, and most recently in 2021, we have commissioned work to try and size the market in the sectors and geographies we currently operate in, which are clearly a subset of the global market. In the latest exercise we used two independent research firms – Renaissance Strategic Advisers and Oxford Economics – to estimate market size and growth rates, from which we have formed our own central estimates. We estimate that total spending by governments on outsourced services in the markets in which we operate is around £715bn, which we estimate represents around 65% of the world market, excluding China and Russia, and that our market share is between 1% and 3%, depending on whether we look at segments we operate in or the market as a whole. And we estimate that once Covid-19 expenditure has normalised the market will grow at around 2-3% per year in the medium term. Rather than concentrate on the absolute number, which is likely to have a significant margin for error, some key conclusions from our work are:

- The market for private sector delivery of government services is very large.
- The supply-side is fragmented; as a leading international supplier, our market share within our existing footprint, at around 1%, is small, although it is larger in some specific segments within certain sectors.
- The market is likely to continue to grow, but given our small market share, there is ample opportunity for us to grow faster than the market.

“The challenge facing governments worldwide can, like our strategy, be simply expressed: to deliver more, and better, for less.”

The impact on the market of Covid-19

As discussed above, it will take several years for governments' expenditure patterns to settle down following Covid-19. The immediate aftermath will probably focus on continued need for surveillance of the virus, and catching up on areas of normal expenditure that were put on hold during the pandemic, such as in healthcare, court hearings and defence infrastructure which have been put predominately or substantially on hold during the pandemic. Overall, while it is true that in some areas arguments about the importance of national self-sufficiency might make some governments consider doing more work in-house, we don't think that this will happen on a scale that is meaningful; the private sector has responded extremely well to governments' emergency requirements. This will, hopefully, remind governments of the value of resilient, robust supply chains which can support them in both ordinary and extraordinary times. Nor do we anticipate a lot of change from Covid-19 in our basic business model of offering public services delivered by people supported by good systems and processes. On the contrary, we know that governments will be massively more indebted than they were before the crisis and that citizens will be more in need, as well as more demanding, of public services critical to rebuilding society and quality of life – be that services to deal with unemployment, training and skills gaps, social care reform, acute healthcare capacity, building national resilience, sustainable transport growth and more. We think the 'Four Forces', which we have previously described as driving demand for our services, will be amplified by the crisis: increasing and changing demand for public services; heightened expectations around the quality and resilience of public services; increased fiscal deficits; the dire political consequences of increasing taxes. These will continue to drive governments to want to deliver more public services, of higher quality, for less money. We believe that this imperative to provide more, and better, for less will become even more urgent in the years ahead, and to deliver those objectives governments will need the skills, resources, innovation and nimbleness of the private sector.

The impact of technology on public services

There are areas of government where technology is transforming public services: many of the UK Department of Work & Pensions systems are now on-line and across the world governments deployed new IT systems to manage Covid-19 responses. Serco often helps governments in the development and deployment of these systems, and in our Citizens Services business we have developed sophisticated multi-channel applications and use robotic process automation extensively to deliver services. We also have a unique in-house consultancy called ExperienceLab which helps design public services. However, we are confident that many public services will continue to require people not just IT to deliver them, in whole, or in part. In 30 years' time, sick people will still go to hospitals, and when there they will have their rooms cleaned and food served predominantly by humans. And when people break the law they may be sent to prison where custody officers will look after them; and complex defence infrastructure such as near-space radar will still be maintained predominantly by human beings, who will need to be security cleared, again by other human beings. The bank teller or lorry driver or shop assistant may be rightly fearful that technology will disintermediate their role, but a prison custody officer or hospital porter can sleep soundly in the knowledge that his or her skills are highly likely to be required for years to come.

Benefits of sector breadth and geographic reach

Within government, our business is highly diversified. We focus our activities in five areas of government service: Defence, Justice & Immigration, Transport, Health & other Facilities Management and Citizen Services. Between them, these sectors account for a very large proportion of government expenditure and employ significant numbers of people in service delivery. And, unlike our competitors, we have a big geographic reach, with substantial businesses in Canada, the US, the UK, Europe, the Middle East and Australia.

As well as providing a bridge between the private and public sector, Serco also provides the international and interdepartmental sharing of ideas and best practice which governments often find hard to achieve. New approaches for running prisons and reducing youth re-offending in the UK come from Australia; hospitals we manage in the Middle East use processes developed in the UK; likewise, our Defence business in the Middle East serves Australian armed forces with fire services using UK and North American expertise. We transfer our insights, skills and processes from one sector or region to another, so we can anticipate and meet new challenges for customers. We know of no other company in our market which offers such a broad range of services covering front, middle, and back office requirements across multiple areas of public service delivery, internationally.

Risk management is central to our thinking at both a strategic and an operational level. In terms of strategy, although being a focused and specialist B2G business, we think it beneficial, and a competitive advantage, to diversify our exposure to individual governments and sectors. Governments can be capricious; decision-making processes regularly come to a halt around elections; the attitude to using private companies can be volatile and political priorities can change in the blink of an eye, switching discretionary resources from defence to immigration to healthcare and back again. In this environment, we believe being diversified both by sector and geography reduces risk and volatility. Most companies operating in our market are heavily focused in either a particular sector, or within a geography; in our market, Serco is a rare beast, operating amongst five sectors and four regions.

Our Market continued

But management of risk is only one reason we favour a strategy of operating across a number of jurisdictions and sectors. Governments across the world face similar challenges, and we believe that we can gain competitive advantage and deliver value to customers by operating internationally. At a detailed operational level, providing cleaning and catering services in a hospital is very similar in Western Australia and in the Middle East or indeed, the UK. In terms of capability, many of our contracts employ hundreds, and some, thousands, of people, so recruitment, training, staff rostering and time management are key capabilities applicable across all our sectors and geographies. The same is true of project and case management; we are also able to adopt consistent approaches to key operational tools such as continuous improvement.

Finally, although in their own country a national government can wield the power of a monopoly purchaser, every country has a government (or multiple governments if you consider state and local bodies too). In this market, agile suppliers with an international footprint together and a range of service offerings, can move to where the demand is and where they can get a fair return for the risk they take on, but governments cannot.

Market – summary

The market for the provision of public services for private companies is very large indeed, at an estimated £715bn per annum. Serco's market share is estimated to be somewhere between 1% and 3%, and for reasons we explain later, we believe we can grow at about twice that rate from 2022 onwards. Since 2017, Serco's revenues have grown by 50% – a compound annual growth rate of 11%. Underlying Trading Profit over the same period has grown from £69m to £229m – a compound annual growth rate of 35%. This illustrates our ability to grow faster than the market and increase our market share.

We believe that the long-term pressures to deliver value for money, increasing demand for public services and the need to improve service delivery will ensure that the role of the private sector in the delivery of public services will remain assured. The challenge facing governments worldwide can, like our strategy, be simply expressed: to deliver more, and better, for less, and they cannot do this without the support of the private sector. Technology will have an impact on the delivery of government services, but many frontline services will still need the social and emotional skills that only humans provide, and we believe the principal method of delivery of many government services will remain human beings for years to come. And the employment of people in the reliable delivery of public services is what we do, and we do it very well.

Our Management Philosophy

We have a simple and clear management philosophy, illustrated below, that we apply across our business. It is designed to provide an approach that will deliver value to our customers, shareholders, and to the people who work in the business.



Our management philosophy starts with our Values and ends with our deliverables.

Our Values

Whilst we use technology and processes, the core of our business is people – many thousands of them – delivering public services. It is of central importance to our success that our colleagues, many of whom are former public servants, and our customers, know that we have values appropriate to a company delivering services paid for by taxpayers to often vulnerable and disadvantaged citizens. "Working at the leading edge of technology" may be inspiring to people working for IT businesses, but they are not reasons why a prison officer makes a cup of tea for a tearful and frightened prisoner at

two o'clock in the morning; why a hospital cleaner stops on their round to chat to an anxious patient; why an engineer crawls into an impossibly small space in the bilges of an aircraft carrier to make sure the cable-ties are secured correctly so they will stay secure in storm or battle. It is because they care about their work, they know the work they do is important, and they take pride in doing it well.

Our Management Philosophy continued

Before our customers will award us sensitive work, they have to trust us. And to win business we have to come up with innovative solutions which will enable governments to deliver more, and better, for less. This is why our values of Trust, Care, Innovation and Pride are so important. We don't pretend to be saints, or to be holier-than-thou; we are not so naïve as to believe that in a workforce of over 50,000 people there will not be some uncaring bad eggs, and we can reliably say that around the world, every day, at least one of our employees or subcontractors is behaving badly; this is one of the reasons why we invest so much time and effort into controls and assurance processes. But the overwhelming majority of our colleagues are decent, hard-working, committed and want to make a positive difference to those they serve. Never have we seen this more evident than over the last two years, when throughout the Covid-19 crisis Serco colleagues stuck by their commitment to deliver to customers and citizens despite the risks that doing so posed to themselves and to their families. In this, we reflect the values of our customers, which they call a "public service ethos", and we call our Values.

Our organising principles

Our organising principles have to reflect the fact that many of the things our customers want are contradictory: they want excellent and resilient services, delivered by highly motivated staff, but they want them to be low cost; they want local accountability and flexibility, but they also want strong governance and risk management. As a management team, we believe in the principle of subsidiarity: that decisions should be taken by managers who are as close to the customer as possible. But we are also conscious of the fact that many of our contracts carry with them risks that need careful management and supervision. So, we describe our organising principles with two concepts: 'loose-tight', and 'disciplined entrepreneurialism'. Neither of these is our own invention; they are based on the work of, respectively, Tom Peters and Jim Collins. They describe in subtly different ways an approach to management which recognises the need for both local management autonomy and strong governance. Two quotations from their works give a taste of the type of organisation we are trying to achieve:

"Loose-Tight... is the coexistence of central direction and maximum individual autonomy. ... Organisations that live by the loose-tight principle, are on the one hand rigidly controlled, yet at the same time allow (indeed insist on), autonomy, entrepreneurship, and innovation from their people."

Tom Peters: *In Search of Excellence*

"Avoid bureaucracy and hierarchy and instead create a culture of discipline. When you put two complementary forces together - a culture of discipline with an ethic of entrepreneurship - you get a magical alchemy of superior performance and sustained results."

Jim Collins: *Good to Great*

Organisationally we structure ourselves with three types of function: Divisions, Group and Shared Services. All operational delivery is executed through four geographic Divisions: UK & Europe, the Americas, Asia Pacific and the Middle East. Within their domains, Divisions are responsible for everything involved in winning and delivering contracts; 98% of our employees work in these Divisions. A lean Group function provides governance, strategy, asset allocation, policy-setting and controls and assurance roles, as well as certain specialist consolidation and functional roles in Finance, Legal, Risk, ESG, Insurance and HR. The Group also manages Centres of Excellence (CoEs) which provide focused expertise and support to the Divisions and enable sharing of best practice and the development of common propositions in areas such as Justice & Immigration, Maritime and Health. Shared Services provide common functional and operational support in areas such as IT, procurement, HR and finance to the Divisions.

Our method – the strategic priorities to achieve our aspiration

The method we use to deliver our strategy and our aspiration to be the best-managed business in our sector is to concentrate on doing four things really well. These are the four strategic priorities we want Serco to be famous for:

- Winning good business.
- Executing brilliantly.
- Being a place people are proud to work.
- Being profitable and sustainable.

We try to make sure that everything we do improves our performance against one or more of these objectives, and start from a position where we know we can do better. We can improve the way we bid and manage contracts; develop innovative propositions; measure performance; reduce the cost and improve the quality of our administrative systems and processes. We can also continue to enhance our controls, assurance and compliance processes, and the robustness of our 'three lines of defence'. None of these comes easily or quickly, and we need to steer a tricky course between the need to reduce our costs relative to revenues in the short term and investing in systems and processes that will produce sustainable benefits in the long term.

Our medium-term targets

Our revenues declined organically in each of the five years from 2014 to 2018, before turning to growth in 2019. Between 2017 and 2021, our revenue grew at a compound annual rate of 11% and our Underlying Trading Profit grew at a compound annual rate of 35%, with our margins improving from a nadir of 2.3% in 2017 to 5.2% in 2021.

In the last two years, a significant amount of our growth has arisen as a result of services delivered supporting governments in the Covid-19 response, and we expect that to reduce very significantly in 2022, with profits and revenues lower in 2022 than in 2021.

Our new medium-term financial targets are that, from a base in 2022, we expect:



Underpinned and enhanced by value-adding M&A

Our B2G Platform

Our management philosophy establishes the principles we follow in running the business. Our Business-to-Government (B2G) platform is our route to market that allows us to accelerate growth, while assuring quality and managing risk.

Over the last seven years we have developed a specialist B2G operating platform, which allows us to deliver a wide range of bespoke government contracts in a way that is repeatable, efficient, innovative, well managed and resilient.

1	Public Service DNA	Culture, values, reputation with buyers, understanding of government, public service ethos, social responsibility, transparency, sustainability
+		
2	Deep sector expertise, IP and know-how	Deep knowledge of our market and sectors. Know-how and IP developed delivering complex contracts in many jurisdictions over 30 years
+		
3	Solutions delivered in >20 countries by large regional businesses	Our businesses are major players in their regions, employing thousands of people. They have scale and deep customer relationships, and they share expertise across the Group
+		
4	Supported by efficient shared services and capabilities	HR, finance, assurance, governance, procurement, IT and cyber security, legal and commercial, risk management, workforce management, asset management, M&A
=	Our B2G Platform	

This operating platform has four building blocks:

- **Public service DNA.** The first key part of our platform is about culture. Across the world, we have public service in our corporate DNA. We have a set of values and a public service ethos that comes from the fact that many of our colleagues come from careers in public service. They bring with them an instinct for social responsibility, transparency, sustainability and a commitment to improve outcomes. And this public service ethos is to be found in colleagues around the world; public service, as a calling, hums the same tune in Goose Bay, in Glasgow, in Abu Dhabi and in Adelaide. This public service DNA means that we speak the same language as our customers, in the same accent, and builds trust and the right instincts.
- **Deep sector expertise, IP and know-how.** The second building block is experience, know-how and intellectual property. With this public service DNA, comes deep insight, understanding and know-how about the development and delivery of public services. Very little of our intellectual property is covered by patents, it is instead underpinned by many years of experience delivering complex, mission critical, public service contracts around the world.
- **Solutions delivered in more than 20 countries.** The third block is our international footprint. There is not much point in having this valuable DNA and know-how if you cannot deliver it. Historically many of our competitors focused on developing their businesses in their home markets. Serco focused on developing an international business with large operations in Australia, Europe and North America, which is now able to address approximately 65% of the world's government outsourcing spend on services excluding Russia and China. Our government customers want to have suppliers who employ people who are part of the community that will use the services; that will recirculate the taxpayers' money into taxes and expenditure in the economy. They want to employ suppliers who will eat their own cooking, and who share the same culture and commitment to government as them.
- **Efficient shared services & capabilities.** The fourth building block is a large and well-invested shared services platform. Our customers' objective is to buy more, and better, for less, yet they often insist on buying almost every contract as a bespoke item, and generally standardisation is not necessarily valued. The way we square this circle is to look at contracts, not from the perspective of how they are different, but how they are the same. All our contracts use HR, finance, compliance, assurance, governance, procurement, IT and cyber security, legal and commercial, risk management, workforce management, talent development, and bidding support. And we provide these things collectively and in common across contracts from an efficient shared services infrastructure, which means we can bring the advantages of efficiency and scale to bespoke solutions.

Our B2G Platform continued

We believe our B2G platform is unique in the industry and gives us five benefits: Agility, Breadth, Reach, Efficiency and Resilience

Agility	Breadth	Reach	Efficiency	Resilience
The ability to respond to changing government priorities and develop, mobilise and deliver solutions at speed	We have deep expertise across the major areas of government outsourcing: Defence, Justice & Immigration, Citizen Services, Transport, Health FM	Our international footprint allows us to access ~65% of global government spending on outsourced services and bring customers innovation from around the world excluding Russia and China	Our shared services allow us to invest in world-class, industrial scale back-office systems which provide standardised and efficient processes for delivering contracts	Our common controls, governance and risk management processes help us manage risk and assure quality outcomes across the business

Agility is important, because governments change their mind: they introduce new policies, they retire old ones, and the flow of funding, whilst in aggregate may stay the same or increase, takes different paths into the supply chain. Accordingly, we are forever watching for changes in government priorities and new opportunities, and we have a well-developed process of assembling teams of subject matter experts and delivery partners, developing compelling propositions for new requirements, and then building solutions using our B2G platform. The revenues we have generated from this agility are astonishing: before the introduction of Obamacare in the United States, we had never done healthcare eligibility testing, but since winning a role in this programme we have generated revenues of over £1.3bn. Likewise, before March 2020, we had never done health-related testing or tracing; by the end of 2021 we will have generated over £900m in revenues from Covid-19 support to governments. Agility is also the ability to mobilise fast. Between April and May 2020, we recruited and trained 10,500 contact tracers in the UK.

Breadth of offerings across a wide range of government activities is important, as this enables us to tap into multiple sources of government funding. For the same reasons that agility is important, so is having a wide range of expertise across Defence, Justice & Immigration, Health & Facilities Management, Transport and Citizens Services.

International **reach** is important, as it gives us a far wider horizon to scan for new opportunities, and the ability to focus our resources on the most attractive opportunities across multiple jurisdictions. None of our major competitors have such wide reach: we have significant businesses in the United States, Canada, the UK, Europe, the Middle East and Australia. Around 55% of our revenue and 65% of our profits come from outside the UK, while our footprint covers an estimated 65% of the worldwide government services outsourcing market.

Marry the reach, with the agility, with the breadth of services, and Serco has a powerful platform for selling and delivering services.

But we also need to be **efficient**; governments are highly cost-conscious, and at times when they are short of resources (almost always) it is hard for them not to take the lowest price. Equally, they expect high levels of compliance; assurance; reporting; transparency; cyber security and investment in training. Tendering for government contracts is expensive. For all these things, there are benefits to scale and Serco is organised with common approaches to common services, which allows us, subject to security restrictions in each country, to share these services across our businesses. Sharing and scale also bring operational resilience, which is important when delivering vital public services.

A key part of **resilience** relates to risk management. In the corporate graveyard are the corpses of companies who failed to manage risk, and investors are rightly wary about a market where margins are low, contracts complex, and customers demanding. Resilience in

our business comes from two sources: diversification of exposure by segment and geography – which we have just covered – and robust risk management. Serco has had experience of risk-gone-wrong, and when the current management joined the Company in 2014, there were more than 50 loss-making contracts against which provisions had to be made. Inevitably, in a business like Serco, contracts will become loss-making from time to time, but today we seek to mitigate this by having a strong bidding process, which has a series of gates from pre-qualification through go/no-go decisions, customer shortlisting, confirming bid decisions, approving bids and through to contract signature. And this process applies to all new contracts and rebids. The process is led at business unit, regional or Group level, depending on size of contract and risk profile. As an indication of how seriously this process is taken, in 2021 the Investment Committee met 97 times to consider tenders; that is about once every other working day. Once a contract has been signed it is reviewed on a regular basis through the monthly business unit and divisional performance reviews. During the operational phase, the trick to managing risk is not about stopping it ever crystallising, it is how you manage and mitigate it when it does.

Part of our operational capability is our acquisitions (M&A) team. The ability to identify, execute and integrate acquisitions is an important part of our armoury, and since 2015 we have completed two significant disposals and six acquisitions. Three of the acquisitions were in North America, one in the UK, one in Europe and one in Australia. All of our opportunities are measured against three strategic criteria: Do they add capability? Do they bring us scale? Do they give us access to new segments of the market? That is the first gate. The second gate is whether, operationally, we can manage them to add value. The third gate is building a plan to determine whether the project can meet the stringent financial criteria we set. Finally, we then run thorough due diligence and operational assessment. So far, this has worked well for us.

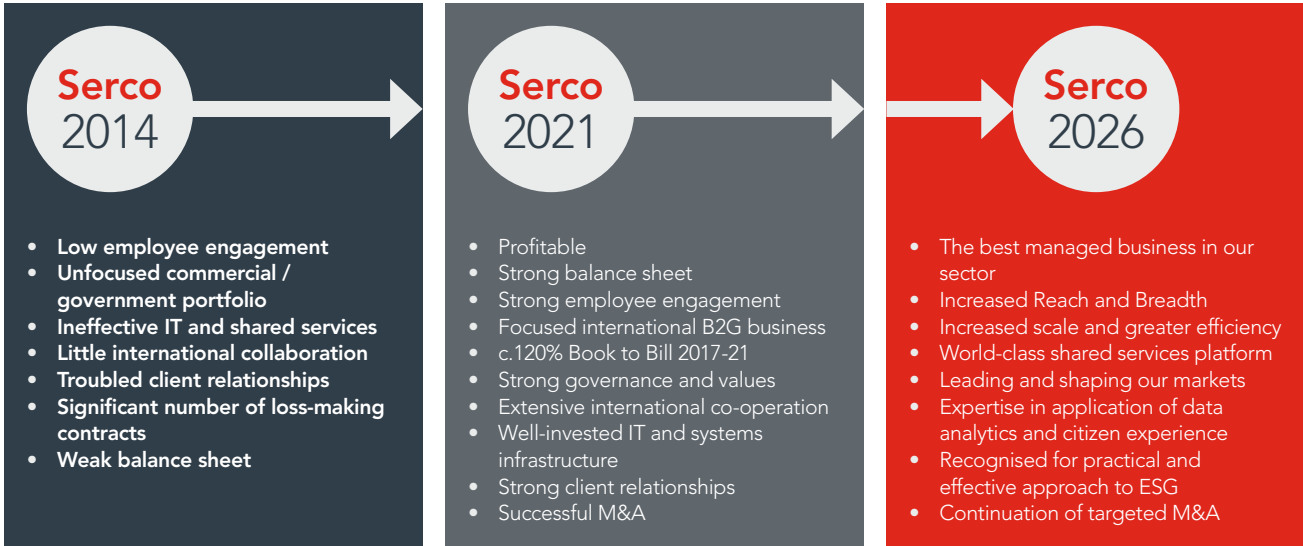
Summary

As managers, our job is to seek to ensure Serco delivers value to the people and institutions who have an interest in our success: to our customers and service-users, by providing high-quality, resilient and innovative public services; to our shareholders, by providing sustainable and growing returns on capital; to our lenders, by providing them with solid and secure credit; and to our colleagues, by enabling them to develop their skills, reach their full potential, and have interesting and rewarding careers. Our management and our B2G platform are designed to deliver these objectives.

It is also an integral part of our ambition to be regarded as the best-managed business in our sector. This may sound trite, but we believe that it is a worthy and value-creating aspiration, and one that we can use to inspire our management teams and customers. In any given circumstances, and whatever the slings and arrows of fortune, well-managed businesses do better than poorly managed businesses, and the best-managed businesses do best of all.

Strategic Objectives and Achievements

Serco has been transformed from a collection of unrelated commercial and government contracts in 2014 into a focused B2G platform. We see potential to enhance the business and create further value.



We have seen significant progress across a range of key areas of focus for the management team in recent years:

High growth	Compound average growth since 2017 11% on revenue and 35% in Underlying Trading Profit
Margins increased	Underlying Trading Profit margin increased from 2.3% in 2017 to 5.2% in 2021
Book-to-bill of more than 1	Revenue of £17bn from 2017-2021 and order intake of £20bn 2017-2021 book-to-bill of ~120%
Onerous contracts reduced	Onerous contract provisions reduced from £447m in 2014 to less than £15m in 2021
Employee engagement	Employee engagement score increased from 42 in 2014 to 70 in 2021
Balance sheet strengthened	Net debt: EBITDA reduced from 3.4x in 2014 to 0.7x in 2021
Successful M&A	Six acquisitions completed since 2017, strength of business significantly enhanced
Focused international B2G	Two-thirds of our profit was from outside of the UK in 2021

Summary

We believe we have the right strategy for our business, and every year since 2015 we have delivered results which have been in line or ahead of our plan, which is no mean achievement. In 2018, 2019, 2020 and 2021 we have seen Underlying Trading Profit grow by 34%, 29%, 36% and 40% respectively; in 2021 we achieved organic revenue growth of 10%. Returns on Invested Capital have increased from 9% in 2017 to 24% in 2021. We expect revenues and profits to reduce in 2022 as most of the Covid-related work falls away, but this should represent a solid foundation on which we can deliver our long-term objectives of revenues growing twice as fast as the market, increasing margins, and strong sustainable and growing returns to shareholders. In summary, our plan to be a focused international provider of services to governments first devised in 2014, is working well.

Chairman's Statement



"The platform we have developed means we can respond rapidly at scale to meet our government customers' needs. I am confident that the Company is well placed to continue delivering competitive returns while meeting the needs of its multiple stakeholders."

John Rishton
Chairman

Highlights of 2021

- Revenue grew by 14% to £4.4bn, of which 10% was organic.
- Underlying Trading Profit of £229m, an increase of 40%.
- Free cash flow of £190m, covenant net debt: EBITDA at the year-end of 0.7x.
- Order intake of £5.5bn.
- The health of our balance sheet and the positive outlook give us the confidence to increase dividends to our shareholders and agree a share buyback programme of £90m.
- Detailed strategy update identified exciting opportunities for further growth in revenue, profit and shareholder returns over the coming years.

"Covid-19 again cast a dark shadow over much of 2021 and on behalf of the Board I will start by saying that our thoughts go out to all those who have suffered from the effects of this terrible pandemic. Equally, we remain deeply thankful to all those in the front line who worked tirelessly and selflessly to keep others safe and ensure critical services were delivered. Despite the widespread disruption and understandably frequent changes in requirements from our customers, they responded with commendable resilience, agility and ingenuity delivering vital services extremely well and an excellent set of results in exceptionally challenging circumstances."

Our performance

The Company delivered very good financial results in 2021, primarily reflecting strong revenue growth, driven by organic growth as well as increased demand for Covid-19 related services. As a consequence of the revenue growth and continuing cost efficiency, underlying operating profit grew by 40% and free cash flow of £190m was the strongest since the Company listed in 1981. Order intake was also very encouraging at £5.5bn or 1.25 times 2021 revenue. We made three acquisitions during the year, the largest of which was Whitney, Bradley & Brown in the USA, which provides improved scale and depth of capabilities in our defence business.

In 2021 we paid our first dividend for seven years. Reflecting both the strong in year performance and our confidence in the outlook, the Board is recommending a final dividend of 1.61p which is an increase of 15%. We also announced a share buyback programme of £90m.

Strategy

The strategy, set out in 2015, to stabilise, transform and grow the business has been a great success thanks to the strong leadership provided by Rupert and his management team as well as the dedication to execute brilliantly by all of our employees. Since that strategy was developed, the business has been transformed, so in 2021 we undertook a comprehensive review of our markets and strategy, presenting our conclusions in December at a Capital Markets Day event.

Supported by independent research, we estimate the markets in which we operate are worth around £715bn per year and that they will grow at 2-3% per year on average in the coming years. The focused Business-to-Government operating model that has been established at Serco over recent years has enabled the business to grow faster than the overall market, in part due to our ability to focus on the areas of greatest government need across multiple countries and sectors. This journey is not over. Further areas to make the Business-to-Government platform even better were identified as part of the strategy review and these will be implemented in the coming years. We believe this enhanced version of an already highly successful model will mean the Group can grow its revenue about twice as fast as the market in the medium term and improve margins further. Investors should benefit through attractive earnings growth and shareholder returns, which we intend to increase faster than profits, thanks to our strong balance sheet and good cash generation.

Corporate Governance

One of my roles as Chair is to ensure that Serco has strong governance. In recent years this has become an area of intense focus by all stakeholders and one that I take very seriously. Governance responsibilities cover many areas (and are covered in detail in our Corporate Governance Report on pages 116-178, including board diversity and effectiveness, remuneration, financial reporting as well as environmental and societal considerations.

Having served on the Board since September 2016, I am well aware of Serco's reputation as a purpose driven company, founded on strong values with a dedicated and talented workforce. It was an honour therefore to be asked to become Chairman in April 2021, when Sir Roy Gardner stepped down. I would like to express my personal thanks and the Board's to Sir Roy for his strong leadership as Chair and for his support to ensure a smooth transition. Other non-executive Board changes this year included the appointment of Tim Lodge, who replaced me as Chair of the Audit Committee and Kru Desai. Both are experienced executives but with different backgrounds who will bring new perspectives to the Board. Eric Born decided to step down from the Board in December and I thank him for his contributions over the last three years. In addition, we appointed Nigel Crossley as our new Chief Financial Officer following the decision of Angus Cockburn to retire. Angus's leadership as CFO was exceptional, guiding the Company through some of its most difficult challenges to its present success. The Board and I thank Angus for his dedication and leadership, and wish him well for the future.

A continuing focus for the Board during the year was our engagement with Serco's workforce. Dame Sue Owen took over responsibility from Kirsty Bashforth as the Board's employee representative and worked closely with the Company to ensure that the Board understands employee perspectives and issues. Non-Executive Directors participated in virtual and face-to-face meetings with employees in each of our markets throughout the year to discuss contracts and hear about issues that were important to them. In addition, non-executives joined calls discussing health and safety, diversity and other ESG issues. And in our annual employee engagement survey we include a section called 'Ask the Board', where employees are given the opportunity to raise issues for our attention. We discuss these topics during Board meetings and follow up to ensure common or significant matters are addressed. I was delighted to see that despite all of the challenges brought about by the pandemic our engagement scores remained high, at levels comparable with 2019.

ESG has always been important to Serco. We have been clear on our purpose, values and impact on society for many years. This year has brought more attention to these areas and the need for companies to address environmental and societal issues with more urgency and focus. Our major customers are governments and frequently the contracts we enter into have specific measures for ESG. We are committed to doing our part including achieving net zero by 2030. More detail on our ESG commitments and performance is included on pages 39-76.

Our Board evaluation during the year was externally facilitated and the results were discussed at the December Board meeting. The conclusions were that the Board was operating effectively and should continue to focus its attention on strategy, growth, ESG and leadership and talent succession.

Looking ahead

It is likely that we will be living with the effects of Covid-19 for some time to come. This will require us to remain agile and apply our ingenuity to a rapidly changing environment. We have proved we can do this successfully in the last two years and I see no reason to doubt we will continue to do so in the future. The platform we have developed means we can respond rapidly at scale to meet our government customers' needs. I am confident that the Company is well placed to continue delivering competitive returns while meeting the needs of its multiple stakeholders.

Finally, and on behalf of the Board, let me express our profound appreciation to the hardworking employees of Serco, and our many partners, for their incredible commitment and achievements during another difficult and challenging year.



John Rishton
Chairman
23 February 2022

Chief Executive's Review



"This was a year in which Serco delivered an outstanding financial and operational performance across the world in the face of constant challenge and disruption"

Rupert Soames OBE
Group Chief Executive Officer

Another year of strong operational and financial delivery from our businesses around the world; guidance for 2022 maintained. Our unique Business-to-Government platform set to deliver attractive growth from 2022 onwards.

Year ended 31 December	2021	2020	Change at reported currency	Change at constant currency
Revenue ⁽¹⁾	£4,424.6m	£3,884.8m	14%	16%
Underlying Trading Profit (UTP) ⁽²⁾	£228.9m	£163.1m	40%	45%
Trading Profit	£233.4m	£175.7m	33%	
Reported Operating Profit ⁽²⁾	£216.2m	£179.2m	21%	
Underlying Earnings Per Share (EPS), diluted ⁽³⁾	12.56p	8.43p	49%	
Reported EPS (i.e. after exceptional items), diluted	24.43p	10.67p	129%	
Dividend Per Share (recommended)	2.41p	1.40p	72%	
Free Cash Flow ⁽⁴⁾	£189.5m	£134.9m	40%	
Adjusted Net Debt ⁽⁵⁾	£178.0m	£57.8m	208%	
Reported Net Debt ⁽⁶⁾	£608.3m	£460.4m	32%	

Highlights

- Revenue: grew by 14% to £4.4bn, with organic growth of 10%.
- Underlying Trading Profit: increased by 40% to £229m. Margin increased from 4.2% to 5.2%. Around two-thirds of our profit was from outside of the UK(7).
- Reported Operating Profit: increased by 21%, or £37m, to £216m; prior year included exceptional credit of £12.5m.
- Earnings per Share: increased by 49% on an underlying basis and 129% on a reported basis, the latter including the recognition of UK deferred tax assets.
- Free Cash Flow: increased by 40% to £190m, Underlying Trading Profit cash conversion of 112%.
- Adjusted Net Debt: increased by only £120m to £178m despite acquisition spend of around £250m. Covenant leverage at the year-end was 0.7x EBITDA.
- Return on Invested Capital: increased from 19.1% to 23.7%.
- Order Intake: very strong at £5.5bn, 125% book-to-bill.
- Closing Pipeline: up more than 50% year-on-year at £9.9bn despite strong order intake.
- Dividends: the Board recommends a final dividend of 1.61p, +15% year-on-year.
- New £90m share buyback agreed by the Board: prompt return of surplus capital to shareholders as financial leverage is below our target range of 1-2x net debt: EBITDA. Still leaves ample headroom for investment.
- £10m of one-off payments supporting employees. 50,000 colleagues received ex-gratia payments recognising their hard work in the year at a cost of £6m. New charity Serco Peoples' Fund to support colleagues in times of distress set up with a company donation of £4m. Together, Serco Peoples' Fund and Serco Foundation now have funds of over £10m.
- Strong start to 2022.

This was a year in which Serco delivered an outstanding financial and operational performance across the world in the face of constant challenge and disruption. Being a contract manager or team leader, responsible for the daily delivery of vital public services, is never an easy job, but 2021 was the toughest operational environment I have seen; around the world shortages of every type of skill – HGV drivers, Prisoner Escort Officers, engineers, welders, porters, IT staff to name a few; customers eager to restore services (and themselves critically short of staff); large numbers of unplanned absences as Omicron spread; all made operational delivery incredibly stressful, and I want to pay tribute to the resilience, the skill and commitment of not only the front-line colleagues, but also of their line managers, for many of whom 2021 has been a year of relentless pressure.

Notwithstanding this challenging environment, the business excelled; we dealt with wildly fluctuating demand – in the UK, the number of people contracted to support tracing rose from 4,000 in April to 13,000 in August, and was down to 600 in December; the number of asylum seekers we found accommodation for increased by over 6,000 in the year. In Australia we mobilised over 1,000 people to support the Department of Health in Victoria with their Covid-19 response; in Canada we have been working to clear a backlog of driving tests, which stood at around 500,000 in November 2021. And whilst this was being delivered on the front line, our business development teams secured our largest ever order intake of £5.5bn, a further increase in the order book, and a closing qualified prospect pipeline of nearly £10bn. Since 2017, when our turnaround started to gain momentum, we have taken orders worth over £20bn, whilst billing revenue of £17bn, giving a book-to-bill ratio approaching 120% over a five-year period. There can be no clearer indication of the health of the business, and its strong competitive position than this, particularly when matched to the financial performance since 2017, with our Underlying Trading Profit margins having climbed from 2.3% (2017) to 5.2% (2021), cash conversion improved from 31% to over 100% and Return on Invested Capital increased from 9.0% to 23.7%. And whilst supporting governments in their response to Covid has provided a short-term uplift to revenues and profits, it has left an enduring legacy of a much more capable and efficient organisation, strong customer relationships, and lower debt. Crucially, our non-Covid business has continued to grow apace during the last two years of crisis, and we expect revenues and trading profit in a largely post-Covid 2022 to be, respectively, around 30% and 60% higher than in pre-Covid 2019.

We completed three acquisitions in the year for a total consideration of around £250m; Facilities First in Australia for £42m, WBB in the US for £207m, and Clemaco in Belgium for £1m. Despite being very different businesses – FFA is a facilities management company, and WBB a high-end defence consultancy business – both have a high proportion of their business dependent on short-term contracts or task orders, and both found that the second and third waves of Covid-19, which we did not foresee at the time of acquisition, disrupted the flow of new work and their ability to hire additional people. FFA and Clemaco ended the year on budget for Trading Profit, while WBB was about \$5m short. We remain confident that this disruption will prove temporary and that all these acquisitions will meet our strategic and financial expectations in the years ahead, and in the meantime we have made good progress integrating the businesses. Both FFA and WBB have had encouraging starts to 2022; WBB in particular won over \$100m of contracts since the start of the year and has a strong pipeline.

Work supporting governments' response to Covid-19 lasted much longer than we expected at the start of 2021. As we became more efficient at delivery of Covid-related work, and better at mitigating the negative impacts of Covid-19 across the business, the net contribution to our profits of this work was significantly larger in 2021 than in 2020; whilst it is difficult to precisely untangle what revenue was and was not directly attributable to Covid, and its impact on profit, we estimate that revenues partially or wholly attributable to Covid support work for governments worldwide were around £700m in 2021. Some impacts such as increased volumes on certain contracts are likely to continue in the medium term; for example, it will likely take some time to reduce the numbers of asylum seekers being looked after to pre-Covid levels. On balance, we estimate that of the £229m of Underlying Trading Profit in 2021, around £60m related to Covid will not recur in 2022.

The strong financial performance enables us to deliver all aspects of our capital allocation strategy: investing in the business to drive growth and efficiency; increasing returns to shareholders by increasing dividends (2021 final dividend increasing by 15% on 2020); using share buybacks to keep our leverage within our target range of 1-2x EBITDA; maintaining plenty of headroom to fund bolt-on acquisitions and other investment opportunities which may appear. With covenant leverage at 0.7x EBITDA, we plan to spend £90m on a share buyback programme over the next 12 months. Based on our 2022 guidance the buyback amount would return us to the lower end of our target leverage range, and at a share price of £1.26 (the closing price on 23 February) would reduce the share count by around 6%.

Our Annual Report will detail the strong progress we have made on matters related to ESG, including launching our international Serco Goes Green initiative. Also, recognising that for many colleagues 2021 was no less demanding than 2020 and that we have once again delivered an outstanding financial performance, we repeated the ex-gratia payments made in 2020 of £100 to all employees not receiving bonuses, which benefitted around 50,000 people at a cost of £6m in the year. In addition, we set up a new charity called the Serco People's Fund in the year with a remit to help employees who for one reason or another are suffering distress and would benefit from financial support; the Group made a one-off donation to the charity in 2021 of £4m to ensure it had the funds to make a meaningful difference to people's lives. The People's Fund will complement the work of the existing Serco Foundation, which was established in 2013 and now has funds of around £6m, whose focus is on supporting community work and supporting causes sponsored by Serco colleagues. The £10m now at their disposal will make a very significant social impact over time.

Guidance for 2022

We have had a strong start to 2022, with order intake of over £600m and trading consistent with our full-year guidance. We have been awarded the contract to manage the new HMP Glen Parva prison on behalf of the UK Ministry of Justice, which we expect to generate revenue of over £300m during the 10-year term; we have also seen strong order intake in the US, and our new WBB business has won important pieces of work. In addition, the US Navy has announced the award to Serco of the Ship Acquisition Programme / Project Management (SHAPM) contract, which has an expected value of over £200m; this award has not been included in our order intake as it has been protested by a competitor. In January the US Government Accountability Office (GAO) upheld our protest against the award of the US Navy SEA21 contract to a competitor, and we have subsequently been awarded an extension of the existing contract.

Chief Executive's Review continued

Our guidance for 2022 is unchanged from that we issued at our Capital Markets Event on 2 December 2021, other than to adjust for a lower opening position on Net Debt, as a result of the better-than-expected cash performance in 2021, and the new £90m share buyback recently agreed by the Board. As we have consistently said, our success in providing Covid-related services to governments worldwide inevitably means that revenues and profits will fall as, hopefully, life returns to normal; we expect revenues directly related to these services to be immaterial beyond the first half. Partially mitigating this, we have a number of new contracts starting to contribute in 2022; in addition, some overhead and IT investment costs incurred in 2021 will fall away, enabling us to offset a substantial proportion of the non-recurring Covid-related impact.

Serco is well-protected from inflationary effects as the great majority of our contracts have either indexation provisions or are spot-priced under framework contracts. In our budgeting we assumed low-single digit indexation impacts, and whilst inflation expectations have increased since then – and so would tend to increase revenues – higher inflation will also result in higher costs, leaving the effect on profits broadly neutral.

	2021	2022	
	Actual	Initial guidance	New guidance
Revenue	£4.4bn	£4.1bn-£4.2bn	£4.1bn-£4.2bn
Organic sales growth	10%	~(8)%	~(8)%
Underlying Trading Profit	£229m	~£195m	~£195m
Net finance costs	£24m	~£25m	~£25m
Underlying effective tax rate	24%	~25%	~25%
Free Cash Flow	£190m	~£100m	~£100m
Adjusted Net Debt	£178m	~£160m	~£220m

NB: The guidance uses an average GBP:USD exchange rate of 1.34 in 2022 and GBP:AUD of 1.90. New Net Debt guidance includes the £90m share buyback programme. We expect a weighted average number of shares in 2022 of 1,195m for basic EPS and 1,217m for diluted EPS.

Notes to financial results summary table and highlights:

- Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Organic revenue growth is the change at constant currency after adjusting to exclude the impact of relevant acquisitions or disposals. Change at constant currency is calculated by translating non-sterling values for the year ended 31 December 2021 into sterling at the average exchange rates for the prior year.
- Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges) and other material one-time items. A reconciliation of Underlying Trading Profit to Trading Profit and Reported Operating Profit is as follows:

Year ended 31 December 2021	2021	2020
£m		
Underlying Trading Profit	228.9	163.1
Include: non-underlying items		
OCP charges and releases	1.3	5.8
Other Contract & Balance Sheet Review adjustments and one-time items	3.2	6.8
Trading Profit	233.4	175.7
Amortisation of intangibles arising on acquisition	(16.0)	(9.0)
Operating Profit before exceptional items	217.4	166.7
Operating exceptional items	(1.2)	12.5
Reported Operating Profit	216.2	179.2

- (3) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects.
- (4) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest and net capital expenditure on tangible and intangible asset purchases.
- (5) Adjusted Net Debt has been introduced by Serco as an additional non-IFRS Alternative Performance Measure (APM) used by the Group. This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities including those newly recognised under IFRS16.
- (6) Reported Net Debt includes all lease liabilities, including those newly recognised under IFRS16. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:

As at 31 December £m	2021	2020
Adjusted Net Debt	178.0	57.8
Include: all lease liabilities accounted for in accordance with IFRS16	430.3	402.6
Reported Net Debt	608.3	460.4

- (7) Refers to non-UK Underlying Trading Profit as a proportion of group Underlying Trading Profit before corporate costs. Our Underlying Trading Profit before corporate costs in 2021 was £278.8m.
- (8) Our outlook for 2022 is based upon currency rates as 31 January 2022. The rates used, along with their estimated impact on revenue and UTP are as follows:

Year ended 31 December	2022 outlook	2021 actual	2020 actual
Average FX rates:			
US Dollar	1.34	1.38	1.29
Australian Dollar	1.90	1.83	1.88
Euro	1.20	1.16	1.13
Year-on-year impact:			
Revenue	~£1m	(£73m)	(£24m)
UTP	~£1m	(£7m)	(£1m)

Reconciliations and further detail of financial performance are included in the Finance Review on pages 77-91. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The condensed Consolidated Financial Statements and accompanying notes are on pages 179-261.

Chief Executive's Review continued

Summary of financial performance

Revenue, Underlying Trading Profit and Underlying Earnings Per Share

Revenue increased by 14%, or £540m, to £4,425m (2020: £3,885m). Of the growth, 10% (£391m) was organic, acquisitions contributed 6% (£221m) and currency movements were a drag of 2% (£73m). The high level of organic growth was driven by very strong performances from our UK and Australian businesses. About £700m of our global revenue was from services supporting governments' response to Covid-19, which compares to around £400m in 2020.

Underlying Trading Profit (UTP) increased by 40%, or £66m, to £229m (2020: £163m). Excluding the adverse currency movement of £7m, growth at constant currency was 45%. Acquisitions added 11%, or £18m, of the growth, with the rest being organic. The organic growth arose from continued strong demand for our Covid-19 work and growth in a range of other contracts, notably in Justice & Immigration and Citizens Services. Our core operating platform was able to respond efficiently to the additional demand and, as a consequence, all of our regions improved their Underlying Trading Profit margins by around 90 basis points or more, helping drive our UTP margin from 4.2% to 5.2%.

Diluted Underlying Earnings Per Share increased by 49% to 12.56p (2020: 8.43p). The percentage improvement was higher than the increase in UTP as the leverage effect of higher profit and a lower finance cost more than offset a 0.9% increase in the effective tax rate. The Revenue and Underlying Trading Profit performances are discussed in more detail in the Divisional Reviews, starting on page 27.

Year ended 31 December 2021						
£m	UK&E	Americas	AsPac	Middle East	Corporate costs	Total
Revenue	2,131.6	1,120.0	908.4	264.6	–	4,424.6
Change	+20%	+5%	+26%	(18%)		+13.9%
Change at constant currency	+20%	+12%	+24%	(13%)		+15.8%
Organic change at constant currency	+20%	+2%	+8%	(13%)		+10.1%
Underlying Trading Profit	96.0	117.8	51.3	13.7	49.9	228.9
Margin	4.5%	10.5%	5.6%	5.2%	(1.1%)	5.2%
Change	130bps	105bps	111bps	89bps	-7bps	97bps
Contract & Balance Sheet Review adjustments	1.3	–		–	–	1.3
Other one-time items	2.5	–	0.7	–	–	3.2
Trading Profit/(Loss)	99.8	117.8	52.0	13.7	(49.9)	233.4
Amortisation of intangibles arising on acquisition	(0.8)	(11.7)	(3.5)	–	–	(16.0)
Operating profit/(loss) before exceptionals	99.0	106.1	48.5	13.7	(49.9)	217.4

Cash Flow and Net Debt

Free Cash Flow was very strong at £190m (2020: £135m). The improvement was a result of the £66m increase in underlying profits and a working capital inflow of £25m, despite revenue growth of £540m. The strong working capital performance was helped by the successful collection of some older receivables, including on our Dubai Metro contract following its conclusion, efforts by governments to support their supply chains by ensuring prompt payments and favourable timing of some receipts round the period end. Average working capital days reduced with debtor days of 19 (2020: 23 days) and creditor days of 23 (2020: 25 days). We are proud to say that 89% of UK supplier invoices were paid in under 30 days (2020: 89%) and 95% were paid in under 60 days (2020: 97%). No working capital financing facilities were utilised in this or the prior year.

Adjusted Net Debt increased to £178m at 31 December (31 December 2020: £58m, 30 June 2021: £225m). The £120m increase since the prior year end includes spend on acquisitions of around £250m, £27m of dividend payments and £41m of share purchases.

The period end Net Debt compares to a daily average of £216m (2020: £209m) and a peak of £346m (2020: £356m). The relatively large range for these was due to the acquisition of WBB in May and the favourable timing of receipts at the end of the period. As usual, we have not used any financing or efforts out of the ordinary to reduce period end Net Debt.

Our measure of Adjusted Net Debt excludes lease liabilities, which aligns more closely with the covenants on our financing facilities. Lease liabilities totalled £430m at the year-end (2020: £403m), the majority being leases on housing for asylum seekers under the AASC contract. The terms of these leases are generally aligned to the contract we have with the customer.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.7x EBITDA (2020: 0.5x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

More detailed analysis of earnings, cash flow, financing and related matters is included in the Finance Review.

Capital allocation and returns to shareholders

At our Capital Markets Day on 2 December 2021 we explained our capital allocation priorities. We aim to maintain a strong balance sheet with our target financial leverage of 1x to 2x net debt to EBITDA, and consistent with this, the Board's priorities will be to:

- Invest in the business to support organic growth ahead of the overall market.
- Increase ordinary dividends so shareholders are rewarded with a growing and sustainable income stream.
- Selectively invest in bolt on acquisitions that add capability, scale or access to new markets and have attractive returns.
- Return any surplus cash to shareholders through share buybacks.

In 2021, we have deployed all aspects of our capital allocation policy:

- Invest to support organic growth: we took the opportunity of our strong performance to accelerate investments in our systems and processes, costing about £10m in the second half.
- Increase ordinary dividends: the Board is recommending a final dividend of 1.61p, 15% higher than the prior year. Following the interim dividend of 0.8p, this results in a full year dividend of 2.41p, an increase of 72% compared to 2020.
- Invest in acquisitions: we acquired three businesses in the year, WBB, FFA and Clemaco.
- Return surplus cash to shareholders: with leverage being below the bottom end of our preferred range, the Board has agreed that it intends to buy back up to £90m of its shares over the next 12 months.

The full year ordinary dividend of 2.41p represents dividend cover of 5.2x. When we resumed paying dividends in respect of 2020, we were targeting a starting level of cover of around 4x, but the strong performance on our Covid-related activities has increased cover temporarily. As these earnings fall away and dividends increase, the level of cover will naturally fall. As laid out in our Capital Markets Day, our strong balance sheet, confidence in the outlook and good cash generation, mean we intend to reduce dividend cover progressively towards 3x over the coming years. Regarding potential further share buybacks, we will review our financial position and capital requirements on a regular basis and return surplus capital to shareholders as appropriate.

Contract awards, order book, rebids and pipeline

Contract awards

Order intake was strong in 2021 with £5.5bn of work won, a book-to-bill rate of 125%. There were 56 contract awards worth more than £10m each and 5 with a total contract value of more than £200m. Around 60% of order intake came from the UK & Europe, 25% from the Americas and the remaining 10% from Asia Pacific and 5% from the Middle East.

Of the order intake, approximately 60% was represented by the value of new business and 40% was rebids and extensions of existing work. This is the opposite of the position in the same period last year. The win rate by value for new work, which has averaged slightly less than 30% over the last five years, was unusually high at around 55%. The win rate by value for securing existing work was approximately 75%, which is lower than the 80-90% we typically see, as a result of the loss of our Dubai Metro contract. Win rates by number of tenders were 60% for new bids and around 90% for rebids and extensions.

VIVO Defence Services, our joint venture with Engie, was successful in securing several contracts from the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO) as part of the Future Defence Infrastructure Services (FDIS) programme, the largest facilities management procurement currently running across Europe. In Lot 3, which awarded contracts to provide asset and facilities management services for the UK defence built estate, VIVO won the largest two regions of the four that were competed. These have an estimated total potential value to Serco of around £1.7bn over the initial seven-year period. VIVO also secured the largest two regions in Lot 2B, which provides repairs and maintenance work for Service Family Accommodation, with an estimated total potential value to Serco of around £200m. Also in the UK, we were awarded contracts by the Department of Work and Pensions as part of their Restart programme, which will help unemployed people back into work. We estimate that the combined value over the initial four-and-a-half-year contract period will be around £350m, with the amount dependent on the number of people who find employment. The order intake also includes our Australian Immigration Services contract, which was successfully extended to 2023, the £400m contract renewal to provide support services at the Canadian Forces Base in Goose Bay and our award to continue to provide services at Covid-19 testing centre locations in the UK.

Order book

The order book increased from £13.5bn at the start of the year to £13.7bn at the end of December. This is lower than might be expected when order intake has been so high as, consistent with our usual treatment of joint ventures, our order book does not include the £1.9bn of order intake arising from our VIVO joint venture with Engie; this is on the logic that as a joint venture, we report its profits but not revenues. More widely, our order book definition gives our assessment of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods and the order book would be £1.2bn (2020: £0.9bn) higher if option periods in our US business, which always tend to be exercised, were included.

Rebids

In our portfolio of existing work, we have around 80 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2024. Excluding our NHS Test & Trace contracts, which are short-term in nature and we expect the work to come to a natural finish, contracts which will either end or need to be extended in 2022 have an annual contract value of around £0.5bn. The annual value rises in 2023 to approximately £0.9bn, which includes our Center for Medicare & Medicaid Services (CMS) in the US and our Immigration Services contract in Australia, before reducing to £0.3bn in 2024. The current CMS and Immigration Services contracts end, respectively, in July and December 2023, and we will be re-bidding both.

Pipeline

Our measure of pipeline is probably more narrowly defined than is common in our industry. It includes only opportunities for new business that have an estimated annual contract value (ACV) of at least £10m and which we expect to bid and to be adjudicated within a rolling 24-month timeframe. We cap the total contract value (TCV) of individual opportunities at £1bn, to lessen the impact of single large opportunities. The definition does not include rebids and extension opportunities, and in the case of framework, or call-off, contracts such as 'ID/IQ' (Indefinite Delivery/Indefinite Quantity contracts), which are common in the US, we only take the value of individual task orders into our pipeline as the customer confirms them. Our published pipeline is thus a relatively small proportion of the total universe of opportunities, many of which have annual revenues less than £10m, are likely to be decided beyond the next 24 months, or are rebids and extensions.

Our pipeline was £9.9bn at the end of 2021, an increase of more than 50% on the £6.4bn level at the end of 2020 and around 70% higher than the £5.8bn at the end of June 2021. It is pleasing to see the pipeline replenish so well given 2021 was a strong year for wins, with £5.5bn of orders secured. The pipeline consists of around 40 bids with an ACV averaging approaching £40m and a contract length averaging more than six years. The pipeline of opportunities for new business that have an estimated ACV of less than £10m has also increased, with the value rising from £1.7bn to £2.0bn in the year.

As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and when they come in and out of the pipeline they can have a material effect on reported values. Since the year end two of the larger opportunities in the pipeline have come out due to award decisions; HMP Glen Parva, a new prison in the UK which we won and Frankston Hospital in Australia, which we lost. We expect that the value of the pipeline, having increased from £5.8bn in June 2021 to £10bn in December 2021, will reduce during the first half as some of the large opportunities are adjudicated.

Acquisitions

We regard acquisitions as an important part of our strategic toolkit, which, if deployed correctly, can add significant value to the business; but they should be in addition to, and designed to deliver, new opportunities for organic growth. They require discipline and process, and for M&A we follow our head office mantra of having a few good people rather than a lot of average ones. Much of our work we do in-house although we also use advisers where appropriate. We look at many opportunities, and reject most of them. Generally speaking, we regard acquisitions as higher risk than organic growth, so any candidates have to meet our stringent criteria of being both financially and strategically compelling; strategically we judge potential acquisitions against three criteria: do they add new, or strengthen existing capability? Do they add scale which we can use to add efficiency? Do they bring us access to new and

desirable customers and markets? We also recognise that acquisition opportunities come in different shapes, sizes and sectors, and a small one can be strategically important to a region, but not necessarily significant at Group level. But large or small, all acquisitions are centrally managed by Group and follow the same rigorous process.

Since 2014 we have undertaken six acquisitions:

- In 2017, we acquired BTP systems, a US defence engineering company, for \$20m (£13m).
- In 2018 we acquired parts of the Carillion Healthcare business, for £18m.
- In 2019 we undertook a major acquisition in North America in the form of the Naval Systems Business Unit of Alion, a leading provider of naval design, systems engineering and acquisition & programme management, for a consideration of \$225m (£186m).
- In January 2021, we acquired FFA, a specialist provider of cleaning, facilities maintenance and management services to governments in Australia for A\$74m (£42m), including working capital adjustments.
- In April 2021 we acquired WBB, a leading provider of advisory, engineering, and technical services to the US military, for \$293m (£207m).
- In July 2021 we acquired Clemaco, which specialises in the support and maintenance of the ships of the Belgian Navy, for around €1m (£1m).

The unexpected persistence of Covid-19 meant that both FFA and WBB faced disruption in both labour supply and order intake; however, both have bedded in well and the integration of them has been successful.

FFA has seen a different mix of business as a result of the ongoing Covid-19 situation, with lower demand for larger, discretionary facilities maintenance work but higher levels of cleaning. These two effects have largely broadly offset each other with the business overall delivering profit in-line with expectations for the year. The strategic logic of acquiring the business was to extend the reach and capability of our Australian business in the government facilities maintenance and management market, which we believe will position us well for numerous bidding opportunities in the coming years.

WBB has experienced the same market headwinds we saw in our US defence business: repeated and unexpected surges of Covid led to significant delays in new award decisions and tight labour markets, particularly in the highly skilled and sensitive areas in which WBB operates. As the business typically grows rapidly from securing new work, revenue and profit in the year were ~10-20% lower than anticipated. However, since the start of 2022 WBB won over \$100m of contracts, and recruitment began to improve. And our belief in the strategic merit of the acquisition – to extend our Air Force, Army and the Office of the Secretary of Defense presence – has only been reinforced by owning the business.

We will continue to search out new opportunities for acquisition which fit our criteria, and in the meantime focus on delivering value from those acquisitions already executed.

Operational progress, transformation, innovation and people

We have an ambition to be the best-managed business in our sector. Achieving this will require investment in people, processes and systems. Covid-19 has been hugely disruptive over the last two years and has tested our systems, processes and people in unforeseen ways.

Our first trading statement on Covid-19, issued on 2 April 2020, set out our operational priorities:

“Our priority in this crisis is to support the delivery of essential public services and, within that context, do all we can to protect our employees from harm and our shareholders from loss...Our mettle is being tested as never before, and we are determined to rise to the level of events.”

It turns out that many of the investments that we have made over recent years have proven their worth during the crisis. In particular, I would point to three themes which have served us well.

The first is a management structure based on our “loose-tight” model. This means that we delegate authority and responsibility for day-to-day operational management to be as close to the customer as possible, but we maintain a tight control over risk management, bidding and cost control, and we have a well-established reporting regime, where transparency and reporting bad news as soon as it happens are mandatory. During the crisis, we maintained the regimen of monthly reporting, and the Investment Committee, which is a standing committee of the most senior Group executives including the CEO, CFO, COO and Group General Counsel and which oversees bids and investments, met 97 times during 2021. Divisional Performance Reviews, and Business Unit Performance Reviews, continued their monthly rhythm. Our cash performance was reported daily.

The second was cultural: over the past seven years we have laid much emphasis on our values of Trust, Care, Innovation and Pride. These played a significant part in sustaining the ability of the business to deliver under extreme and unprecedented pressure. The levels of Trust built up across the management team allowed us to work seamlessly together across boundaries; the value of Care made it easy to connect company and people’s own values with the astonishing efforts that people had to make to look after prisoners, patients, travellers, and hundreds of thousands of often frightened and confused citizens. Innovation and loose-tight management allowed us to invent new services and business models almost overnight and to adapt our IT platforms to new ways of working. Pride meant that people understood that the work we do delivering public services is incredibly important and that it is a privilege to be able to make a difference every day to people’s lives. Pride and Trust also helped us maintain momentum and morale in the face of public criticism and comment about our work in the early days of NHS Test & Trace in the UK. Needless to say, much of the criticism was wildly unfair and bore little relationship to the facts, but it was still unsettling to our colleagues to see their hard work being called into question.

What evidence do we have of the impact of our culture and organisational philosophy? On the operational side, clearly we have the evidence of what has been delivered: on the UK testing programme, to which we are significant contributors, the number of tests per week in 2021 ranged from 117,000 to 1.5 million; on tracing, the number of people we provided to the service rose from 4,000 in April 2021, to 13,000 in August, and back down to 600 in December. In Australia we had 275 people on tracing in January 2021 for the Department of Health in Victoria, which rose to 1,000 in August and fell back to 300 in December. Managing this variability is one of Serco’s key skills and it has required major investment in IT systems to support the recruitment and management of over 100,000 direct and indirect employees over the last two years.

Our Viewpoint engagement survey generated 29,470 individual respondents, about the same as last year; having risen every year from a low of 42 in 2014, our engagement score fell slightly from 73 in 2020 to 70, which is still a good score for a business of our type, and higher than it was in 2018; we sense that it probably reflects the fact that in the second year of Covid, and huge volatility, people are just tired of all the uncertainty and disruption.

Operationally Serco has performed very well during the crisis. We operated services on Northlink Ferries, MerseyRail, and the Caledonian Sleeper in the face of numerous challenges. In prisons we had to manage rapidly changing regimes as lockdowns came and went; hospital staff had to deliver cleaning, catering and portering with sickness absence rates of up to 25% in some contracts.

One thing that has suffered during the pandemic is in-person management training. Several years ago we designed and developed bespoke week long management training programmes with our partners at the Saïd Business School, at the University of Oxford. Travel restrictions meant we had to suspend these programmes as we believed the week long residential element was critical in being able to build networks across the Company. We have now reinstated these programmes, running our Contract Managers programme in February 2022, and we will run our first course specifically designed for women in management in the next few months. In North America, we have instituted along with LinkedIn remote training programmes that give colleagues access to over 1,000 high-quality training courses. And we have sustained our commitment to recruiting talented young people at a time when many companies have cut back; in the US we increased our Internship programme to over 50 people, and on graduation our recruitment rate is around 90%. In the UK we expanded our graduate recruitment intake and as a result now have placed over 50 people into our graduate programme over the last two years.

The third element that has stood us in good stead has been our investment in IT systems; over the past few years we have been migrating our key management and financial systems to the Cloud, and upgrading them at the same time. We have invested considerable money and effort in improving our HR systems, and a new front-end to our core HR applications which went live in January 2022. We also extended the rollout of our Workforce Management System and created a new infrastructure for our VIVO joint venture.

In January 2021 our European business was the subject of a serious ransomware attack. Fortunately, the capability we had developed allowed us to respond robustly to this challenge, and we were able to trace the criminals’ server; with the assistance of local law enforcement, it was disabled and our stolen data was safely removed. Our ability to deliver services to clients was not disrupted and no ransom was paid, but the time, effort and expense required to achieve a satisfactory outcome was considerable.

We said at the beginning of the Covid crisis that it would test our mettle; it has, and I am proud beyond words as to how well colleagues and the organisation as a whole have performed since March 2020. The same words I used in last year’s report are worth repeating: for a very large business, we have shown surprising agility. For a business which used to look like a collection of individual contracts, we have demonstrated our ability to act with common purpose, deliver economies of scale, and to maintain rigorous standards of reporting and control in confusing and difficult circumstances. For a business of any size we have shown great resilience.

Market outlook

In 2021 we conducted a detailed market review, which included using two independent research firms, one British, and one American, to estimate the size and growth rates of our markets. We now estimate that total outsourcing spend by governments on services in the countries in which we operate (which account for an estimated 65% of the world market, excluding Russia and China) is around £715bn; and that our market share is between 1% and 3%, depending on whether we look at segments we operate in or the market as a whole. And we estimate that once Covid-19 expenditure has normalised the market will grow at around 2-3% per year in the medium term. Rather than concentrate on the absolute number, which is likely to have a large margin for error, some key conclusions from our work are:

- The market for private sector delivery of government services is very large.
- The supply-side is fragmented; as a leading international supplier, our market share within our existing footprint, at around 3%, is small, although it is larger in some specific segments within certain sectors.
- The market is likely to continue to grow and, given our small market share, there is ample opportunity for us to grow faster than the market.

In terms of the impact of Covid-19 on our markets, we think it will take several years for governments' expenditure patterns to settle down following the pandemic; the immediate aftermath will probably focus on continued need for surveillance of the virus, as well as catching up on the areas of normal expenditure such as healthcare, court hearings and defence infrastructure which have been disrupted during the pandemic. The private sector has responded extremely well to governments' emergency requirements, and we think it likely that this will remind governments of the value of flexible, resilient and robust supply chains which can support them in both ordinary and extraordinary times. Nor do we anticipate a lot of change arising from Covid-19 in our basic business model of offering public services delivered by people supported by good technology. On the contrary, we know that governments will be massively more indebted than they were before the crisis and that citizens will be more in need, as well as more demanding, of public services critical to rebuilding society and quality of life – be that services to deal with unemployment, training and skills gaps, social care reform, acute healthcare capacity, building national resilience, sustainable transport growth and more. And the level of geopolitical threat that countries perceive themselves to be facing in 2022 seems if anything higher than in the immediate pre-Covid years; so defence expenditure is likely to remain robust.

The drivers of growth in our markets can be summarised as 'Four Forces', which have existed for some time and we believe will be amplified by the crisis:

- Increasing and changing demand for public services.
- Heightened expectations around the quality and resilience of public services.
- Increased fiscal deficits.
- The unwillingness of voters and corporate taxpayers to tolerate tax increases.

These will continue to drive governments to want to deliver more public services, of higher quality, for less money. We believe that this imperative to provide more, and better, for less will become even more urgent in the years ahead, and to deliver those objectives governments will need the skills, resources, innovation and nimbleness of the private sector.

Following our review of the market, we held a Capital Markets Event in December 2021. We described how Serco had evolved over the last seven years from being a collection of largely unrelated

contracts, into a powerful and capable business with a well-proven Management Framework and Business-to-Government (B2G) operating platform which enabled us to address our chosen market of international government services and outperform our competitors. Our Management Philosophy, and B2G platform are described in detail in our Annual Report.

Guidance for 2022

In our Capital Markets Day statement on 2 December, we provided our initial guidance for 2022. Since then we have again seen the speed at which the impact of Covid-19 can change, as the Omicron variant spread rapidly in December and January. As a consequence in the first weeks of 2022 there was high demand for Covid-19 testing services, while other parts of the Group, such as transport, had lower volumes because of restrictions, or higher cost due to increased employee absence rates. As case numbers decline, these effects are beginning to reverse, leaving our expectations for 2022 largely unchanged.

We expect a rapid wind-down of Covid-19 related services supplied to governments during 2022, which will have a significant impact on both revenue and profits. We anticipate around £60m of net profit impacts that arose in 2021 will not recur in 2022, including the frontline bonus and People Fund contribution. However, a large part of this reduction will be offset by growth in other parts of the business as a result of the very strong order intake in 2021. We have also had a strong start to 2022, with order intake of over £600m and trading consistent with our full-year guidance. We have been awarded the contract to manage the new HMP Glen Parva prison on behalf of the UK Ministry of Justice which we expect to generate revenue of over £300m during the 10-year term; we have also seen strong order intake in the US, and our new WBB business has won important pieces of work. In addition, the US Navy has announced the award to Serco of the Ship Acquisition Programme/Project Management (SHAPM) contract, which has an expected value of over £200m; this award has not been included in our order intake as it has been protested by a competitor. In January the US Government Accountability Office (GAO) upheld our protest against the award of the SEA21 contract to a competitor, and we have subsequently been awarded an extension of the existing contract.

Serco is well-protected from inflationary effects as the great majority of our contracts have either indexation provisions or are spot-priced under framework contracts. In our budgeting we assumed low-single digit indexation impacts, and whilst, since then, inflation expectations have increased, so would tend to increase revenues, they will tend to also result in higher costs, leaving the effect on profits broadly neutral. We have not at this stage increased our revenue guidance to reflect what may be slightly higher indexation benefits, but we will have a better idea of the actual levels of indexation achieved at the half year.

Revenue in 2022 is expected to be £4.1bn-£4.2bn, approximately 6% lower than the £4.4bn in 2021. This assumes a 1% contribution from acquisitions and a neutral currency impact. We expect lower demand for Covid-19 related services in 2022 to reduce our revenue by approximately 13%, with organic growth on non-Covid work to be around 5%, in-line with our new medium-term growth targets.

Underlying Trading Profit (UTP) in 2022 is expected to be around £195m. As well as the impact of reduced Covid-19 revenues noted above, UTP will be reduced by the ending of the AWE and Dubai Metro contracts; we also expect the increase in National Insurance employers' contributions in the UK to cost around £5m on an annualised basis. The impact of these factors is cushioned by the positive effect of new work secured in 2021, such as the DWP Restart Programme and the Defence Infrastructure Organisation contracts

moving into profitability, as well as the ending of our accelerated investment programme, and the beneficial impact of the efficiencies we will derive from these investments in 2022. In terms of wider cost increases, the business has robust mitigation of the impact of inflation as the great majority of contracts have either indexation provisions or the ability to re-price work orders at the time they are contracted.

Net finance costs and tax: Net finance costs are expected to be around £25m, slightly higher than 2021. The underlying effective tax rate is expected to continue at around 25%, although this is sensitive to the geographic mix of our profit and any changes to current corporate tax rates.

Financial position: Free cash flow is expected to remain strong at around £100m, lower than 2021 reflecting the reduced profitability and more normal working capital absorption following the reduction of Covid-19 services which had beneficial payment terms. We expect Adjusted Net Debt to end the year at around £220m.

Returns to shareholders: Although it is anticipated earnings will reduce in 2022, it is our intention continue on our path of increasing dividends to shareholders as part of our policy of progressively reducing dividend cover towards 3x over the coming years. The Board will keep future buybacks under review in line with our capital allocation framework and target leverage of 1-2x net debt to EBITDA.

Summary and concluding thoughts

There is a sense of *déjà vu* in writing this report, because we start 2022 with the same expectation as we did 2021: that life will return to normal during the first half as the impact of Covid faded and became something of the past not the present. These hopes, dashed by successive waves of infection and Omicron in 2021, seem better founded at the start of 2022 as the vile virus appears to be behaving like its predecessors in decades past in that successive variants tend to be more infectious but less lethal. More like flu; more endemic than pandemic; something we can live with rather than having to hide from.

And reporting on the results of a single year – 2021 – also permits the eye to look further back. A single year of strong performance might be a blip; two, even, good fortune. But the fact that since 2017, Serco's revenues have grown at a compound rate of 11%, and profits by 35%, and that over that extended period we have taken £20bn of orders against £17bn of sales, in a market growing at around 3% per year, suggests that there is something afoot other than blips and luck.

There is a saying that "even turkeys can fly in a hurricane". And the revenues we have won providing services to governments related to Covid have certainly been a strong tailwind. But our Management Framework, combined with our Business-to-Government Platform, enabled us to find, and then respond to those winds, to spread our wings, and fly to the aid of our government customers. And even if you strip out all the recent Covid impact, the business has grown much faster than the market over the last five years.

We are pleased with the way our business model is delivering competitive advantage and differentiation; settled on our strategy of being a focused provider of services to governments; happy with our relationships with customers; delighted with the performance that the business has delivered over the past five years. But there are two parts of our ecosystem that require careful navigation.

The first is labour markets; worldwide, we employ more than 50,000 people, and handle around 400,000 job applications a year. Our business is providing people based-services enabled by technology to governments, and for many years the relationship, the rules of

the road, between people who wanted to work and companies who needed to employ them was stable and well understood. Since Covid, that has no longer been the case, and we see far more difficult labour market conditions than certainly I, in 35 years managing businesses, have previously seen. It is an international phenomenon, affecting all our markets, and seems to be driven by the experience of Covid causing some people to reconsider the way they think about work. Some have retired early; some have returned to their home countries; some have found working from home more congenial than travelling to the office; some are fearful of Covid at work; some are caring for relatives or suffering from long-Covid; some, having saved money during lockdowns, have gone walkabout. Whatever the reason, at the moment it is hard to recruit and retain people. Hard and frustrating, but not impossible, as the fact that over the last two years we have recruited and managed around 100,000 direct and indirect employees, and the millions of pounds we have invested in the last year in systems to support workforce efficiency and improved HR systems are helping us to manage through what we believe will be a largely temporary phenomenon until the demand and supply side of labour markets find a new equilibrium.

The other part of our ecosystem that is complicated to navigate is ESG, to which we devote a significant amount of senior management time. A company that has been writing Corporate Responsibility Reports since 2003; whose daily work is helping governments to deliver vital public services, often to the most disadvantaged and vulnerable in society; and whose stated purpose is to be a "valued and trusted partner of governments, delivering superb public services, that transform outcomes and make a positive difference for our fellow citizens", is one that clearly "gets" ESG. On Environment and Governance, by any measure we have a good narrative. What is required by stakeholders for them to make informed judgements is reasonably clear, and getting clearer by the year with the introduction of recommendations such as the Taskforce on Climate-Related Disclosures, which we are adopting in our 2021 Annual Report, as well as public company regulatory reporting requirements.

It is on the "Social" side, which is such an integral part of what we do as a provider of services to government, where we face the most scrutiny, and where there is least consensus on standards to which we can adhere and against which stakeholders can judge us. Perhaps this is because as greater standardisation applies to the Environmental and Governance dimensions, there is more divergence on the Social dimension; as a consequence we are faced by a wide range of strongly-held, but different, opinions and interpretations of various standards, and a company's Social Value appears to be in the eye of the individual analyst or institution who beholds it. In August 2021 the CFA Institute published some timely research (ESG Ratings: Navigating Through the Haze) which shows that on financial measures, such as debt ratings, there was a correlation of around 95% between the main ratings agencies; on ESG matters, the same agencies on the same companies, the correlation was mostly less than 50% in their scoring, and between some of the largest, less than 30%. In other words, almost none, and certainly not a basis from which we can distil a common view or consensus.

To us, the question of whether what we do has social value is quite straightforward and obvious because of the nature of our customers. The overwhelming majority of our work is at the instruction of democratically-elected governments, who are signatories to international conventions on social issues and who operate alongside strong legal systems. If they ask us to do work which is lawful and which they consider is socially useful, we do not think it is for us, as a mere corporate, to second-guess that judgement, except in exceptional circumstances. And that applies to work in areas which some consider contentious such as justice, immigration and defence.

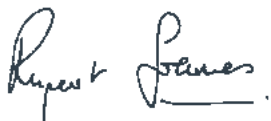
Chief Executive's Review continued

We rather scratch our heads at institutions who think it is consistent to trade in government bonds, but screen out companies on ESG grounds who do work for the self-same governments and financed by the self-same bonds; and those who regard democracy and law as social goods, but prefer their own institution's interpretation of social value to those of elected governments.

However, our job is to navigate with the world as it is, not as we would like it to be. We want to ensure that we are within the universe of investible companies of as many funds as possible, but the lack of consistency in how investors judge companies on the social dimension of ESG can make it feel like we are chasing rainbows. Our approach, therefore, is to get on with our work serving governments, helping them to do the hard things citizens (and investors) expect them to do, and to try and make a positive difference to society whilst treating our colleagues, suppliers and communities with the care and respect they deserve. And we recognise a responsibility to be transparent about the work we do and respond constructively and helpfully to requests for information so that investors and other stakeholders can make informed judgements.

For us the most important thing is that our customers and our colleagues, who best know the work we do, believe we are doing a good job delivering public services and, by extension, social value. On the first, order intake in the last five years of over £20bn, £3bn more than our revenues, and the fact that our revenues from governments are growing faster than the market, suggests that our customers think we are doing a good job. On the second, we have an objective measure to rely on through our annual Viewpoint surveys, to which around 30,000 Serco people respond each year; the vast majority of respondents say they are proud to work for Serco and they feel their work at Serco makes a positive difference.

In conclusion, we think that Serco's record over the last five years is proof positive that our strategy of being a focused supplier of services to governments, organising ourselves around our Management Framework, and using our B2G platform to win and deliver business, has worked well. Our unique operating platform differentiates us from our competitors and gives us agility, reach, breadth, efficiency and resilience; these things have helped us deliver our objectives of winning good business, executing brilliantly, making Serco a place people are proud to work, and delivering profits that are sustainable. We believe they will continue to do so over the coming years, and will enable us to deliver a combination of revenues growing faster than the market, profits growing faster than revenues, and shareholder returns growing faster than profits, and all the while being a company that delivers social value through excellent public services which deliver value for money for taxpayers.



Rupert Soames
Group Chief Executive
Serco – and proud of it.
23 February 2022

Divisional Reviews

Serco's operations are reported as four regional divisions: UK & Europe (UK&E); the Americas; the Asia Pacific region (AsPac); and the Middle East.

Reflecting statutory reporting requirements, Serco's share of revenue from its joint ventures and associates is not included in revenue, while Serco's share of joint ventures and associates' profit after interest and tax is included in Underlying Trading Profit (UTP). As previously disclosed and for consistency with guidance, Serco's UTP measure excludes Contract & Balance Sheet Review adjustments, which were, in any case, immaterial in the period.


Year ended 31 December 2021 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	Total
Revenue	2,131.6	1,120.0	908.4	264.6	–	4,424.6
<i>Change</i>	+20%	+5%	+26%	(18%)	+14%	+13.9%
<i>Change at constant currency</i>	+20%	+12%	+24%	(13%)		+15.8%
<i>Organic change at constant currency</i>	+20%	+2%	+8%	(13%)		+10.1%
UTP	96.0	117.8	51.3	13.7	(49.9)	228.9
<i>Margin</i>	4.5%	10.5%	5.46%	5.2%	(1.1%)	5.2%
<i>Change</i>	130bps	105bps	111bps	89bps	-7bps	97bps
Contract & Balance Sheet Review adjustments	1.3	–	–	–	–	1.3
Other one-time items	2.5	–	0.7	–	–	3.2
Trading Profit/(Loss)	99.8	117.8	52.0	13.7	(49.9)	233.4
Amortisation of intangibles arising on acquisition	(0.8)	(11.7)	3.5	–	–	(16.0)
Operating profit/(loss) before exceptionals	99.0	106.1	48.5	13.7	(49.9)	217.4

Year ended 31 December 2020 £m	UK&E	Americas	AsPac	Middle East	Corporate costs	Total
Revenue	1,777.4	1,064.3	718.9	324.2	–	3,884.8
UTP	57.0	100.8	32.6	13.9	(41.2)	163.1
<i>Margin</i>	3.2%	9.5%	4.5%	4.3%	(1.1%)	4.2%
Contract & Balance Sheet Review adjustments	5.8	–	–	–	–	5.8
Other one-time items	6.8	–	–	–	–	6.8
Trading Profit/(Loss)	69.6	100.8	32.6	13.9	(41.2)	175.7
Amortisation of intangibles arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Operating profit/(loss) before exceptionals	67.6	93.8	32.6	13.9	(41.2)	166.7

The trading performance and outlook for each Division are described on the following pages. Reconciliations and further detail of financial performance are included in the Finance Review on pages 77-91. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The Condensed Consolidated Financial Statements and accompanying notes are on pages 179-261. Included in note 2 to the Group's Consolidated Financial Statements are the Group's policies on recognising revenue across the various revenue streams associated with the diverse range of goods and services discussed within the Divisional Reviews. The various revenue recognition policies are applied to each individual circumstance as relevant, taking into account the nature of the Group's obligations under the contract with the customer and the method of delivering value to the customer in line with the terms of the contract.

Divisional Reviews continued

UK & Europe



Sectors we operate in:

- Defence
- Justice & Immigration
- Transport
- Health
- Citizen Services

<p>Revenue</p> <p>£2,132m</p> <p>2020: £1,777m</p> <p>Group revenue</p> <p>48%</p>	<p>Underlying Trading Profit (UTP)</p> <p>£96m</p> <p>2020: £57m</p> <p>Group UTP (before Corporate costs)</p> <p>34%</p>
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Year ended 31 December £m	2021	2020	Growth
Revenue	2,131.6	1,777.4	20%
Organic change	20%	31%	
Acquisitions	0%	0%	
Currency	0%	0%	
Underlying Trading Profit	96.0	57.0	68%
Organic change	68%		
Acquisitions	1%		
Currency	(1)%		
Margin	4.5%	3.2%	130bps

Revenue grew by 20% to £2,132m (2020: £1,777m), with the increase all being almost entirely organic. All our sectors grew with Citizen Services and Justice & Immigration delivering the strongest growth but Transport, Health and Defence also expanding. Growth in Citizen Services was particularly strong due to Covid-19 related work, which included providing support services for over 200 Covid-19 regional, local and mobile test centres as well as for the UK Tracing programme. We delivered around 25% of the UK's Pillar 2 Testing facilities. Justice & Immigration also increased revenues, in part because of a full 12 months of the new Prisoner Escorting Contract, and also as a result of increased numbers of asylum seekers under our care.


Underlying Trading Profit increased to £96m (2020: £57m), representing a margin of 4.5% (2020: 3.2%). Increased volumes and efficient scaling of platform costs supported the margin improvement, as did signs of improvement in those parts of our business that were badly affected in 2020 by Covid-19 – notably Leisure and Transport and Health – started to show modest signs of improvement.

Underlying Trading Profit includes the profit contribution of joint ventures and associates, from which interest and tax have already been deducted. If the proportional share of revenue from joint ventures and associates was included and the share of interest and tax cost was excluded, the overall divisional margin would have been 4.2% (2020: 2.8%). The joint venture and associate profit contribution was lower at £9m (2020: £13m), as a result of the cessation of our Atomic Weapons Establishment contract at the end of June 2021 and some mobilisation expenses related to our new VIVO joint venture.

The UK & Europe division's order intake was strong at around £3.4bn, a book-to-bill ratio of 1.6x and around 60% of the total intake for the Group. Agreements signed included contracts from the Defence Infrastructure Organisation (DIO) awarded to our VIVO JV with Engie, which we estimate will have a value in aggregate to Serco of £1.9bn over their initial seven-year term. The contracts include the maintenance of some 200 military sites, 19,000 buildings and around 20,000 homes. The order intake also includes our DWP Restart contract, which has an estimated value of £350m and our Covid-19 Testing Centres contract award, which we value at £190m.

Despite such a strong period for order intake, the pipeline remains healthy, with significant new opportunities across Defence and Space, and Justice & Immigration including for new prison operations.

Americas



Sectors we operate in:

- Defence
- Transport
- Citizen Services

<p>Revenue</p> <p>£1,120m</p> <p>2020: £1,064m</p> <p>Group revenue</p> <p>25%</p>	<p>Underlying Trading Profit (UTP)</p> <p>£118m</p> <p>2020: £101m</p> <p>Group UTP (before Corporate costs)</p> <p>42%</p>
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Year ended 31 December	2021	2020	Growth
Revenue	1,120.0	1,064.3	5%
Organic change	2%	1%	
Acquisitions	10%	17%	
Currency	(7)%	(1)%	
Underlying Trading Profit	117.8	100.8	17%
Organic change	14%		
Acquisitions	11%		
Currency	(8)%		
Margin	10.5%	9.5%	105bps

Revenue grew by 5% to £1,120m (2020: £1,064m), with organic growth of 2% and an acquisition contribution of 10% being partially offset by a 7% adverse translational effect of currency. The acquisition growth came from WBB, a leading provider of advisory, engineering and technical services to the US Department of Defense. This acquisition completed at the end of April and contributed £106m to revenues in the year at constant currency. The two main sectors for our Americas business are Defence and Citizen Services. Excluding WBB, our Defence business was stable in the year, with growth being held back by continued delays in the award of new contracts. Citizen Services saw good growth supported by increased demand for our case management services.


Underlying Trading Profit growth outpaced revenue growth, increasing by 17% to £118m (2020: £101m). Excluding the adverse currency movement of £8m, UTP growth at constant currency was 25%. Margins increased from 9.5% to 10.5%, due to a strong performance in the existing business and the acquisition of WBB, which has slightly higher margins than the overall division. WBB contributed around £12m of the growth and we saw improved profit contribution in our existing business from contracts in the Defence and Citizen Services sectors and £3m of profit on sale from the divestment of our US parking business.

Order intake was £1.3bn, approximately 25% of the total for the Group and a book-to-bill ratio of approaching 1.2x, despite Covid-19 having led to a backlog of awards and delays in new tenders. We successfully rebid our contract to provide support services at the 5 Wing Canadian Forces Base in Goose Bay, Canada, with an estimated ceiling value of around C\$700m or £400m over the initial 10-year period. We also successfully rebid our Anti-Terrorism / Force Protection (ATFP) framework contract for US Naval Facilities, which we estimate will be worth approximately £110m over eight years. New business wins totalled in the region of £450m, across a range of contracts, primarily in the defence sector.

The pipeline of major new bid opportunities due for decision within the next 24 months in the Americas remains at more than £2bn with the past year having seen a combination of new opportunities joining the pipeline and award decisions being delayed due to Covid-19. Defence makes up the bulk of the Americas pipeline, with a broad spread of types of work, and Citizen Services opportunities represent the remainder.

Divisional Reviews continued

Asia Pacific



Sectors we operate in:

- Defence
- Justice & Immigration
- Transport
- Health
- Citizen Services

<p>Revenue</p> <p>£908m</p> <p>2020: £719m</p> <p>Group revenue</p> <p>21%</p>	<p>Underlying Trading Profit (UTP)</p> <p>£51m</p> <p>2020: £33m</p> <p>Group UTP (before Corporate costs)</p> <p>18%</p>
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Year ended 31 December £m	2021	2020	Growth
Revenue	908.4	718.9	26%
Organic change	8%	18%	
Acquisitions	15%	0%	
Currency	3%	(2)%	
Underlying Trading Profit	51.3	32.6	57%
Organic change	34%		
Acquisitions	20%		
Currency	3%		
Margin	5.6%	4.5%	111bps


Order intake was £0.6bn, around 10% of the Group total. Having had significant success in recent years, it was a quiet period for securing new work. We did however have a very high rate of success of retaining existing work; our Immigration Services contract was extended to December 2023 and our contracts to provide contact centre services to the Australian Tax Office and to Services Australia were extended to July 2022.

Our pipeline for new business increased significantly in the year, with new opportunities in the Citizen Services, Health and Defence sectors.

Revenue increased by 26% to £908m (2020: £719m). Organic growth was 8% of the increase, with nearly all sectors showing growth. There was particularly strong growth in the Justice & Immigration, Citizen Services and Defence sectors. In Justice & Immigration we experienced increased demand for our immigration services partly as a result of the Covid-19 response, and saw increased revenues from Clarence Correctional Centre, where operations commenced in July 2020. Growth in Defence was supported by the successful delivery of Australia's new Antarctic research icebreaker vessel, RSV Nuyina. The acquisition of Facilities First added £110m, or 15%, to revenues, having completed at the beginning of January. Currency movements added 3% to reported revenue growth.

Underlying Trading Profit increased by 57% to £51m (2020: £33m), representing a margin of 5.6% (2020: 4.5%). Excluding the favourable currency movement of £1m, growth at constant currency was 54%. Facilities First generated profit of £6m, in line with expectations in the first year of our ownership, while our Citizen Services, Justice & Immigration and Defence businesses increased both volumes and margins.

Middle East



Sectors we operate in:

- Defence
- Transport
- Health
- Citizen Services

<p>Revenue</p> <p>£265m</p> <p>2020: £324m</p> <p>Group revenue</p> <p>6%</p>	<p>Underlying Trading Profit (UTP)</p> <p>£14m</p> <p>2020: £14m</p> <p>Group UTP (before Corporate costs)</p> <p>5%</p>
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Year ended 31 December £m	2021	2020	Growth
Revenue	264.6	324.2	(18)%
Organic change	(13)%	(7)%	
Acquisitions	0%	0%	
Currency	(5)%	(1)%	
Underlying Trading Profit	13.7	13.9	(1)%
Organic change	1%		
Acquisitions	0%		
Currency	(2)%		
Margin	5.2%	4.3%	89bps

Revenue fell by 18% to £265m (2020: £324m). Adverse currency moves contributed 5% of the decline, with the remaining 13% being an organic decline largely as a result of the end of our contract to operate the Dubai Metro, which we exited in September, and the ongoing impact of Covid-19 on the Transport and Health and other Facilities Management sectors. Covid-19 response work included a short-term contract to provide tracing services.

Despite the sharp revenue contraction, Underlying Trading Profit was stable at £14m (2020: £14m). This favourable profit outcome was driven by a strong performance in Citizen Services and Defence as well as good cost control in the areas where we experienced subdued demand. Margins increased from 4.3% to 5.2% as a result.

Order intake was around £0.2bn, or 3% of the total for the Group. The majority of this was new business and included services at Dubai Airport, where demand has been increasing following its reopening.

Our pipeline of major new bid opportunities in the Middle East, which had been limited at the start of 2021, increased significantly over the year. It includes work in the Transport and Citizen Services sectors.

Order intake was £0.6bn, around 10% of the Group total. Having had significant success in recent years, it was a quiet period for securing new work. We did however have a very rate of success of retaining existing work; our Immigration Services contract was extended to December 2023 and our contracts to provide contact centre services to the Australian Tax Office and to Services Australia were extended to July 2022.

Our pipeline for new business increased significantly in the year, with new opportunities in the Citizen Services, Health and Defence sectors.

The high growth seen in the first half will not recur in the second, in part because of a very strong performance in H2 of 2020, particularly in our Immigration business, which we do not expect to repeat, although we will see the inorganic benefit of the Facilities First acquisition.

Corporate Costs

Corporate costs relate to typical central function costs of running the Group, including executive, governance and support functions such as HR, finance and IT. Where appropriate, these costs are stated after allocation of recharges to operating divisions. The costs of Group-wide programmes and initiatives are also incurred centrally.

Corporate costs increased by £8.7m to £49.9m (2020: £41.2m). The higher level resulted from increased investment, as we took the opportunity of the strong financial performance to accelerate spending on our systems and processes, a one-off commitment to our recently established Serco People Fund and the normalisation of LTIP costs and provisions, which were lower than usual in 2020.

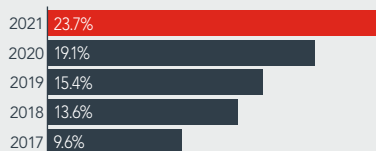
Key Performance Indicators

We use Key Performance Indicators (KPIs) to monitor our performance, ensuring we have a balance and an appropriate emphasis to both financial and non-financial aspects. In recent years, we have also evolved and improved our Management Information, including the contract performance monitoring process which tracks KPIs specific to each customer operation, our monthly management accounts and our Divisional Performance Review (DPR) processes.

For each KPI we explain the definition, relevance to our strategy and the performance in 2021. We have added an additional KPI this year, Lost Time Incident Frequency Rate, which has always been reported in our ESG performance indicators and is widely used throughout the organisation. There are no changes in 2021 to the existing KPIs presented and therefore there is comparability and consistency with our focus in the business and the guidance we issue. The Finance Review provides further detailed definitions and reconciliations of our use of Alternative Performance Measures (APMs). Information on our carbon emissions that was presented in this section in previous years can be found within our ESG Report on pages 39 to 76. ESG performance and disclosure data can also be found on those pages, as well as in our complete Serco ESG Databook 2021, which is available on our website.

1. Underlying Trading Profit (UTP)	2. Underlying Earnings Per Share (EPS), diluted	3. Free Cash Flow (FCF)																														
<table border="1"> <tr><td>2021</td><td>228.9</td></tr> <tr><td>2020</td><td>163.1</td></tr> <tr><td>2019</td><td>120.2</td></tr> <tr><td>2018</td><td>93.1</td></tr> <tr><td>2017</td><td>69.3</td></tr> </table>	2021	228.9	2020	163.1	2019	120.2	2018	93.1	2017	69.3	<table border="1"> <tr><td>2021</td><td>12.56</td></tr> <tr><td>2020</td><td>8.43</td></tr> <tr><td>2019</td><td>6.16</td></tr> <tr><td>2018</td><td>5.21</td></tr> <tr><td>2017</td><td>3.36</td></tr> </table>	2021	12.56	2020	8.43	2019	6.16	2018	5.21	2017	3.36	<table border="1"> <tr><td>2021</td><td>189.5</td></tr> <tr><td>2020</td><td>134.9</td></tr> <tr><td>2019</td><td>62.0</td></tr> <tr><td>2018</td><td>16.3</td></tr> <tr><td>2017</td><td>(6.7)</td></tr> </table>	2021	189.5	2020	134.9	2019	62.0	2018	16.3	2017	(6.7)
2021	228.9																															
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2019	62.0																															
2018	16.3																															
2017	(6.7)																															
<p>Definition Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), and other material one-time items as set out in the Finance Review on pages 77 to 91.</p> <p>Relevance to strategy The level of absolute UTP and the relationship of UTP with revenue – i.e. the margin we earn on what our customers pay us – is at the heart of our 'profitable and sustainable' business objective, as well as being an output of 'winning good business' and 'executing brilliantly'. We describe on pages 9 and 10 that the delivery of strategic success has potential to deliver annual revenue growth of 4-6%, in the medium term, and trading margins of 5-6%.</p> <p>Performance The outcome was an improvement over the £165m we expected at the start of the year. The 40% increase on 2020 was driven by additional work related to helping our government customers respond to Covid-19, improved performance on some of our existing non-Covid contracts, some new work and the contributions from acquisitions. Generally-speaking, we saw a strong operating performance across the Group. The underlying margin rose by around 97bp from 4.2% to 5.2%.</p>	<p>Definition Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects. It takes into account any non-controlling interests share of the result for the period, and divides the remaining result that is attributable to the equity owners of the Company by the weighted average number of ordinary shares outstanding, including the potential dilutive effect of share options, in accordance with IFRS.</p> <p>Relevance to strategy EPS builds on the relevance of UTP, and further reflects the achievement of being 'profitable and sustainable' by taking into account not just our ability to grow revenue and margin but also the strength and costs of our financial funding and tax arrangements. EPS is therefore a measure of financial return for our shareholders.</p> <p>Performance The 49% increase on 2020 reflects the combination of strong UTP growth, as described, and stable net finance costs, partially offset by a higher underlying effective tax rate.</p>	<p>Definition Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases.</p> <p>Relevance to strategy FCF is a further reflection on how 'sustainable' our profits are, as well as the sustainability of the overall business, by showing a measure of how much of our effort turns into cash to reinvest back into the business or to deploy in other ways. Furthermore, 'winning good business' should reflect that which generates appropriate cash returns, and 'executing brilliantly' should include appropriate management of our working capital cash flow cycles.</p> <p>Performance The improvement includes that from increased UTP together with excellent cash collection, partially offset by the non-repeating benefit in 2020 from the receipt of some older receivables. Despite organic revenue growth of nearly £400m, we saw a working capital inflow of £25m. The strong working capital performance was helped by the successful collection of some older receivables, including on our Dubai Metro contract following its conclusion, and efforts by governments to support their supply chains by ensuring prompt payments. The Group does not utilise any factoring or other working capital facilities.</p>																														

4. Underlying Return on Invested Capital (ROIC)



Definition

ROIC is calculated as UTP for the period divided by the invested capital balance. Invested capital represents the assets and liabilities considered to be deployed in delivering the trading performance of the business. Invested capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures and associates; contract assets, trade and other receivables; and inventories. Invested capital liabilities are contract liabilities, trade and other payables. Invested capital is calculated as a two-point average of the opening and closing balance sheet positions.

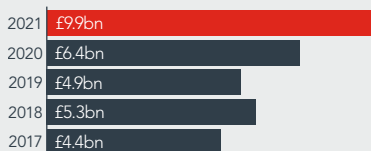
Relevance to strategy

ROIC measures how efficiently the Group uses its capital to generate returns from its assets. To be a sufficiently 'profitable and sustainable' business, a return must be achieved that is appropriately above a cost of capital hurdle reflective of the typical returns required by our weighting of the use of equity and debt capital.

Performance

The improvement in ROIC reflects the £66m increase in UTP and an invested capital base that increased by only £112m. The increase in the invested capital base was relatively limited due to strong receivable collections, low working capital requirements of the Covid-19 related work and because the goodwill related to the acquisitions of Facilities First and WBB was in the closing balance sheet but not the opening position.

5. Pipeline of larger new bid opportunities



Definition

The estimated aggregate value at the end of the reporting period of new bid opportunities with Annual Contract Value (ACV) greater than £10m and which we expect to bid and awarded within a rolling 24-month timeframe. It does not include rebids or extensions of existing business, and the Total Contract Value (TCV) of individual opportunities is capped at £1bn; also excluded is the potential value of framework agreements, prevalent in the US in particular where there are numerous arrangements classed as 'IDIQ' – Indefinite Delivery/Indefinite Quantity.

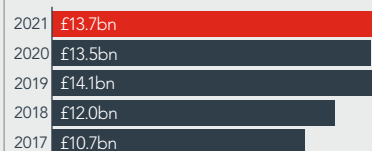
Relevance to strategy

The pipeline provides a key area of potential for 'winning good business' and therefore is a major input to being 'profitable and sustainable'. The size of the pipeline and our win-rate conversion of the bids within it will be at the heart of our strategy to grow the business.

Performance

Our pipeline stood at £9.9bn at the close of 2021, significantly higher than the £6.4bn we reported at the start of the year and £5.8bn at the half year. The pipeline increase occurred despite order intake being very strong in the year at £5.5bn. The pipeline at the end of 2021 consisted of around 40 bids that have an ACV averaging approximately £40m and a contract length averaging more than six years. As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and it is not necessarily strongly predictive of future revenues.

6. Order book



Definition

The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Multiple Award Contracts (MACs) or IDIQ contract or framework vehicles, where Serco cannot estimate with sufficient certainty its expected future value of specific task orders that may be issued under the IDIQ or MAC; in these situations the value of any task order is recognised within the order book when subsequently won. In 2018, the definition was aligned with IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods, but the £13.7bn would be £14.9bn if option periods in our US business were included.

Relevance to strategy

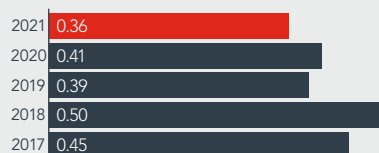
The order book reflects progress with 'winning good business' including retaining existing work through extensions or rebids, and as a store of future value it is a key measure to ensure the Group is 'profitable and sustainable'. The value of how much is added to the order book compared to how much revenue we are billing our customers – the book-to-bill ratio – is key to achieving long term growth.

Performance

The order book increased from £13.5bn to £13.7bn in 2021. This is lower than might be expected given order intake of £5.5bn as, consistent with our usual treatment of joint ventures, our order intake includes Serco's £1.9bn share of our VIVO joint venture with Engie but our order book does not.

Key Performance Indicators continued

7. Major incident frequency rate, per 1 million hours worked



Definition

Major incidents include but are not limited to; any injury requiring resuscitation or admittance to hospital for more than 24 hours; fracture other than to fingers, thumbs or toes; dislocation of the shoulder, hip, knee or spine; amputation; loss of sight (temporary or permanent); chemical or hot metal burn to the eye or any penetrating injury to the eye.

Relevance to strategy

Our vision of Zero Harm recognises that delivering excellent service to our customers, and therefore executing brilliantly, requires us to operate in the safest way possible at all times. A positive approach to safety and the continuous drive to improve our safety culture also has a direct bearing on the commitment and engagement of our people, which is central to achieving a place people are proud to work.

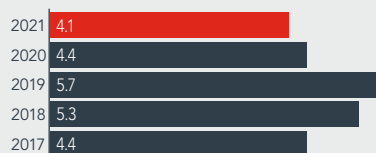
Performance

There were over 124 million hours worked in 2021, 20 million more than in 2020, and 45 major injury incidents were reported. The resulting frequency rate of 0.36 incidents per 1 million hours worked was an improvement compared to the 2020 rate of 0.42 and positive against the 2021 target of 0.42. These improvements are attributed to a number of ongoing continuous improvement initiatives, including contract-based focus on tackling specific root cause issues, supported by wider, collaborative Divisional and Group activities that will continue through 2022.

Only two parts of the business saw a small increase in the number of incidents, and of those only one was an increase against target. This increase related partially to an anticipated rise in the level of risk from new contracts and changes in the risk profile of existing contracts. This was compounded by continuing adverse impacts associated with Covid-19, including increased levels of violence and aggression towards our staff. Reducing violence and aggression and its impact, as well as on reducing avoidable incidents (e.g. slips & trips), remain priority areas of focus across our whole business into 2022.

Further performance data and details of initiatives implemented to improve performance are covered in the ESG Report on pages 39 to 76.

8. Lost Time Incident Frequency Rate (LTIFR), per 1 million hours worked



Definition

Lost Time Incidents (LTIs) are incidents when personal injury accidents at work, or when travelling on company business, cause an employee to incur one or more working days (or shifts) absence as a result. LTIs are recorded from the date the incident occurred, not from when time was lost.

The Lost Time Incident Frequency Rate (LTIFR) is calculated using the total number of Lost Time Incidents over the reporting period, normalised using the total number of hours worked in the same period. This provides a view on the frequency of lost time incidents, regardless of movements in staff numbers, which is comparable across all areas where LTIs are incurred.

Relevance to strategy

The LTIFR bears the same relevance to our Strategy as MIFR, in that our vision of Zero Harm recognises that delivering excellent service to our customers, and therefore executing brilliantly, requires us to operate in the safest way possible at all times. A positive approach to safety and the continuous drive to improve our safety culture also has a direct bearing on the commitment and engagement of our people, which is central to achieving a place people are proud to work.

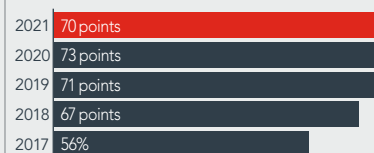
The LTIFR is a more relevant indicator of safety and incident performance as it captures all lost time issues, not just those related to a major injury. It gives us greater insight into the everyday experience of the broader colleague population compared to those roles where major injury is a larger risk and it underpins our ESG approach. It is proposed that future reports will use the LTIFR as a KPI, instead of the MIFR.

Performance

Considerable focus has been given to reducing LTIs and the subsequent frequency rate across the Group with particular attention to reducing incidents relating to slips & trips and physical assaults. This has helped to ensure the Group has remained within target.

We achieved an LTIFR of 4.1 for 2021 against a target of 4.5 and results of 4.4 in 2020 and 5.7 in 2019. We adjusted our LTIFR threshold for 2022 to 4.6. This figure takes into consideration two key changes to the business that increase size and risk. It is expected that the LTIFR will increase slightly as a result. Even with these impacts, the Group is looking at a positive trend of LTIFR performance of 19% from 2019-2022.

9. Employee engagement



Definition

We use a specialist third party provider to run Viewpoint, our global employee engagement survey. The survey covers employees, excluding our joint ventures, and measures engagement in two key areas: how happy employees are working at Serco and their intention to recommend Serco to others. Our engagement score incorporates all respondents' perceptions and shows the overall average view of these two areas when we survey. In 2018, our methodology for calculating employee engagement changed, aligned to our new provider. Pre-2018, engagement results represent the proportion of engaged employees expressed as a percentage. Post-2018, engagement scores represent the average response, with a maximum potential score of 100. It is not possible to adjust all our historic data to restate to the new methodology, although analysis performed by the new provider in 2018 indicated that the engagement level for that year was broadly stable on the previous year's score which was already the highest since we started measuring engagement in 2011.

Relevance to strategy

Employee engagement reflects 'a place people are proud to work', which is crucial to delivering outstanding customer service and achieving our strategic aims. Under the new scoring methodology, a score of 70 points or above was our target for 2021, which aligns with the global cross-sector benchmark provided by the specialist third party provider of our survey.

Performance

The 2021 Viewpoint survey was based on some 29,470 employees responding anonymously. We have sustained high levels of engagement at all levels measured in the survey and achieved an overall score of 70. Although lower than our 2020 result of 73, a return to the pre-pandemic level, is observed by our specialist third party provider of the survey as typical for employers who experienced a sharp increase in 2020. The 2021 response rate of 68%, was down on the 71% seen in 2020 but is strong versus the benchmark from the specialist third party provider of the survey and a slight reduction is understandable given the effect of Covid-19 entering a second year as well as relatively high levels of change to our organisation in the year, including acquisitions and Contract exits. The Viewpoint results are cascaded throughout the organisation and detailed plans of activity put in place to focus on areas highlighted by the detailed scoring analysis and the comments raised. In addition to completing the survey questions, some 67,700 individual comments were submitted, with 60% of respondents choosing to do so, which is positive reflection of the culture of openness and care of our employees. Looking forward, our focus is on sustaining an engagement score of 70 or above.

Our People

A diverse and resilient public service workforce like no other

It has been two years since the World Health Organization declared Covid-19 a global pandemic. In that time, the governments, businesses and citizens of the world have learned many important lessons, including that there is no quick way out of a global pandemic and no way to turn back the clock.

They have all also learned that society cannot function without people who can be relied upon to deliver; who can respond to changing requirements quickly and with ingenuity; who can work seamlessly with others to deliver better services and lower cost whilst anticipating new challenges and developing effective solutions; whose values and motivations align with the needs of wider society; and who take satisfaction in doing jobs that help their fellow citizens live their best lives.

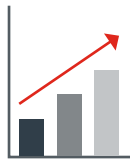
Our priority has always been the protection of people and public services. Our pride has always been our diverse and talented global team, who have always leant courageously into all that has been asked of them.

Covid-19 has not made us what we are today, it has given us an opportunity to prove, to ourselves as well as our customers and shareholders, what we had already become. We owe this to our people.

Employee engagement transformed, 2014-2021

42 to 70*

* Average score in annual engagement survey; maximum possible score 100.



Comments from colleagues received by the plc Board in 2021, through our annual survey

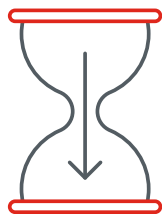
12,609



Lost Time Incident Frequency Rate down

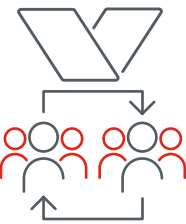
17.6%

from 2016 (5.01 hours per 1m hours worked) to 2021 (4.13)



Pulse Award winners in 2021, teams and individuals

115



Pulse Award nominations in 2021

952



Front line colleagues who received a £100 or equivalent recognition payment in 2021

c.50,000

Donated to the Serco People Fund

£4m

Serco People Fund

Our People continued

Keeping our people safe, well and celebrated

In the thick of the pandemic – in hospitals and prisons, schools and shipyards, immigration centres and asylum seeker accommodation, trains and airports, military bases and city streets; working with our customers, partners, suppliers and the public – our colleagues have been doing the hardest work of all: delivering essential public services in the face of unpredictable infection and societal instability.

From feeding patients and cleaning hospital wards to facilitating family visits for those in prison and helping deliver Covid-19 test and trace services to the public, and from keeping critical modes of public transport safe and operational to helping people in need gain access to vital government support, they have been helping to carry society through. Not only that, they have maintained their high level of support for the local communities they represent and the charitable causes they hold dear, greatly enhancing the local social impact of our operations.

They have done all of this and more, and we have been working hard to keep them safe, well and celebrated:

- seeking to maintain effective safety standards and high levels of safety engagement in our sites and remote working environments, whilst **keeping pace with rapidly changing circumstances and restrictions worldwide**;
- **supporting our colleagues in the safe return to workplaces and the safe reintroduction of working practices**, such as through our new person-based risk assessments to identify and help manage those who may have been more severely affected by Covid-19, especially for vulnerable colleague communities at greater risk;
- giving our people greater choice in how and where and when they work with our **new global principles for hybrid working**. Serco colleagues who can fulfil their roles remotely are only required onsite two days a week;
- delivering **vaccination programmes for colleagues in all regions** – endorsing, educating and facilitating access to Covid-19 vaccination; striving to minimise service disruption and remain fully compliant with evolving customer and government requirements whilst seeking sensitively, fairly and firmly to respect the individual right to choose;
- **working to ensure that critical forms of wellbeing support** – such as our mental health apps, our Employee Assistance Programmes, our growing global library of self-help resources and our regular schedules of virtual wellbeing events – **are in place, relevant, effective and accessible** – flexing and adapting them to meet fluctuating regional needs;
- **sharpening our focus on those at greater risk** from Covid-19, the longer-term risks of the virus, and mental health – signing up to the UK Mental Health at Work Commitment;
- **keeping our inclusive culture of wellbeing alive and thriving** through regular communications, leadership focus groups, interactive discussion events, pulse surveys and more;
- **making every effort to recognise and celebrate exceptional contributions and all who live our Values to the full**, such as those who feature in our annual People Report, and the 115 teams and individual winners selected from 952 nominations in our 14th annual Pulse Awards;
- **making an ex-gratia payment to around 50,000 colleagues** in recognition of their extraordinary efforts, as we did in 2020, and making a significant one-off commitment of £4m to our recently established **Serco People Fund**. The fund provides support to current and retired colleagues who would benefit from a little extra help at this difficult time.

A diverse and resilient public service workforce like no other

Growing diversity in the face of adversity

Inclusion has been a cornerstone in our resilience for many years; ensuring our diversity keeps pace with our growth is essential. Not only do we believe it is the right thing to do, we believe that diverse teams who reflect the communities they serve generate greater value for our customers and service users.

We have been opening as many doors to diversity as possible, such as through the evolution of our recruitment capability. Most recently, for example, we have implemented new technology to help us embed gender neutrality and mitigate unconscious bias in recruitment and selection.

That is only the tip of the iceberg. We have been pouring new energy into diversity and inclusion at Serco for several years, raising up passionate leaders and strong colleague networks to help us drive real change. They are building momentum at all levels, bringing our diversity to life through a vibrant calendar of inclusive events, and bringing best practice into Serco through strong specialist partnerships.



Race and ethnicity	LGBT+	Disability	Gender
We have appointed the former Chair of Serco Embrace as our new Group Head of Diversity and Inclusion and lead for our implementation of the UK Race at Work Charter .	We have joined the Australian Pinnacle Foundation as a gold partner, funding the new multi-year Serco Scholarship to support LGBT+ youth in overcoming challenges and realising their potential.	We have been recognised as a Disability Confident Leader and joined the Valuable 500 , a growing global movement revolutionising disability inclusion through business leadership.	We have expanded our partnership with Saïd Business School, University of Oxford to launch the Oxford Women in Leadership Development Programme for our colleagues in Serco.

We have launched the first Serco Inclusion Week , focused on 'Celebrating Diversity, Building Inclusion' and featuring our first global leadership summit on our diversity and inclusion risks, opportunities and ambitions.	We have won external recognition for our intern and graduate programmes in North America and the Middle East. Across all our regions, our early careers teams are dedicated to ensuring every cohort is rich in diversity.	We have launched an executive co-mentoring scheme to provide two-way mentoring and career acceleration for high potential colleagues from underrepresented groups.	We have created an online environment, the Serco Inclusion Hub , to support our colleague communities, enabling stronger coordination and collaboration and enhancing outcomes. Through the Inclusion Hub, our communities are flourishing in their own right whilst also helping each other evolve and establish a stronger, more strategic presence in the organisation.	Our diversity and inclusion leads, including the heads of our colleague communities, have worked closely with Dame Sue Owen and our Colleague ConneXions (Serco Employee Voice programme) team to weave these two important agendas together, embedding open, active Non-Executive Director participation in our annual schedule of diversity and inclusion events .
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Our People continued

A place people are proud to work, making a difference every day

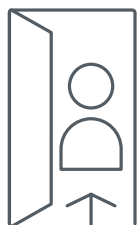
In the last two years, for millions of lives profoundly disrupted by Covid-19, direct human interaction and care has made the biggest difference. For many, help has worn a Serco uniform and lived the Serco Values.

In that time, our workforce has welcomed thousands of new colleagues who, in their search for meaningful, socially responsible employment, have gravitated towards public service and found in Serco an inclusive, caring culture to come 'home' to every day.

That is why we are committed to making Serco a place people are proud to work. Years of investment – in our culture and our systems and in the resilience and capability of our colleagues – has been helping our global team to become a more cohesive, more manoeuvrable and more effective public service workforce.

We have not come through unscathed; we have mourned members of our extended Serco family and our thoughts are always with their loved ones.

Our strength is in our people. Their strength is in our Values. Together, for our fellow citizens and local communities, for whole nations and for global society, we work hard to make a difference every day.



New hires in 2021*
22,000+

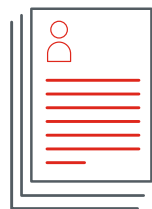
* Includes approx. 4,000 new temporary colleagues who joined Serco Workforce Solutions, UK.



I feel a sense of belonging where I work

75*

* Average score in annual engagement survey; maximum possible score 100.



Applications in 2021*

c.400k

* Includes approx. 14,000 applications to join Serco Workforce Solutions, UK.



I feel that my work at Serco makes a positive difference

74*

* Average score in annual engagement survey; maximum possible score 100.

ESG Impact and Integrity

Environmental, social and governance at Serco

“Our purpose is to be a trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference for our fellow citizens. We focus our ESG commitments and agenda to support the delivery of this, ensuring we address the ESG issues that are material to us and important to our stakeholders. This is a journey, but one we have been travelling for many years.”

Rupert Soames
Serco Group plc Chief Executive

Here we summarise our position, approach and progress in delivering our ESG commitments. Further information for all items summarised here, and our Covid-19 update, ‘Protecting people and public services from the impacts of Covid-19’, is available in our full ESG Report 2021 and in our policy and governance supplement, ‘Inside ESG at Serco’, both of which are available online, alongside case study examples, at www.serco.com/esg

As a public company, our job is to create value for shareholders, delivering competitive returns on their capital. For those profits to be sustainable and grow over the long term, the Company needs to operate and behave with the utmost integrity, and in a way that is responsible and consistent with the broader interests of society.

This is true of all public companies, but it is particularly important to Serco, as our customers are governments, and governments want their suppliers to operate and behave in a way that is consistent with their public policy objectives and that contributes to their ESG commitments.

Furthermore, much of the work we do for governments is in sensitive areas such as immigration, justice, defence, health and citizen services. Often our role is on the front line, working on behalf of governments to deliver their policies in the most effective and efficient manner and in the interests of both taxpayers and service users.

In other words, our opportunity to win good business, execute brilliantly, be a place people are proud to work and, ultimately, be profitable and sustainable and generate long-term value, depends on how we:

- live our Values, behave with integrity and respect human rights;
- recruit, develop and retain exceptional leaders and a diverse, high-performing workforce to deliver our commitments;
- build strong supply chains, partnerships, and relationships with our local communities;
- provide sufficient transparency and oversight through strong and robust governance, compliance risk and assurance management to essential government services;
- commit to net-zero carbon ambitions, including those of our clients and wider society, and help address climate and wider environmental emergencies whilst limiting our own environmental impact; and

- deliver superb public services that transform outcomes, make a positive difference for our fellow citizens, and build our position as a valued and trusted partner of governments.

We have been committed to delivering and communicating our position and performance across ESG criteria for many years. We recognise the deep strategic relevance of all that we do in those areas, which is reflected in our ESG scorecards for variable remuneration (see our Remuneration Report on pages 139 to 170 for more information). We are always working to expand and deepen our disclosure whilst strengthening our transparency, not just in our Annual Report, but through an evolving online suite of dedicated resources which includes our full ESG Report. Our 2021 ESG Report is the 19th report on corporate responsibility and ESG that we have published – the first was in 2003.

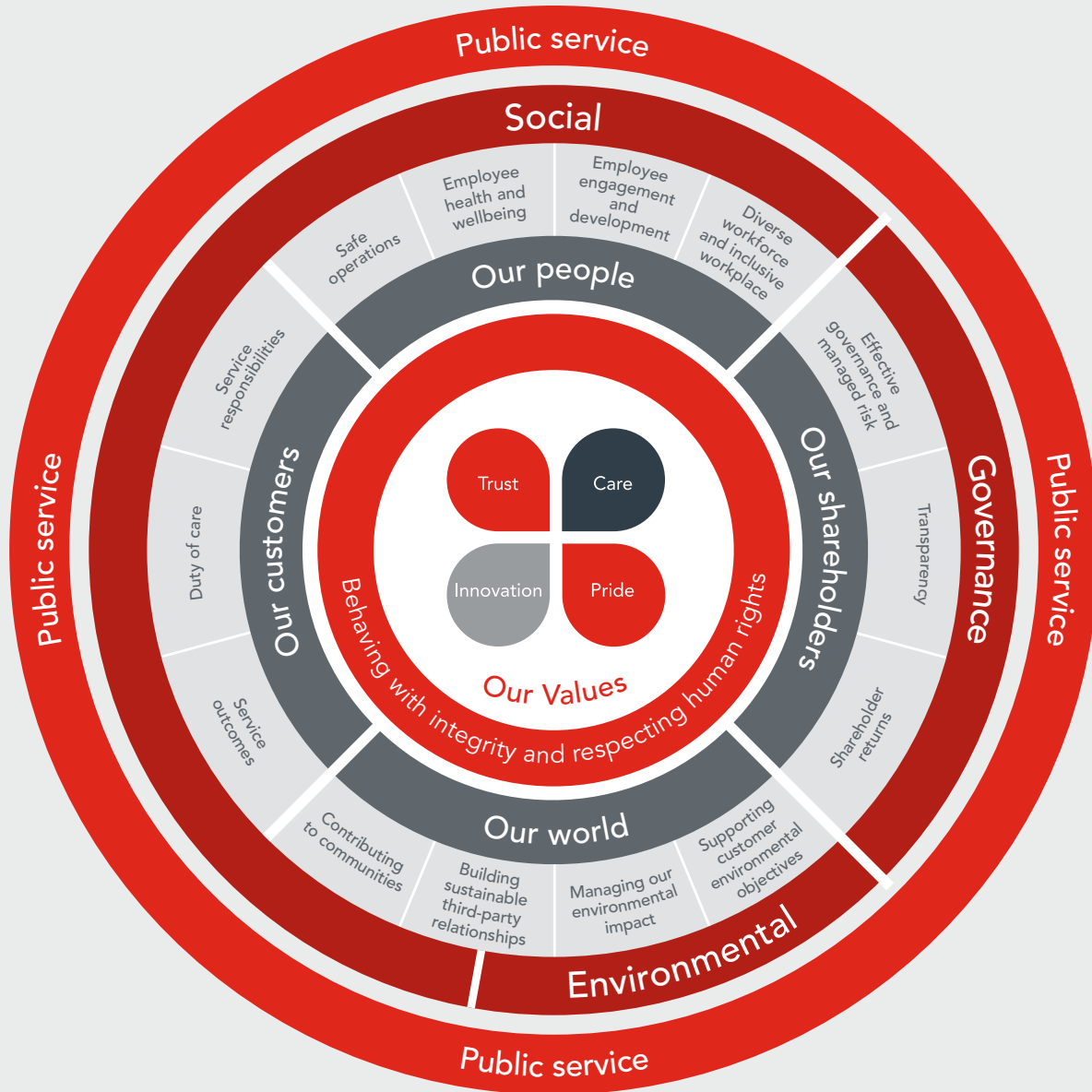
Managing these issues and taking them seriously is something we have been doing for a long time in our efforts to be the best-managed business in our sector. We believe that managing ESG should not be seen as something whose only purpose is to protect from harm. Done well, it builds strength and resilience in a corporation. We are proud of the strength and depth of our approach to ESG; we believe that our focus on it, particularly over recent years, has served the Company and its stakeholders well.

However, we also understand that, to coin a phrase, ‘the price of liberty is eternal vigilance’. It is when companies think they are doing well that they can sow the seeds of their own destruction; they can become complacent, too believing in their own righteousness and insufficiently humble in the face of the fact that in any company as large and diverse as ours, someone, somewhere, is doing something stupid or wrong every day of the year. It is eternal vigilance, an understanding that the gravitational pull of temptation is constant, a belief in transparency, a willingness to admit to fault and accept our own fallibility, and a desire to do the right thing, even when it hurts, which are the ways to preserve long-term value for our shareholders.

Our work delivering public services on behalf of governments means that our agenda emphasises the social aspects of ESG, as we continuously strive to improve our contribution as a public service provider, employer and participant in industry, infrastructure and the wider economy. Recognising that environmental sustainability is a critical factor in the wellbeing of society, we work to manage our environmental impact and support customer environmental objectives. All of this is delivered from a mature foundation of governance which enables ethical and effective direction, risk management, control and assurance of the business, including where we operate, who we serve and how we manage our responsibilities.

ESG Impact and Integrity continued

Our ESG Framework



At Serco, ESG factors are embedded in how we deliver our strategy, defined and driven through our ESG Framework. Our framework brings all our strategic ESG priorities together in one model, structured around our key stakeholder groups. This helps us to maintain focus on achieving an optimal balance of sustainable value creation for all stakeholders.

The Serco ESG Framework was updated in 2021 to simplify and clarify certain areas, including the alignment of constituent elements to ESG. The structure of our reporting aligns to the ESG weighting in our framework, focusing first on our social priorities, then looking at governance and environmental issues.

Robust ESG governance model

Board oversight and scrutiny of environmental, social and certain governance matters (including anti-corruption and anti-bribery, human rights, environmental approach, health and safety and other employee matters) is embedded in our corporate governance through the Board's standing committee, the Corporate Responsibility Committee. Oversight and scrutiny of other governance matters at Serco is distributed between all standing committees of the Board, with certain matters reserved for the Board itself.

For more information, see our Corporate Governance Report (pages 115 to 178), including our Corporate Responsibility Committee Report (pages 135 to 136).

Our ESG Framework is considered in strategy development and firmly embedded in how we manage our business – driven through the Serco Management System ("SMS"), our framework of Policy Statements and supporting Standards and related Operating Procedures, with appropriate Board and Executive oversight, and dedicated leadership at both Group and Divisional levels.

For example:

ESG Framework	Policy	Strategic alignment and direction	Group principal risk linkage	Oversight	Leadership
Behaving with integrity and respecting human rights	Business Conduct and Ethics	Group Ethics and Compliance Strategy	Failure to act with integrity Material legal and regulatory compliance failure	Corporate Responsibility Committee	Group General Counsel and Company Secretary
				Group Executive Committee	Group Director, Business Compliance and Ethics
				Divisional Executive Management Team	Divisional Ethics and Compliance Director
Managing our environmental impact and supporting customer environmental objectives	Environment and Climate Change	Group Environment Strategy	Catastrophic incident Material legal and regulatory compliance failure	Corporate Responsibility Committee	Group Chief Operating Officer
				Group Executive Committee	Group Director, Health, Safety and Environment ("HSE")
				Divisional Executive Management Team	Divisional HSE Director

For more information, see our Group Policy Statements, our ESG Report 2021 and Inside ESG at Serco, available at www.serco.com

ESG Impact and Integrity continued

Staying focused on what matters most to our business and stakeholders

We continually challenge ourselves to make sure we understand and provide appropriately for what matters most regarding our role in society, the impact that we have, and the value we create.

To help us ensure that our ESG agenda remains appropriately embedded in Group strategy and closely aligned to stakeholder interests and the everyday needs of the business, we use a materiality assessment aligned to external best practice and based on:

- material relevance to our business model, corporate strategy, principal risks and key performance indicators; and
- material importance for our business and operations as perceived and experienced by our key stakeholder groups.

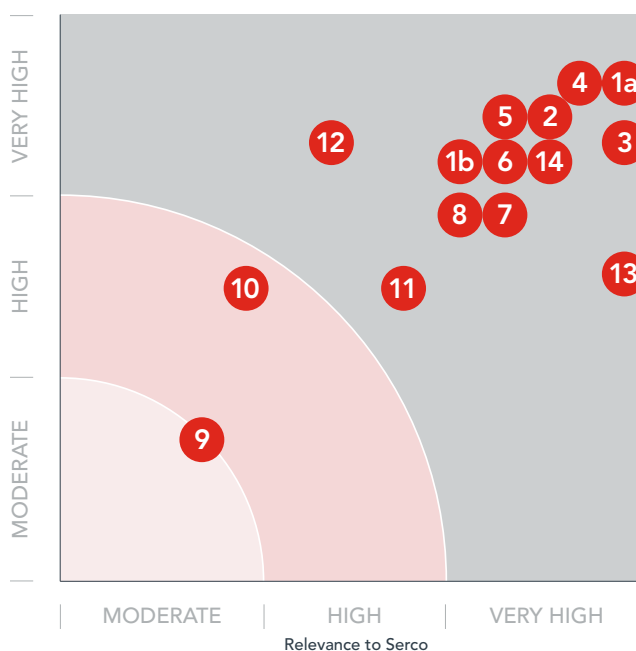
Our materiality assessment was updated in 2021 to reflect and align with:

- the enhancements we have made to our ESG Framework in 2021;
- new input from key stakeholders, including our shareholders;
- the maturation of strategy and governance across the Serco ESG landscape; and
- the evolving relevance and importance of material ESG factors.

Tracking our ESG performance

We seek not only to meet our reporting obligations but to provide assurance that we are properly addressing our ESG responsibilities and communicating our position and performance across ESG criteria. Since our 2020 reports, amongst other developments, we have:

- consulted with our investors, whose strong, positive response is informing the current and future evolution of ESG reporting at Serco;
- grown our ESG transparency through further expansion of our ESG Performance and Disclosure Data Book, now also published as a standalone Excel file in addition to its full inclusion in our ESG Report and the select content reproduced here on pages 69 to 76;
- published on www.serco.com our first:
 - human rights supplement, alongside our anti-bribery and corruption supplement, detailing our approach to human rights with a specific focus on the management of human rights impacts within our Justice & Immigration operations;
 - full disclosure on our climate-related risks and opportunities, per the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), in addition to our annual Environmental Basis of Reporting supplement;



- Our customers**
1. Behaving with integrity
 2. Respecting human rights

- Our people**
3. Safe operations
 4. Employee health and wellbeing
 5. Employee engagement and development
 6. Diverse workforce and inclusive workplace

- Our world**
7. Contributing to communities
 8. Building sustainable third-party relationships
 9. Managing our environmental impact
 10. Supporting customer environmental objectives

- Our shareholders**
11. Shareholder returns/Transparency
 12. Effective governance and managed risk

- Global Reporting Initiative ("GRI") Content Index;
- Sustainable Finance Disclosure Regulation ("SFDR") Content Index;
- proactively engaged with ESG analysts and commentators;
- commenced the collation of independent and publicly available performance and regulatory reports on Serco operations on our website for ease of public reference; and
- continued to monitor the rapidly evolving ESG regulatory reporting landscape, working to prepare appropriately for new and emerging requirements, such as elements within the anticipated EU Sustainable Finance Action Plan and UK Green Finance Roadmap.

Further information and the publications listed above are available at www.serco.com/esg

Non-financial information

The non-financial information required to be disclosed under sections 414CA and 414CB of the Companies Act 2006 is addressed within this section by means of cross reference and can be found elsewhere in this Annual Report as follows:

Non-financial information	Principal locations in this Annual Report	Page
Environmental matters	ESG Impact and Integrity	
	- Delivering ESG at Serco in 2021: Environmental	57
	- ESG performance and disclosure data: Environmental	72
	- TCFD disclosure statement	58
Employees Social matters	ESG Impact and Integrity	
	- Our people – our policy and commitment	44
	- Delivering ESG at Serco in 2021: Social	53
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Business ethics and human rights – our policy and commitment

Our commitment to business ethics and human rights is defined within our Group Business Conduct and Ethics Policy Statement, supporting standards (including our Group Standards for Business Conduct and Ethics and Human Rights) and related operating procedures (including our Human Rights Decision Tree and Conflicts of Interest Global Standard Operating Procedures).

Our human rights policies are guided by international human rights principles encompassed in the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights.

Our anti-bribery and corruption policies comply with the principles of OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, United Nations Convention against Corruption and The United Nations Declaration Against Corruption and Bribery in International Commercial Transactions. As a global business, Serco ensures that its business and staff comply with local laws and regulations applicable in the countries in which it operates, such as the UK Bribery Act, US Foreign Corrupt Practices Act and French Loi Sapin (II).

In summary, we:

- have zero tolerance for corruption and any activities that break any law relating to human rights anywhere in the world;
- will not engage in or approve any form of bribery; and will take disciplinary action, and issue criminal proceedings where appropriate, if an employee participates in or condones any irregular payment or payment in kind;
- recognising all applicable modern slavery legislation, we will not engage in any form of human trafficking or use forced, bonded, illegal or child labour, nor knowingly work with anyone who does;
- consider international human rights standards as a framework to assess, monitor, mitigate and remedy any actual or potential adverse human rights impacts that may affect our business;
- provide guidance and support to our employees to help them identify, manage and respond to any risk or issue;
- maintain confidential reporting resources for anyone concerned about violations of our Values, policies or Code of Conduct, whilst ensuring there is no need for them to fear the consequences of doing so; and strive to
- record and report information about our business accurately, honestly and transparently; and
- compete legally, fairly and ethically, making sure we promote competition in business, protect our customers' interests and avoid situations that may, or may appear to, create a conflict of interest.

Further information is available in our human rights and anti-bribery and corruption supplements at www.serco.com

Our people – our policy and commitment

Our commitments to our people are defined within our Group People and Health & Safety strategies and Policy Statements, supporting standards (including our Group Standard for Employee Wellbeing) and related operating procedures (including our Just Culture Assessment and Procurement of Consultants, Contractors and Temporary Workers Global Standard Operating Procedures).

In summary, we strive to:

- attract, develop and retain employees from the broadest possible talent pool;
- proactively manage and regularly analyse the diversity of our workforce;
- promote equality of opportunity and create an inclusive and enabling environment in which all our people are treated fairly and with respect, dignity and zero tolerance for any form of discrimination;
- regularly review and improve levels of employee engagement and performance, including the development of employee experience and capability to enhance their careers and meet current and future business needs;
- strengthen dialogue and interconnectivity at all levels, amplify employee voice and cultivate more opportunities to harness employee insights and expertise;
- support the right of our employees to choose whether they are a member of a recognised trade union or employee representative body and deal constructively with such organisations in line with local legislation;
- actively encourage input from employees, unions, customers and others to build sustainable solutions, helping us make decisions based on a deep understanding of work conditions and constraints;
- identify, assess and actively manage the health, safety and wellbeing hazards, impacts and risks arising from our operations, investigating incidents and monitoring performance and systems;
- maintain a physically and mentally healthy and productive workforce through effective management of employee welfare and occupational health;
- promote a ‘just’ culture of health, safety and wellbeing based on openness, transparency, active and caring leadership and mutual trust, innovation and pride;
- address any behaviour identified as negatively impacting employee engagement in line with our policies and procedures;
- provide relevant training and development where necessary to enable individuals to perform their duties and develop within their role; and
- regularly review, learn and identify opportunities for continual improvement at all levels of governance.

Employee reward

Serco is committed to rewarding employees in line with local legislation and with appropriate consideration for local custom and practice. Wherever possible and appropriate, we strive to offer compelling total reward above and beyond minimum local legislative requirements, taking into account such factors as market competitiveness in base salary and benefits, local legislation regarding fairness and equality, the scope and scale of roles, and individual performance and potential.

Contractors and temporary workers

To ensure their fair, legal and ethical treatment, all parts of the organisation are required by the SMS to engage contractor and temporary worker colleagues through Serco approved agencies who comply with relevant local laws and regulations, successfully complete pre-selection due diligence and contractual agreements, and are subject to the Serco Supplier Code of Conduct, ongoing monitoring, and other requirements such as worker access to mechanisms by which to report potential agency misconduct, such as the Serco Speak Up system.

Through Serco Workforce Solutions (www.serco.com/uk/careers/temp-workforce) bringing in-house the management of temporary workers in the UK, we offer enhanced and more secure temporary employment opportunities, including selected standard employee benefits such as access to our employee assistance programme.

See also, **Our People**, pages 35 to 38.

ESG at a glance throughout the Serco Strategic Report

While in our ESG reporting we draw out the specific action we are taking to further our ESG agenda, our consideration and management of ESG risks, issues and opportunities is woven inseparably into our operational and commercial landscape, our strategy and governance, and the means by which we analyse our performance and future prospects. ESG at Serco, therefore, is best understood in the context of our market and our management framework, and in our approach to stakeholder engagement, managing risk and safeguarding the interests of our shareholders through effective corporate governance.

Here we provide a simple guide to the relevance of that information and where to find it within this report.

Our Market

Pages 04 to 08

In our market we set the context for our purpose to be a trusted partner of governments, delivering superb services that transform outcomes and make a positive difference to our fellow citizens. We examine the factors that drive and shape government demand for our services and explore how we add value in the delivery of government policy for the benefit of society.

Our Management Philosophy

Pages 09 to 10

Our management philosophy brings together in one model the key elements and areas of focus in our approach to delivering long-term value by being the best-managed company in our sector. This applies to our non-financial performance as much as to our financial performance.

Our Values

Reflecting our management philosophy, and as illustrated in our ESG Framework, our ESG commitments start with our Values and end with our delivery of value for key stakeholder groups.

Our organising principles

Every region in which we operate represents a distinct ESG landscape shaped by different customer needs, policies and commitments and different regulatory principles and priorities, among other factors. Our organising principles enable us to build and manage regional ESG agendas closely aligned to local drivers whilst benefiting from Group governance and oversight.

Our method

We strive to make sure that everything we do improves our performance against our strategic priorities, and this includes our approach to ESG and our management of individual ESG factors. Our opportunity to win good business, execute brilliantly, be a place people are proud to work and, ultimately, be profitable and sustainable and generate long-term value, depends on how we:

- live our Values, behave with integrity and respect human rights;
- recruit, develop and retain exceptional leaders and a diverse, high-performing workforce to deliver our commitments;
- build strong supply chains, partnerships, and relationships with our local communities;
- provide sufficient transparency and oversight through strong and robust governance, compliance risk and assurance management to essential government services;
- commit to net-zero carbon ambitions, including those of our clients and wider society, and help address climate and wider environmental emergencies whilst limiting our own environmental impact;
- help to deliver essential social outcomes for our customers and service users, such as reducing reoffending and increasing skills; and
- deliver superb public services that transform outcomes, make a positive difference for our fellow citizens, and build our position as a valued and trusted partner of governments.

Key Performance Indicators

Pages 32 to 34

Our Group key performance indicators ("KPIs") are those measures that we consider to be the most material indicators of how well we are delivering our four strategic priorities. Historically we have counted two measures from our much broader ESG data set among our Group KPIs. This year we have added a third with the inclusion of a further safety measure, our Lost Time Incident Frequency Rate. These reflect our belief that safety performance and levels of employee engagement correlate closely to profitability and sustainability in public services. We recognise that our sustainability, and the extent to which our business can be considered the best-managed in our sector, can be read in our aggregated ESG performance.

ESG Impact and Integrity continued

Section 172 (1) Statement

Pages 107 to 114

Our approach to ESG is structured around our key stakeholder groups; what matters most to them as concerns our organisation and public service delivery is a prime factor in identifying our ESG priorities. Our commitment to engage fairly, frequently and forthrightly with our stakeholders and ensure their interests are taken seriously is actively owned by the Board. In our Section 172 (1) statement we provide greater insight into these groups and their concerns, which address or relate to ESG risks and issues, and how Board decisions and the evolution of our ESG agenda are informed by these inputs.

Risk Management/ Principal Risks and Uncertainties

Pages 92 to 104

Our ESG agenda focuses as much on the management of risk as on the creation of value, particularly those risks which we believe can seriously affect the performance, prospects or reputation of our business.

Our enterprise risk management approach plays a key role in how we identify, understand and manage our most material ESG issues, therefore, monitoring a broad spectrum of present and emerging risks informed by a wide range of ESG factors.

As a result, there is significant linkage between our ESG priorities and our principal risks at the Business Unit, Division and Group levels:

Group principal risks	Social	Governance	Environmental
Strategic risks	✓		✓
Financial risks		✓	
Operational risks	✓	✓	✓
People risks	✓	✓	
Catastrophic incident risks	✓		✓
Legal and compliance risks	✓	✓	✓

Corporate Governance Report

Pages 115 to 178

Board fulfilment of its role in promoting effective governance across Serco is a key element in our commitment to effective governance and managed risk. Our Corporate Governance Report details:

- how corporate governance in Serco is structured and operates;
- how it is performing and maturing; and
- through the individual reports of the Board's standing committees, we provide deeper insight into how the Board is supporting the Company and safeguarding the interests of shareholders and other key stakeholder groups in overseeing Serco's management of its most material governance risks and issues, including the governance underpinning its management of the Company's social and environmental priorities.

Implications of Serco being a supplier of services to governments

Governments are expected by their citizens, and funded by their taxpayers, to do hard-edged things: to defend their nations, they keep weapons which, if ever used, would wreak unimaginable damage to people and property; to keep communities safe, they hold people in prison; to secure their borders, they deport people who don't meet their entry and immigration criteria; and in managing their budgets, they make spending trade-offs which impact some people unfairly.

But they are also subject to scrutiny by opposition parties, by the press and by campaigning organisations. Every newspaper, every day, has stories of government incompetence and maladministration, and of the allegedly cruel and inhumane consequences of their decisions. Some of this criticism will be fair, objective and balanced; an awful lot will be partial, biased, subjective and unfair. That is a fact of life of being a government in most free countries.

As a supplier of government services, we are engaged by our customers to help them do some of these hard-edged things. Ensuring the right culture, transparency and controls are embedded at every level of the organisation is key, enabling us to maintain our relationships with our key government customers and perform well, as well as targeting market share gains.

We use our governance processes to determine which governments we will deal with, and which services we offer. For example, we might be happy providing air traffic control services to a particular government, but not custodial services if we do not think their justice system aligns with our Values. However, the vast majority of our customers are democratically elected governments, pursuing policies which are legal and publicly acknowledged. For example, the principle that the state can deprive someone of their liberty is acknowledged by international law (and indeed the United Nations publishes a training pack for prison officers).

We therefore must be suitably cautious and humble when imposing our own corporate values on those of governments. We are reluctant to second-guess the lawful actions of democratically elected governments. Reluctant does not mean to say that we don't, and there have been occasions when we have refused to do certain types of work for governments, but that is by exception and, on the whole, where governments lawfully lead, and we can perform services in accordance with our Values, we follow, even if this brings challenge upon us from those who disagree with those policies.

Quite rightly, we too are sometimes subject to scrutiny by opposition parties, the press and campaigning organisations. In many cases, this scrutiny is all the fiercer because the idea of private companies delivering government services is in and of itself anathema to some people.

In the normal course, therefore, we face a level of scrutiny and public discussion around our services which is greater than would be the case for companies doing business with each other. The failure of a construction company to deliver a multi-million pound new office building on time to another company is unlikely to be a matter of public consequence or commentary. If Serco fails to pay the correct overtime to a teacher employed by a local council, however, it can be the lead story on local media for a month, and accessible via online search engines in perpetuity. This year, as part of our ongoing focus on transparency, we have published even more information on our website, including third party reports on some of our more challenging operations.

Almost every service we run is subject to public scrutiny, and quite rightly so. However, in the same way that much of the scrutiny and comment aimed at governments is often far from impartial, or fair, or based on facts, so we must have broad shoulders and accept that we will often be unfairly criticised in public.

It is therefore important for those who analyse our ESG performance to understand that public criticism and scrutiny is an important and inevitable part of our business. Some of it will be fair, objective and balanced; but some will be partial, biased, subjective and unfair. The year in which a review of online search engines or social media does not reveal criticisms of our business will be the year we are not doing our job, which is to serve governments even when they do hard-edged and difficult things. Some ESG analysts take a binary view: for them, any public criticism of a company involved in the delivery of hard-edged government policy is an automatic black mark. It's in the press, it must be right, no? Well, no, actually.

In the pages that follow, we share two examples of work that we do which has received significant critical attention. In both cases, we are delivering vital services for government and the public, helping to manage the impacts of complex health and immigration challenges. Both are in sensitive areas of government policy and public debate defined by views which can be very strong.

For Serco, whether we are responding swiftly to the urgent need of government to manage the impacts of a global pandemic or supporting government in building up the means by which it manages rapidly growing and evolving volumes of immigrants and asylum seekers, our priority is delivering these services effectively, efficiently, and with the utmost care and respect for service users.

In relation to Test and Trace, we received much commentary from the press and were able to show much of it was wrong. With immigration, we receive many queries and views from ESG analysts some of it imbalanced and incorrect. However, we do not shy from addressing questions and concerns on our work in these areas, whether we are responding to challenges levelled at us in the media or requests to better understand our approach from investors and analysts. It is our hope that the information shared in the examples that follow will go some way to making our position and approach clear in both cases. We also want to make clear that our door is open to balanced, fair and constructive discussion about what we do – such dialogue is of great value to us, and always welcome.

Determining where we operate, what we do and who we serve

We work in many difficult, sensitive areas of government policy delivery, balancing diverse interests across a complex global ecosystem of stakeholders. We approach new and repeat business opportunities with conscience and caution. We will not pursue an opportunity if we are uncomfortable with what it will require of us and deem it at odds with our Values, nor if the risks are unacceptable.

Our decisions are carefully governed through our Business Lifecycle process – managing risk and taking many factors into account, including social and environmental impact. Throughout this lifecycle, we embed robust risk management to monitor and assess risk and opportunity. The Serco Business Lifecycle constitutes several stages which follow the maturity of any business opportunity, controlled through a series of mandatory governance gates requiring formal assessment and approval by senior management. Areas of focus include material legal, ethical and human rights risks; health, safety and environmental risks; and other salient adverse impact risks from an ESG perspective. A number of Serco Management System tools are applied in business lifecycle decision-making, including our Human Rights Standard and supporting Human Rights Decision Tree procedure.

Further information is available at www.serco.com/esg/inside-esg

ESG Impact and Integrity continued

Our role in the UK Government NHS Test & Trace programme

We are proud of the part we have played in supporting the UK Government in the nation's Covid-19 test and trace infrastructure.

Test and trace programmes are a core public health response in pandemics, used alongside wider measures to help curb the rate of infection. NHS (National Health Service) Test & Trace ("NHST&T") was created at speed by the UK Department of Health and Social Care in May 2020, to lead on the UK Government's chosen approach to 'help break chains of Covid-19 transmission and enable people to return to a more normal way of life'.

There has been a good deal of public debate about NHST&T since its inception, some of which has suffered from significant levels of misinformation and misunderstanding. Whilst Serco has always welcomed and recognised the value of public debate, we believe that it can only generate value if fully informed, factually correct, and responsibly implemented.

Much has been made of Serco's involvement in NHST&T, not all of which has been fully informed and factually correct, such as claims of our involvement in developing the NHS Covid-19 app or that we run the entire programme, which are entirely untrue¹. We thought that it would be useful to address and dispel certain myths regarding the depth and breadth of our involvement.

Serco did not have overall responsibility for the NHST&T system – our role has been limited and specific. We have been involved in two important but discrete parts. To help meet changing volumes of demand, we have managed up to 20% of the sites where people go to get tested; and we have been one of two providers of non-clinical call handlers who have provided standard advice to and sought information from people who have come into contact with positive cases. It is unlikely that NHST&T could function without such support, though of course the same could be said of others among the 454 suppliers contributing critical elements in the complex machinery of the system.

We are not involved in any other aspect of NHST&T; we do not design or manage the processes or size the capacity; we do not manage the booking system; we do not supply the test kits or run the laboratories; we do not develop the IT systems or manage the data; we do not provide consultants and we are not involved with the app.

A report by the UK National Audit Office ("NAO") in June 2021² confirmed that the UK Government had signed 964 NHST&T contracts, worth £14.1bn, of which the total value awarded to Serco was less than 4.5%. It also stated that tracing accounted for only 7% of NHST&T spend in 2020/21.

Standing up such a system – by far the largest of its kind in Europe – at such a scale and such a speed was a significant achievement and had never been done before in the UK. Enormous efforts were made by all involved to deliver against very tight timescales and in extremely challenging conditions. We are deeply proud of all our people who have helped to make it happen (assembling, training and equipping our initial team of 10,500 contact tracers in just four weeks and setting up the very first testing centres at two days' notice) and continued to support NHST&T, in helping to break chains of transmission and reduce the spread of the virus. As of 2 February 2022, over 250m people have been tested and more than 37.5m positive cases and their close contacts reached since the start of the pandemic, with 84.3% of positive cases and 83.2% of contacts traced.

The volume of our Covid-19 related work is reducing, but as it does, our job is to deliver great service and value to governments on these contracts while they are needed, and to wind them down in an orderly manner when they are not. This work will leave an enduring legacy for Serco: showing our customers that they can trust us to respond at speed and scale to extremely demanding requirements, and enabling us to invest in the development of systems, processes and skills which will further strengthen what is already a powerful proprietary platform for delivering complex government services.

1 Who has been involved in creating the app?; <https://faq.covid19.nhs.uk/article/KA-01106>

2 Test and trace in England – progress update; www.nao.org.uk/wp-content/uploads/2021/06/Test-and-trace-in-England-progress-update.pdf

Our involvement in the delivery of the UK and Australian Government immigration policy

In our Annual Report 2020, we acknowledged that Yarl's Wood Immigration Removal Centre ("IRC") has attracted high volumes of public attention and commentary during its 20-year lifetime, before and during our management of the facility. We also shared five independent reports that paint a picture of life at Yarl's Wood under Serco management that is more positive and favourable than the claims of some campaign groups as reported in the press³.

Here we provide an update covering our UK IRC operations and how these have evolved in the last year. We also look at our UK Asylum Accommodation and Support Services Contracts ("AASC"), focusing on our use of contingency accommodation through the Covid-19 pandemic, and our operation of Immigration Detention Centres on behalf of the Australian Department of Home Affairs.

Supporting vulnerable people through systems designed to manage complex social challenges

Government policies regarding the management of immigrants and asylum seekers can attract challenge and criticism. This can transfer by association to the operations in place to deliver those policies, especially in response to any incident or allegation.

Serco has provided immigration services for 15 years, building on our experience and expertise delivering other sensitive public services that focus on supporting vulnerable people through government systems designed to manage complex social challenges.

Our role in this sensitive area is to deliver specific elements of those government policies in the most effective, efficient and humane manner; working within established policy frameworks and complex regulatory requirements; bound by the operational and ethical standards we set for ourselves; underpinned by an ethos of care, decency, dignity and respect.

We concentrate on working with our customers and non-governmental specialist partners to mitigate risks. In this, and per explicit customer requirements, we provide safe, secure, suitable accommodation and welfare support for individuals and families transferred into our care, including engagement and education programmes, recreational activities, and other services to meet their needs.

We are not, and have never been, involved in the development of UK or Australian immigration policy. We have no involvement in adjudication of immigration and asylum claims, nor any other involvement in delivering the UK and Australian immigration and asylum systems. This includes healthcare, which is commissioned and delivered independently of Serco; our role is to support and facilitate access.

3 Independent investigation into concerns about Yarl's Wood Immigration Removal Centre; www.verita.net
Yarl's Wood Immigration Removal Centre; www.justiceinspectors.gov.uk
Review into the Welfare in Detention of Vulnerable Persons – A report to the Home Office by Stephen Shaw; www.gov.uk/government/publications
Annual Report of the IMB at Yarl's Wood Immigration Removal Centre, 2019; www.imb.org.uk
Care Quality Commission – Yarl's Wood Immigration Detention Centre; www.cqc.org.uk

Our operation of Immigration Removal Centres on behalf of the UK Home Office

On behalf of the UK Home Office, we manage three of the seven main IRCs in the UK: Yarl's Wood IRC in Bedfordshire and the Brook House and Tinsley House IRCs, known collectively as Gatwick IRC, in West Sussex.

IRCs are holding centres for foreign nationals who are awaiting removal from the UK; or, in the case of Short-Term Holding Facilities ("STHF"), who are subject to initial screening of a potential asylum claim. Our management of those at Yarl's Wood and Gatwick is subject to regular external scrutiny from Independent Monitoring Boards ("IMB")⁴ and Her Majesty's Inspectorate of Prisons ("HMIP")⁵. Publicly available third-party reports on Serco operations can be accessed at www.serco.com/esg/reference

The changing role and function of Serco-operated IRCs during the Covid-19 pandemic

In 2020, responding to Covid-19 and rising numbers of migrants crossing the English Channel, the UK Home Office transferred female and adult family residents out of Yarl's Wood to increase STHF capacity. A smaller number of female residents were returned in late 2020 as STHF arrivals reduced.

Continuing immigration trends and the easing of Covid-19 restrictions are prompting further change in function – the UK Home Office determining that Yarl's Wood should be developed as a majority male facility. Today at Yarl's Wood, we manage male IRC detainees; a small, dedicated female IRC unit; and a separate male STHF. The UK Home Office has invested significantly in the site's physical infrastructure and staffing numbers to enable flexible utilisation for managing multiple cohorts.

Gatwick IRC had also been operating flexibly in response to immigration trends and Covid-19 constraints, prior to our assuming operation of the sites in 2020. This continued through 2021.

We have also worked with the UK Home Office to establish and operate additional contingency hotel accommodation in 2021, used for Covid-19 quarantining and initial screening as an alternative to detention.

Upholding the needs and wellbeing of detained individuals through evolving operations

We have worked closely with the UK Home Office throughout, supporting them in optimising these sites to help manage evolving needs. Simultaneously, we have continued working to meet the needs of detained individuals as we navigate and adapt service provision through new, dynamic and challenging circumstances.

As the cohorts we are required to manage change and change again – each time comprising very different profiles of complex, multi-dimensional needs and vulnerabilities – we have made significant investments in expanding and strengthening our operational workforce and the depth and breadth of their training and capability. Our focus has been on building versatile, resilient teams who will always deliver high standards of safe, secure and stable detention, underpinned by compassionate, socially responsible support for the people in our care.

4 IMB Reports; www.imb.org.uk/reports

5 HMIP Inspections; www.justiceinspectors.gov.uk/hmiprisons/inspections

We are also well progressed with a Positive Detention Culture ("PDC") programme in Gatwick IRC, supported by an external academic body, The Appreciative Partnership. The purpose of the programme is to measure and embed a healthy culture among all who work and reside in the Centre, with regular cultural and behavioural health checks, over and above ongoing monitoring by independent statutory bodies. We plan to extend the PDC programme to Yarls Wood IRC in the latter half of 2022.

Both HMIP and the UK Home Office continue to recognise good practice in our operations at Yarls Wood and Gatwick and our management of the recent changes⁶. We have discussed improvement opportunities with the UK Home Affairs Select Committee and are taking appropriate action where responsibility sits with Serco.

Our use of contingency accommodation in helping to deliver the UK Home Office asylum dispersal programme through the Covid-19 pandemic

On behalf of the UK Home Office, we manage two AASC contracts, covering North West England and the Midlands and East of England. The UK Home Office has designed AASCs with a focus on providing asylum seekers with a good standard of community accommodation and access to the support they need as they progress through the UK asylum system⁷. Our delivery of AASCs has been subject to external scrutiny from the UK Home Affairs Select Committee⁸, Public Accounts Committee⁹ and the Immigration Chief Inspector of Borders and Immigration¹⁰.

Contingency accommodation and its use during the Covid-19 pandemic

In response to Covid-19, per UK Government and national public health guidance, the UK Home Office implemented a temporary amendment to its asylum dispersal programme, effectively halting movement of asylum seekers through the system. The impact of this was compounded by the continued flow of new asylum claims. The UK Home Office asked AASC operators to procure contingency hotel accommodation for new claimants.

The use of contingency accommodation is not new. Various pressures limiting the availability of dedicated asylum accommodation can result in individuals first moving into contingency accommodation until more suitable accommodation becomes available. The UK Home Office aims to move people into longer-term accommodation after 35 days.

Data published by the UK House of Commons, reporting numbers of asylum seekers in hotels on 24 August 2020, showed that Serco was responsible for 33% of the total population at that time¹¹. Today, Serco looks after approximately one quarter of the national hotel contingency asylum population.

6 www.justiceinspectorates.gov.uk/hmiprisons/inspections
Report on an unannounced inspection of the detention of migrants arriving in Dover in small boats, 2020
Immigration detention during COVID - reduced populations and effective virus control, 2020
Residential short-term holding facilities, 2021
www.imb.org.uk/reports
Annual Report of the IMB at Yarls Wood IRC, 2020

7 New asylum accommodation contracts awarded;
www.gov.uk/government/news/new-asylum-accommodation-contracts-awarded

8 Home Affairs Committee;
<https://committees.parliament.uk/committee/83/home-affairs-committee>

9 Public Accounts Committee;
<https://committees.parliament.uk/committee/127/public-accounts-committee>

10 Independent Chief Inspector of Borders and Immigration;
www.gov.uk/government/organisations/independent-chief-inspector-of-borders-and-immigration

11 Asylum accommodation: the use of hotels and military barracks; <https://researchbriefings.files.parliament.uk/documents/CBP-8990/CBP-8990.pdf>

Our approach to arranging and managing contingency accommodation

On instruction from the UK Home Office, we work to identify contingency sites that can meet core criteria for service delivery and submit these to the UK Home Office for approval. A Serco AASC team then visits approved sites, carrying out due diligence for all compliance requirements, including Covid-19 safety.

If the property meets required standards, a team is mobilised to initiate operation of the site. This includes engaging with UK Home Office, local authority and statutory service representatives to prepare for operational delivery as well as standing up required wrap-around support services. Pace and volume of demand can make this a very complex and challenging process for all involved.

Contingency accommodation is operated in line with our standard procedures for initial asylum seeker accommodation. Dedicated housing officers work onsite to induct new arrivals using translation services to ensure understanding. These professional officers manage the resident experience, including welfare checks, ensuring that they receive three suitable meals each day and that property owners address any faults, as well as managing any incidents.

Our priorities throughout include:

- Access to primary care: working with local healthcare providers (rarely structured to support the sudden arrival of large groups) to remove barriers.
- Public behaviour: working with law enforcement colleagues to build local intelligence and mobilise around any potential issues identified.
- Cases of Covid-19: working with Public Health England and other health colleagues to develop robust plans for minimising infection risks and containing any cases as effectively as possible.
- Covid-19 flexible catering: ensuring availability of a food package that can meet quarantine and isolation needs.
- Acutely vulnerable asylum seekers: working with asylum seekers and local authority colleagues to ensure appropriate support for those with safeguarding needs.
- Child education: working with local education and voluntary sector teams to provide meaningful educational activity whilst ensuring that families with school age children are prioritised for dispersal.

Our operation of Immigration Detention Centres ("IDC") on behalf of the Australian Department of Home Affairs

We have delivered immigration services in Australia since 2009, and work with the Australian Department of Home Affairs (Home Affairs) as the national onshore immigration detention service provider.

The Australian Immigration Detention Network ("IDN") is subject to independent scrutiny by a range of bodies. We regularly interact with the Australian Human Rights Commission ("AHRC") and the Office of the Commonwealth Ombudsman. Both organisations conduct targeted investigations into complaints and/or concerns raised by or on behalf of detainees, maintain a periodic inspection programme (including unannounced visits by the Commonwealth Ombudsman) and have unlimited access to our physical and electronic records, including CCTV and hand-held/body-worn camera footage. We also hold community consultations, through which concerns can be raised directly with Serco and Home Affairs, though these have been limited in recent years due to Covid-19 restrictions.

Any complaints are promptly and thoroughly investigated by Serco, Home Affairs, and (where applicable) state or federal law enforcement. Where any instances of fault or wrongdoing are identified, swift and decisive action is taken to address the issue.

The evolving immigration landscape in Australia

The dynamics surrounding complaints in the Australian IDN are best understood in context of the evolving profile of Australian detainee cohorts.

In Australia, any non-citizen without a valid visa is considered unlawful and may be placed in detention – a last resort determined using a risk-based approach. Per Section 501 of the Australian Migration Act 1958, visas and citizenship may be denied to those who fail to meet certain character requirements, mainly concerning criminal history.

From 2009-2013, the people in our care were predominantly illegal maritime arrivals, including asylum seekers. Since 2013, the number of detainees seeking asylum in Serco care began to fall as asylum seekers were processed through the system, either through the award of visas or the relocation to other countries or return to countries of origin. Today, the majority of detainees are foreign nationals who do not hold a valid visa to reside in Australia and have served custodial sentences of not less than 12 months for crimes (often of a serious nature) committed in Australia, who are considered to pose a risk to the safety and security of the Australian community if not detained pending their deportation to their country of origin. These changes are tracked through the immigration detention data published by Home Affairs¹².

A report in 2020 by the AHRC¹³, following AHRC inspections of the Australian IDN:

- acknowledges good practice and improvements made by Home Affairs;
- expresses concerns regarding the health and wellbeing needs of individuals held in immigration detention;
- acknowledges operational challenges that can impede meeting those needs;
- makes recommendations regarding how AHRC concerns might be addressed; and
- recognises that the current legal and policy framework in Australia is a key factor.

In a formal response by Home Affairs¹⁴, the Department explains its position on each recommendation, what measures are already in place and what further action is being taken. This includes regular review of detainee management and welfare, continuous consideration of how detainee engagement can be improved, and a holistic review of mental health services to inform their improvement, from which such programmes of work as a new welfare and engagement operating model (see below) have emerged in the last two years.

Meeting the complex welfare and engagement needs of people in detention

Our commitment to the rights and welfare of detainees in our care has remained unchanged since 2009. In each IDC, our dedicated welfare teams deliver a wide range of engagement and education programmes, and welfare services tailored to individual needs and circumstances.

In this, they work with a large number of volunteer and community groups and are supported by a nationwide team of integrated care professionals led by our National Immigration Welfare & Engagement Manager – qualified social workers with a range of specialisations including human rights, community services, trauma-informed response practice and therapeutic crisis intervention as well as person-centred care.

Our years of experience and insight have been helping us drive further service improvement for the benefit of all stakeholders. Our team has worked closely with the Australian Red Cross, supporting the development of training to identify those at risk of modern slavery and human trafficking; and is now working with Home Affairs in designing a new welfare and engagement operating model for Australian immigration. Acknowledging the importance of dedicated support for detainee mental health and wellbeing, and heeding feedback from the AHRC and other external sources, this major programme recognises the complex, changing needs of the evolving cohort and builds on the foundations we have already laid across the IDN.

Our work in this programme includes:

- developing our extensive portfolio of engagement activities into a comprehensive national programme for detainee education, training, recreation and other meaningful engagement opportunities;
- building and enhancing our multi-dimensional capability for supporting detainees with complex needs, considering all factors affecting detainee wellbeing with a focus on through-care commencing upon arrival; and
- improving collaboration with detention healthcare providers and other key stakeholders to facilitate a holistic care approach.

¹² Visa statistics – immigration detention; www.homeaffairs.gov.au/research-and-statistics/statistics/visa-statistics/live/immigration-detention

¹³ Inspections of Australia's immigration detention facilities 2019 report; <https://humanrights.gov.au/our-work/asylum-seekers-and-refugees/publications/inspections-australias-immigration-detention>

¹⁴ Response to the AHRC Inspections of Australia's immigration detention facilities 2019 report; https://humanrights.gov.au/sites/default/files/att_a_-_home_affairs_response_-_ahrc_2019_idc_inspection_report_-_ohr-20-00262_0.pdf

ESG Impact and Integrity continued

Contributing to the United Nations Sustainable Development Goals



The needs and expectations of our stakeholders, wider society and the world around us are key factors in our public service solutions and broader ESG strategies. We work hard to keep them front and centre in our thinking through direct engagement and consultation and through careful consideration of prevalent thought leadership across the global ESG landscape, including the United Nations Sustainable Development Goals ("UN SDGs").

Many of our government customers are firmly committed to delivering the UN SDGs and we are proud that many of our operations and ESG initiatives have linkage to them.

We contribute to the UN SDGs:

- as a public service provider – through the services we provide to citizens and society, and *how* we provide them;
- as an employer – through how we attract, select, manage, develop and look after our employees;
- through our commitment to support the net-zero carbon ambitions of our clients and wider society and limit the environmental impact of our operations; and
- as a participant in global industry, infrastructure and the wider economy – through how we manage, grow and govern the business.

For more information, see our ESG Report 2021, available at www.serco.com/esg

Supporting documents

Inside ESG at Serco

An online guide to how we manage and govern our principal areas of responsibility and sustainability and our overall ESG approach, available at www.serco.com/esg/inside-esg

ESG action at Serco

Beyond this report, our organisation is alive with ESG engagement, leadership and action. Interviews and examples of how our people have brought our commitments to life are available at www.serco.com/esg/case-studies

The Serco People Report

The Serco People Report features interviews and stories about employees from every sector and region, exploring different aspects of the colleague experience and how Serco people make a difference every day, available at www.serco.com/about/people-report

Serco Global Reporting Initiative ("GRI") and Sustainable Finance Disclosure Regulation ("SFDR") Content Indexes

The GRI standards and SFDR indicators inform our ESG materiality assessment and the ongoing evolution of our ESG agenda. We publish GRI and SFDR Content Indexes to enhance our ESG reporting and transparency and help stakeholders navigate our disclosures more quickly and easily. Our GRI and SFDR Content Indexes are available at www.serco.com/esg

Environmental basis of reporting ("EBR") supplement

Our EBR supplement outlines the scope of the environmental indicators assured in our ESG Performance and Disclosure Data Book and sets out the reporting approach and criteria required to support the environmental elements within the Serco Group plc Board commitment to non-financial reporting. Our EBR supplement is available at www.serco.com/esg/environment

Delivering ESG at Serco in 2021

Here we share select headlines of our impact, progress and performance in the last year, focusing first on our social priorities and then looking at governance and environmental.

Further information, including future ambitions, is available in our full ESG Report at www.serco.com/esg

Social

Because of our role delivering public services for governments, the social element of ESG is a particular focus for us. It is at our core and we are driven to be a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens.

As a public service provider, we deliver specific elements of government policy – providing efficient and economical services and systems that address complex social challenges and contribute directly to the wellbeing, resilience and prosperity of whole nations, local communities and individual citizens. We strive to understand the challenges that shape our chosen markets and help our customers address them.

- **Defence.** Reducing costs and improving outcomes for modern defence organisations, and thus helping to maintain national security in a way that is safe and sustainable.
- **Justice & Immigration.** Safeguarding society and supporting often vulnerable people in their journeys through justice and immigration systems. Our prison management approach helps ex-offenders reintegrate into society and reduce reoffending. In immigration, we form partnerships with voluntary organisations to deliver housing and welfare support and enable successful integration of migrants into society.
- **Transport.** Safety, satisfaction and smart, sustainable solutions – putting customers and communities at the heart of modern transport and mobility.
- **Health and other Facilities Management.** Helping to create a healthier world – improving patient outcomes through safe, caring and efficient healthcare and healthcare support services.

- **Citizen Services.** Building greater wellbeing, resilience and sustainability into society – serving the everyday needs of citizens and communities. In the US, we are a key part of efforts to provide healthcare insurance to low-income Americans. In our UK Leisure business, we provide sport and leisure facilities to improve the health of local citizens.

As an employer, we are a team of more than 50,000 people working in more than 20 countries. Our workforce is multi-skilled and diverse – drawn from the communities in which we operate and reflective of the communities we serve and providing opportunities for full and part-time work and for people to develop their skills and careers. We strive to create positive, safe and supportive environments where our colleagues can be proud of who they are, what they do and who they work with. We work hard to promote and enable the diversity, development, wellbeing and safety of our people, and to be the employer of choice for public services – recruiting, developing and retaining exceptional leaders and high-performing workforces to deliver our commitments to our customers and service users.

As a participant in industry, infrastructure and the wider economy, we seek to be responsible in managing our impact on the communities and economies in which we operate. Across these we recognise our responsibilities to a range of stakeholders, including the third parties with whom we interact as neighbours, customers, peers and partners. We strive to build strong, reliable and service-enhancing supply chains, partnerships and relationships with our local communities – aligned to ethical standards and sustainability and generating greater value for society.

2021 update highlights

Our customers, partners and communities

- Supporting our customers in the continued delivery of essential public services throughout the pandemic – helping them navigate unprecedented complexity, managing acute operational impacts with care and innovation, and helping to protect national interests and the public from Covid-19:
 - developing and delivering vital services to help governments manage the primary impacts of Covid-19, such as through our role in NHS Test and Trace in the UK and the Covid-19 cleaning services we provide for education and care facilities in Australia;
 - helping to deliver other major programmes and projects despite Covid-19 challenges and restrictions (or manage other risks and issues arising from those factors) such as the Australian RSV Nuyina icebreaker vessel, Centers for Medicare and Medicaid Services in the US, Driver Examination Services in Canada and the reopening of Dubai International Airport;
 - responding to the many secondary impacts of Covid-19 and helping to get society back on its feet, such as our work to deliver the UK Government's new Restart Scheme, helping to break down employment barriers for more than one million people impacted by Covid-19;
- developing new resourcing solutions with which to better flex, scale and synchronise our workforce with the changing needs of our customers, such as through Serco Workforce Solutions in the UK and Serco Care2Connect in Australia;
- working closely with our customers to ensure our operational teams and customer colleagues stay safe and continue to deliver whilst complying with changing circumstances and restrictions, such as through our regional vaccination programmes;
- expanding and enhancing our centres of capability in critically high-demand service areas, such as through the acquisition of Facilities First in Australia and our VIVO joint venture partnership in the UK;
- building a versatile, global cadre of business leaders to grow and coordinate our capabilities whilst maximising value generation for all service stakeholders, such as our new Group Head of International Maritime Programmes;
- building and strengthening the local social and economic impact of our operations, such as through the publication of our new global Sustainable Procurement Charter, to extend our impact through our supply chain, and our recruitment of a Head of Social Value in the UK, to lead the development of our social value culture and capability and extend the ESG impact of government procurement. We are now including social value commitments in a number of our bids in the UK;

ESG Impact and Integrity continued

- deploying the Serco Institute to help governments develop the next generation of public service solutions, such as through our People Powered Public Services research and other studies including an examination of how to support people returning to work in public services following career breaks (www.sercoinstitute.com);
- approximately £600,000 of grants made to 300 employee-nominated not-for-profit organisations worldwide by the Serco Foundation Coronavirus Community Support Fund during 2020 and early 2021, plus a further £201,519 of donations to dozens of charities around the world through the remainder of 2021 (www.sercofoundation.org);
- partnering with the UK Supply Chain Sustainability School – opening access to the latest sustainability knowledge and training resources to Serco colleagues and supply chain partners; and
- delivering key objectives in our Group Modern Slavery Programme. For more information, see our 2021 Modern Slavery and Human Trafficking Statement at www.serco.com/esg/modern-slavery
- maintaining a strong rhythm and momentum in our Employee Voice approach, Colleague ConneXions, whilst embedding Non-Executive Director (“NED”) participation more deeply in our global colleague engagement and consultation landscape through NED involvement in our diversity and inclusion events and 19 full-day virtual and actual visits with Serco sites in every region, as well as 12,609 comments to the Board received through our employee survey;
- refreshing our Contract Manager and Advanced Leadership Development Programmes with University of Oxford, Saïd Business School, for relaunch in 2022;
- refining and growing our regional management and leadership development programmes with focus on underrepresented groups, with new programmes for frontline leaders, high-potential talent, and management development;
- officially launching our implementation of the UK Race at Work Charter and joining the Australian Pinnacle Foundation as a gold partner, funding the new multi-year Serco Scholarship to support LGBT+ youth;
- expanding our partnership with Saïd Business School to launch the Oxford Women in Leadership Development Programme for our colleagues, and launching a co-mentoring scheme with our Executive Management Team in Serco UK & Europe, providing two-way mentoring and career acceleration for high potential colleagues from underrepresented groups;
- supporting our maturing colleague communities (including Serco Inspire, Serco Embrace, Serco Unlimited and In@Serco – addressing gender, race and ethnicity, disability, and LGBT+, respectively) in growing to membership of nearly 5,000 globally and working to increase their reach and impact where appropriate, such as formally launching Serco Embrace in all regions, with an executive sponsor in each Division;
- delivering our annual schedule of international diversity and inclusion events, including the first Serco Inclusion Week in June, and a week-long roadshow during UK National Inclusion Week in October, visiting Contracts in each sector;
- employing 1,811 veterans among our US employees, representing 22.7% of our workforce in the US, where we have been recognised by Forbes as one of America’s Best Large Employers;
- training more than 700 people through apprenticeships across our UK business; and
- publishing our third annual People Report, featuring interviews and stories about employees from every sector and region, exploring different aspects of the colleague experience and how Serco people make a difference every day, available at www.serco.com/about/people-report

Our people

- Supporting our colleagues in their safe return to workplaces and the safe reintroduction of working practices; continuing to prioritise the safe and secure management of people and the protection of vulnerable communities; seeking to maintain effective safety standards and high levels of safety engagement in our sites and remote working environments whilst keeping pace with rapidly changing circumstances and restrictions worldwide. For example:
 - deploying our new person-based risk assessments to identify and help manage those who may have been more severely affected by Covid-19, especially for vulnerable colleague communities at greater risk;
 - developing our capability for the identification and control of safety risk in new hybrid ways of working;
 - helping our colleagues in all regions create safer and healthier homeworking environments by improving their access to the right equipment and resources;
 - re-inducting people back into the workplace, with fresh emphasis on everyday health and safety risks as well as those relating to Covid-19;
- holding firm to our broader safety commitments, such as working to drive down our Lost Time Incident Frequency Rate, which has reduced by 17.6% since 2016;
- sharpening focus on employee health and wellbeing: prioritising mental health and those at heightened risk, analysing longer-term Covid-19 risks, and working to ensure that various critical forms of support are in place, relevant, effective and accessible – flexing and adapting them to meet fluctuating regional needs;
- giving our people greater choice in how and where and when they work with our new global principles for hybrid working. Serco colleagues who can fulfil their roles remotely are now only required onsite two days a week;
- launching the Serco People Fund, a new independent charity providing support to current and retired colleagues and close family members facing extraordinary financial challenges, with a significant one-off commitment of £4m from Serco, and making an ex-gratia payment to around 50,000 employees in recognition of their extraordinary efforts;
- sustaining high levels of engagement as measured in our annual employee survey with an overall score of 70 (2020: 73). Our scores 2019-2021 are consistent with the return to pre-pandemic levels experienced by employers who experienced a sharp increase in 2020, followed by a levelling out in 2021;

Governance

For Serco, governance is not an exercise in compliance, nor is it a specific form of management. It is an essential part of our public service ethos and how we manage our impact as a public company – seeking to protect shareholder interests by managing our business in a way consistent with the broader interests of society.

Above all, we strive to live and manage our business by our Values and behave with integrity and treat people with respect – within the bounds of expected individual and corporate behaviour, with regard for relevant laws and regulatory requirements, with sensitivity to local cultures and with respect for human rights.

We focus as much on the preservation and growth of the business as on the maximisation of shareholder value. We strive to ensure a balanced performance framework that recognises value must be delivered to our shareholders as well as customers and employees, and align remuneration and incentive arrangements to long-term, sustainable value creation.

We are committed to transparency, recognising that it is integral to our success. We strive to maintain open, meaningful dialogue with all stakeholders – using a variety of means to update them on performance and gain insight into their views – and base our approach to executive remuneration on a clear rationale in which the alignment of interests is recognisable and understandable.

Governance, risk and assurance control and a strong corporate culture are central to the Company. We have a comprehensive corporate governance framework and approach, with clearly defined responsibilities and accountabilities to help safeguard long-term shareholder value. We strive to maintain an effective system of internal compliance and assurance control and risk management that promotes business growth whilst ensuring we operate safely and ethically and deliver quality services, and that safeguards the best interests of our stakeholders, assets and reputation. Our Code of Conduct and Supplier Code of Conduct define how we expect our operations to be delivered and the behaviours we expect across our organisation and supply chain, underpinned by our Values and commitment to behave with integrity and treat people with respect.

2021 highlights

- Key activities of the Board of Directors in promoting effective governance and compliance with the UK Corporate Governance Code during 2021 are reported in our Corporate Governance Report on pages 115 to 178.
 - Being recognised by NAVEX Global as the 2021 winner of their International Customer Excellence Award for Corporate Culture Impact, for “an impressive demonstration of resiliency, dedication and excellence – overcoming significant challenges to implement an effective ethics and compliance program that prioritizes people, values culture, and inspires organizational trust”;
 - delivering a leadership ‘Trust Summit’ at our Divisional Leadership Conferences, focused on the fraud risk triangle and the reinforcement of trust among colleagues and customers while mitigating risks. This was followed by a collaborative cross-regional exercise in which attendees were invited to constructively challenge Serco leadership, culture, systems and controls through the fraud risk triangle lens. Feedback from an estimated 550+ delegates was discussed by the Group Executive Committee and Corporate Responsibility Committee (“CRC”) and informed future plans across our Group Functions;
 - completing detailed human rights assessments for new business opportunities where appropriate, improving business guidance on the assessment of human rights risks, and publishing a new supplement detailing our approach to human rights with a specific focus on the management of human rights impacts within our Justice & Immigration operations, available at www.serco.com;
 - proactively participating in working groups hosted by the Ethics & Compliance Initiative, and supporting the Institute of Business Ethics Good Practice Guide on trends and innovations in effective ethics training;
 - building on our risk-based Data Protection Programme, including establishing a global Data Protection Oversight Group, appointing Data Protection Champions in every Serco Middle East Contract, and launching new enhanced data protection training for managers in the UK;
 - the year saw shareholders receive their first dividends since 2014, so Total Shareholder Return (“TSR”) includes these as well as share price performance (“SPP”). TSR has been +69%, -26% and +14% in the financial years 2019, 2020 and 2021, respectively.
- While SPP is influenced by many factors, we consider earnings per share (“EPS”) and returns on invested capital delivered (“ROIC”) particularly important. Underlying diluted EPS performance was +18%, +37% and +49% for 2019, 2020 and 2021, respectively, whilst underlying ROIC has been at 15.4%, 19.1% and 23.7% for those years. The Group’s order book was £14.1bn, £13.5bn and £13.7bn at the end of 2019, 2020 and 2021, respectively. For more information and broader discussion and analysis on our progress and performance in 2021, as well as our guidance and outlook, see Key Performance Indicators (pages 32 to 34), Chief Executive’s Review (pages 16 to 26), Directors’ Report (pages 171 to 178) and Financial Statements (pages 179 to 261);
 - delivering Year Two of our Deferred Prosecution Agreement Plan and submitting our Year Two report to the UK Serious Fraud Office;
 - maintaining a comprehensive annual schedule of close executive engagement and strategic supplier reporting to the UK Cabinet Office;
 - refreshing Board and Committee membership with a focus on strengthening diversity of skills, knowledge and experience gained from across business and government;
 - launching our new annual Chairman’s Governance and Remuneration Roadshow, offering top shareholders the opportunity to engage directly with our new Chairman on these topics;
 - continuing to mature our governance structure around an increasingly integrated and clearly defined ESG agenda, with the CRC working to ensure that Serco’s position and approach on ESG remains appropriate, embedded and conducive to the delivery of the Group strategy. For more information, see our CRC Report on pages 135 to 136;
 - establishing a global ESG Oversight Group to maintain and coordinate the Group ESG approach, with representatives from across the business and core Group functions, including Group and Divisional Executives;

ESG Impact and Integrity continued

- continuing to mature our ESG reporting:
 - increasing the depth and breadth of our disclosure to align more closely with investor needs, analyst focus, and external recommendations and requirements including those of the TCFD, Global Reporting Initiative ("GRI") and Sustainable Finance Disclosure Regulation ("SFDR");
 - conducting an internal audit on our ESG reporting, which confirmed that assurance controls and processes over non-financial reporting at Serco are adequate and identified opportunities for enhancement which have been or will be actioned in 2022;
- maintaining the ESG measures in our annual bonus and long-term incentive awards, focusing on governance processes, stakeholder engagement, operational health and safety, colleague diversity and engagement, and environmental performance and management of environmental risks. For more information, see our Remuneration Report on pages 139 to 170;
- conducting comprehensive, global reviews – focused on improving accessibility, engagement and impact; informing next phases and future iterations – of Serco Essentials, our all-employee training programme, the Serco Code of Conduct, and the SMS, our management framework;
- delivering Group-wide programmes to strengthen internal control and compliance assurance through our three lines of defence, including:
 - an independent quality assessment of our Internal Audit function, updating our 2022-2025 internal audit strategy per the findings;
 - implementing a Group-wide enterprise risk management capability review to drive consistency, process improvement and best practice sharing across Divisions;
 - further increasing the level of our ethics compliance assurance with an expanded review programme in 2021, covering anti-money laundering, export controls and trade sanctions, facilitation payments and competition regulations;
 - redesigning our annual SMS Self-Assessment, increasing the focus on controls managing key risks and implementing new maturity scales to enhance objectivity; and
- further developing the maturity and formality of Serco financial reporting processes and controls through a comprehensive programme of documentation and testing, covering all material parts of the business globally. This programme is in place to address and prepare for internal control compliance requirements anticipated from the UK Department for Business, Energy & Industrial Strategy ("BEIS") consultation, 'Restoring trust in audit and corporate governance'. For more information, see our Audit Committee Report on pages 128 to 132.

For our Enterprise Risk Management approach and principal risk mitigation plans, see Principal Risks and Uncertainties (pages 95 to 104) and Group Risk Committee Report (pages 125 to 127).

Environmental

We are committed to addressing the environmental and climate emergencies and supporting the net zero carbon ambitions of our clients and wider society. Alongside our customers and other stakeholders, we recognise that environmental sustainability is a critical factor in societal wellbeing and resilience. We also recognise that the impacts of climate and environmental emergencies will be felt ever more acutely across the public service landscape, driving evolution, adaptation and innovation in order to keep pace with the changing needs of society.

In 2020, we launched a refreshed Group Environment Strategy to deliver longer-term Group Environment, Energy and Sustainability commitments in our operations and supply chain. It has four areas of focus: carbon and climate; resource efficiency; environmental protection, including biodiversity; and embedding environmental behaviours in Group culture.

Since 2017, we have reduced our Scope 1 and (market-based) Scope 2 carbon emissions by 14.8% and are now working towards net zero in our own assets, leases and business travel by 2030, for which our Group targets (2025 and 2030) are based on Science Based Targets Initiative ("SBTi") methodology.

Our strategy recognises a number of challenges and opportunities in the years ahead, including: escalating environmental and

climate emergencies and green recovery from Covid-19; potential increases in legislation to curb emissions and travel; the need for greater resource efficiency, a transition to a more circular economy and consideration of supply chain impacts; and the growing demand for data and analytics.

Our impact and opportunity to make a positive difference from an environmental perspective varies in each market, depending on the nature of services we deliver and the level of operational control we hold at any given contract.

Where we have direct control of environmental impacts, activities are managed locally. We strive to: build a culture of environmental stewardship that drives improvement; minimise adverse environmental impact through effective environmental management systems and sustainable business practices; actively manage environmental hazards and risks arising from our activities and services; monitor our performance; and investigate any incidents that occur.

Across more than two thirds of our business we work on our customers' premises and are not in direct control of environmental impacts. In such cases, we work collaboratively with our customers, supporting them in applying their own environmental management systems and achieving their objectives.

2021 highlights

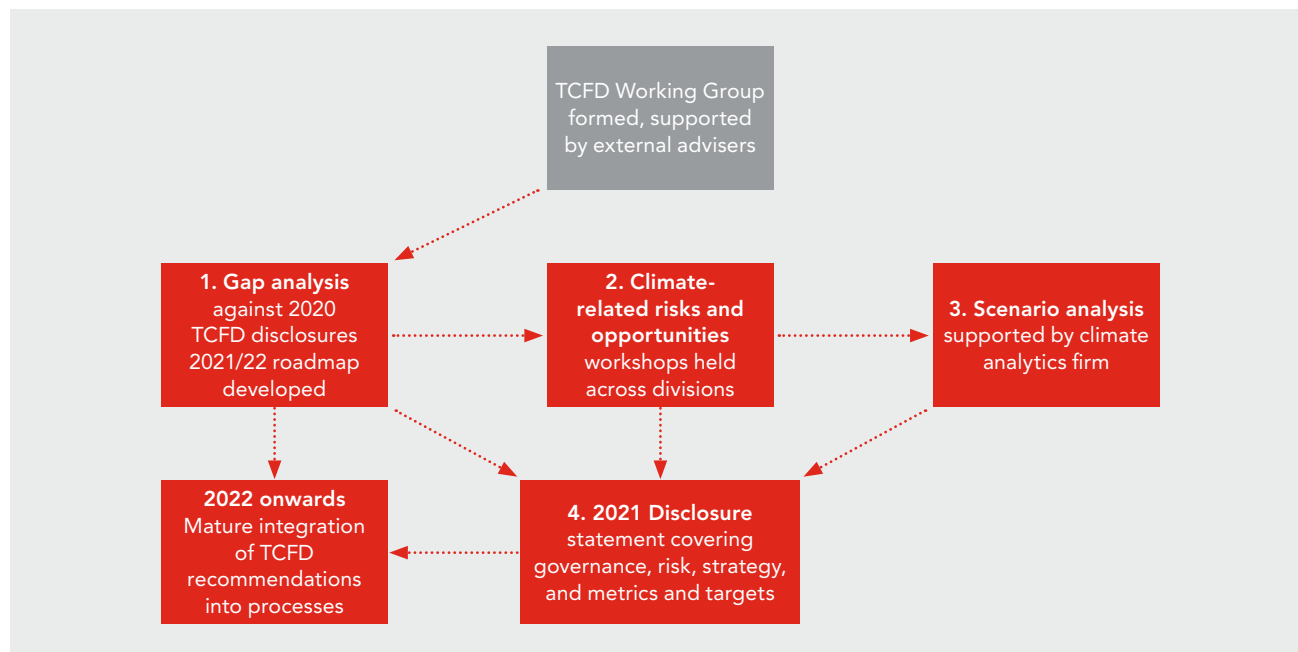
- Strengthening Board and Group Executive oversight of our environmental agenda through members joining Chapter Zero, the UK community of non-executive directors focused on climate change;
- strengthening Group policy by replacing our combined Group Health, Safety and Environment ("HSE") Policy Statement with two new Group Policy Statements, Health and Safety and Environment & Climate Change;
- expanding our environmental reporting to include waste, water and activities on or near environmentally protected sites. See select environmental performance and disclosure data on pages 72 to 75 and more in our full ESG Report 2021;
- completing our global programme of strategic climate risk review and consultation, led by our Task Force on Climate-related Financial Disclosures ("TCFD") working group. Quantitative and qualitative assessment of relevant climate risks and opportunities has identified material risks and opportunities, of which two have been prioritised for analysis: increased severity and frequency of extreme weather events, and the impact of carbon taxes and levies across the geographies in which we operate. Climate scenario analysis and impact modelling were then applied to understand potential financial impacts. The metrics and targets in our Group environmental strategy were also updated per the findings of our TCFD programme. For more information, see our TCFD disclosure statement on pages 58 to 68;
- completing a global review of partnership options for supporting our net-zero carbon and environmental protection commitments through investment in nature-based solutions, supporting carbon sequestration, ecosystem restoration and biodiversity enhancement programmes;
- designing energy efficiency into our Contracts, and delivering energy efficiency projects in our most energy and carbon intensive Business Units and Contracts – including our ISO 50001 certified Leisure business, our Environmental Services business and our Northlink Ferries and Future Provision of Marine Services Contracts in the UK – and for our customers – including at Fiona Stanley Hospital in Australia and across our property and facilities management Contracts in Abu Dhabi;
- delivering and/or operating major public assets and services with significant environmental purpose – such as the Australian RSV Nuyina and the European Space Agency Earth observation programme, both of which are supporting global environmental and climate change research, and Cycle Hire schemes, helping to decarbonise the cities and regions where they operate – and with minimal environmental impact – such as all-electric passenger ferries in Canada, the first of their kind in North America, and Clarence Correctional Centre in Australia, arguably the most environmentally-focused prison on the planet;
- extending our employee-led environmental engagement and improvement programme, Serco Goes Green, into our Asia Pacific and Americas regions, connecting a growing global network of more than 278 Green Ambassadors with 200 improvement projects completed or in progress as of end-2021;
- proactively participating in the Institute of Environmental Management and Assessment ("IEMA") corporate partnerships programme, becoming an IEMA-approved training centre and commencing delivery of our now IEMA-certified courses to key employee groups; and
- benchmarking our approach to climate change via the annual Carbon Disclosure Project ("CDP") questionnaire, maintaining our B score.
- In 2022, we plan to update our Group Environment Strategy, net zero transition pathway and associated targets (with consideration of SBTi validation by the CRC) per relevant outcomes of COP26 and other evolving factors including customer expectations and anticipated sector-specific net-zero target setting guidance from the SBTi; and
- publish further details on our net zero transition pathway for achieving net zero in our own assets, leases and business travel by 2030.

ESG Impact and Integrity continued

Task Force on Climate-related Financial Disclosures (“TCFD”) statement

The purpose of this statement, our full TCFD disclosure statement 2021, consistent with the recommendations of the TCFD, is to provide investors and wider stakeholders with a better understanding of Serco’s exposure to climate-related risks and our strategic resilience to these risks, as well as climate-related opportunities material to Serco. The approach we have taken is illustrated below.

Responding to TCFD – Overview of our approach



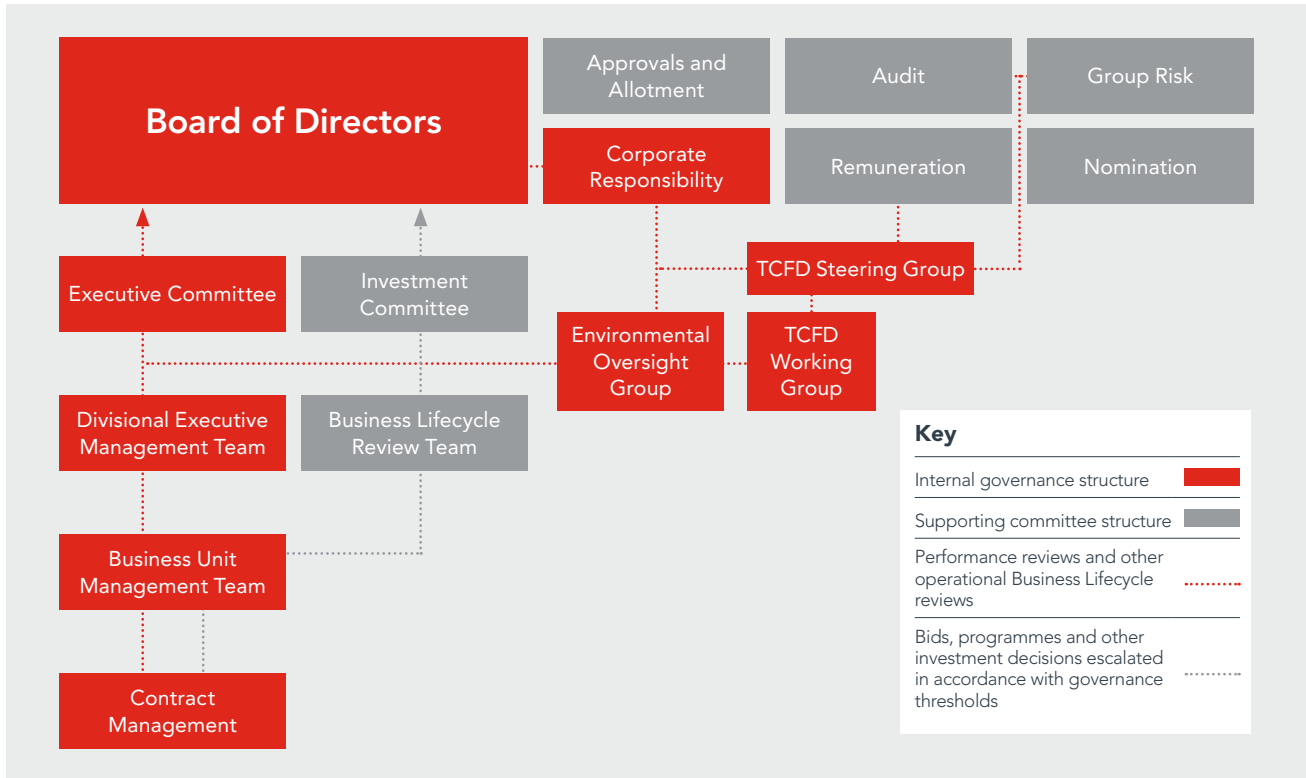
Governance

Alongside our customers and service users, we recognise that the health of our planet is a critical factor in societal wellbeing and resilience. We also recognise that the impacts of climate and environmental emergencies will be felt ever more acutely across the public service landscape, driving evolution, adaptation, and innovation to keep pace with the changing needs of society. The Board of Serco Group plc is focused on ensuring that Serco lives by its Values; operates by high standards of environmental, social, and corporate governance, integrity, and ethics; and delivers responsibly on its commitment to manage its environmental impact whilst supporting the environmental objectives of its customers. We work to a clear governance framework to support our assessment and management of climate-related risks and opportunities, as outlined in the sections below, see **Organisational and reporting structure for climate governance**.

Board oversight of climate-related risks and opportunities

The Board is accountable for the long-term success of Serco and setting a framework of effective controls which enables risks (including climate-related risks and opportunities) to be assessed and managed. Responsibility for ESG matters is embedded in our corporate governance through the Board’s standing Corporate Responsibility Committee. The Corporate Responsibility Committee receives inputs from the Group Risk Committee (supporting assessment and management of climate risks), the Group Audit Committee (supporting assessment of financial impacts) and the Group Remuneration Committee (supporting inclusion of climate-related targets in remuneration).

Organisational and reporting structure for climate governance



The Corporate Responsibility Committee provides oversight of TCFD activities on behalf of the Board. To strengthen Board effectiveness and competence on climate change, a member of the Board and a member of the Executive Committee joined Chapter Zero in 2021. Chapter Zero is building a community of non-executive directors and relevant business leaders to equip them to lead boardroom discussions on the impacts of climate change with a purpose of ensuring companies are fit for the future and that global net zero ambitions are transformed into robust plans and measurable action. In addition to our official Chapter Zero members, other Non-Executive Directors have accessed Chapter Zero’s learning opportunities during 2021. We will explore further interaction with Chapter Zero, TCFD website learning resources and wider climate change learning collateral for Executive and Non-Executive Directors in 2022.

ESG Impact and Integrity continued

Responsibilities and roles for the assessment and management of climate-related risks and opportunities, by committee or group

Governance body/ reporting structure	Chair	Climate risk/ opportunities agenda frequency	Roles and responsibilities related to climate risk/ opportunities	Areas covered, review areas and material climate risk/opportunities decisions in 2021	Focus areas for 2022
Sercos Group plc Board	Chairman	Annual, updated through the Corporate Responsibility Committee.	Oversight of climate risks and opportunities and input into related Group strategies. Approval of Group Environment and Climate Change Policy Statement. Approval of Group environmental strategy and climate-related targets.	Review and approval of Annual Report and Accounts including TCFD elements.	Approval of updated environmental strategy, metrics and targets.
Corporate Responsibility Committee – reporting to the Board	Independent Non-Executive Director	Biannual review of Group environment strategy including climate-related risks and opportunities.	Responsible for assisting the Board in providing independent oversight and guidance of the Company's ESG Framework, related strategies, policies, and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its values of Trust, Care, Innovation and Pride. Oversight of environmental strategy and targets, climate-related risks, and opportunities.	Oversight of TCFD disclosure programme and review and approval of TCFD disclosure statement. Approval of sustainable procurement charter which will help to measure and manage climate risk in the supply chain.	Oversight of the integration of TCFD requirements. Oversight of environmental strategy, metrics and targets review, including net zero target refresh.
Executive Committee – reporting to the Board	Group Chief Executive Officer	Biannual review of Group environment strategy including climate-related risks and opportunities.	Review of Group environmental strategy, climate risks and opportunities. Executive Committee members are responsible for the delivery of environmental strategy and flow of information in their respective areas supported by management functions.	Review of TCFD disclosure programme.	Review of 2022 TCFD disclosures and environmental strategy, metrics and targets.
Audit Committee – reporting to the Board	Independent Non-Executive Director	Annual review of climate risk disclosure.	Review of climate risks and opportunities and financial elements.	Review of TCFD disclosure programme. Engaged external advisers to support TCFD disclosures.	Review quantitative elements of 2022 TCFD disclosures and approve level of support from external advisers.
Risk Committee – reporting to the Board	Independent Non-Executive Director	Quarterly review of Group and Divisional principal risks; annual review of emerging risks.	Responsible for overseeing the Company's approach to the risk management, compliance, and assurance framework. Review principal risks, material cross-cutting risks and emerging risks (including climate) and report these to the Board.	Decision to recognise climate change as a cross-cutting risk in relevant principal risks. Extreme weather events relating to climate captured in the Group principal risk, 'catastrophic risk'.	Review climate elements in principal, material cross-cutting and emerging risks.

Governance body/ reporting structure	Chair	Climate risk/ opportunities agenda frequency	Roles and responsibilities related to climate risk/ opportunities	Areas covered, review areas and material climate risk/opportunities decisions in 2021	Focus areas for 2022
Remuneration Committee – reporting to the Board	Independent Non-Executive Director	Annual agenda discussion of elements within our ESG scorecard.	Embed performance against climate and wider environmental issues within executive level bonus and long-term incentive plan.	Consideration of climate-related metrics for inclusion within our ESG scorecard.	Review of climate-related metric performance within our ESG scorecard.
TCFD steering group – reporting to the Board committees	Group General Counsel & Company Secretary	Quarterly meetings.	Multi-functional groups with the responsibility for preparing and responding to TCFD disclosures via collaboration and input from internal and external stakeholders.	Review of TCFD disclosures programme and disclosure statement ahead of submission to the Corporate Responsibility Committee.	Review of TCFD disclosure programme and 2022 statement. Support the integration of climate risks and opportunities into business strategy, planning and processes.
TCFD working group – reporting to the TCFD steering group	Group Head of Environment, Energy & Sustainability/ Group Head of Financial Reporting	Regular meetings during 2021 to manage and undertake TCFD reporting process supported by external advisers.	Organisation of climate risk and opportunity workshops and engagement of internal stakeholders to input to the climate risk/opportunities process.	All aspects of TCFD reporting. Collaboration with external advisers on gap analysis, global climate risks and opportunities workshops; integration into overall Group risk framework; scenario analysis approach; and disclosure statement. Roadmap developed to mature future climate risk and opportunity assessment.	Lead integration of climate risks and opportunities into business strategy, planning and processes. Support climate risks and opportunities review and prepare 2022 TCFD disclosure statement.
Environmental Oversight Group – reporting to the Corporate Responsibility Committee and Executive Committee	Group Head of Environment, Energy & Sustainability	Quarterly meeting. Climate risks and opportunities reviewed.	Formulating, reviewing, and progressing Group environmental strategy including climate objectives and targets. Representation from Divisional Health, Safety & Environment (“HSE”) leads and wider functions, collectively supporting the flow of information to and from Divisional Executive, Business Unit and contract level management teams.	Input to climate risks and opportunities workshops and engagement of internal stakeholders and management functions.	Input into climate risks and opportunities review and support the update of environmental strategy, metrics and targets.

Wider management functions throughout the organisation also have climate-related roles and responsibilities. For example, our HSE network supports delivery of environmental strategy, climate-related targets and builds competence on climate-related issues, and our Procurement function launched a Sustainable Procurement Charter in 2021 and during 2022 plan to support a more refined measurement of Scope 3 carbon emissions in our supply chain. Our HSE network and Green Ambassador network help deliver strategy, progress against targets and support action at the local level, delivering cultural change. We will continue to embed climate-related roles and responsibilities throughout our functions and operations during 2022. For example, ensuring climate-related risk considerations are further embedded in financial and commercial planning. Collectively, this management and leadership focus will help Serco to better understand its exposure to climate-related risks, build strategic resilience to these risks and take advantage of opportunities.

Strengthening the link between our climate-related targets and remuneration

In 2021 we incorporated an ESG scorecard into the annual bonus and Long-Term Incentive Plan ("LTIP"), weighted at 15%. The environment element focuses on significant improvement in our understanding, management, and disclosure of Serco's environmental risks per our environmental strategy, informed by environmental performance, risk mitigation and external agency ratings, which include the assessment of performance against our climate-related targets and objectives.

As our climate risk and opportunity reporting matures, the Remuneration Committee will continue to refine our approach and ensure the climate-related elements of our ESG scorecard remain adequate and represent best practice for our sector and operations. The Remuneration Committee is considering how climate-related elements feature in future ESG scorecards.

Further information is available in our Remuneration Report, on pages 139 to 170.

Risk management

In our 2020 Corporate Responsibility Report we disclosed some examples of initial climate-related risks and opportunities identified and committed to review these in more depth in 2021. We have now conducted a detailed assessment using our risk management lifecycle framework. Further information is available in **Risk Management** and **Principal Risks and Uncertainties**, see pages 92 to 94 and 95 to 104 respectively. We do not consider climate risk as a standalone principal risk, instead we embed it as a cross-cutting scenario under several of our principal risks.

Identifying, assessing, and managing climate-related risks and opportunities

A number of climate risks and opportunities workshops were undertaken using the following process:

1. External advisers reviewed Serco operations and previous work undertaken before generating an initial list of climate risks and opportunities that could impact Serco, aligned to the TCFD risk and opportunity categories.
2. Workshops were facilitated with key stakeholders in each Serco geographical region, including a range of core sector and business function representatives. We obtained a wide range of perspectives on climate-related risks and opportunities, including impacts from historic events, opinions on future change, and perceived risk materiality. The workshops also allowed us the opportunity to build support across the business for increasing awareness of climate change and competency, which will help to further mature our response to TCFD requirements going forward.

3. Material climate risks and opportunities were shortlisted, based on workshop outputs. Through heat mapping and application of our enterprise risk management framework, we performed a qualitative assessment of the risks and opportunities to help understand the impacts and assess the relative materiality of risks and opportunities to Serco.

We will mature the identification, assessment, and management of climate-related risks in the future as we recognise this is an ongoing process. Our approach going forward will be informed by our 2021 process and activities, any further guidance published by TCFD and recognised best corporate practice. In 2022 we will look to undertake more workshops, engaging key functions and in some cases different individuals, to continuously refine and mature our understanding across our operating geographies and business functions.

Through our membership and involvement in the activities of industry-led organisations, such as the Business Services Association, Supply Chain Sustainability School and Institute of Environmental Management and Assessment, combined with regular client dialogue, we will continue to engage with our supply chain, clients and wider stakeholders on opportunities to take climate action, manage climate risks and grasp opportunities, potentially involving them in future climate risks and opportunities workshops. Furthermore, through our new Sustainable Procurement Charter we will engage with our supply chain to incentivise action and help manage climate risks through Scope 3 carbon emissions measurement and management.

In considering our climate risks and opportunities we have considered short-term risks between 0-3 years in line with how we assess our principal risks and viability statement. Medium-term risks are between 3-6 years, in line with our medium-term contracts. Long-term risks are between 6-30 years, in line with our longer-term contracts, our Group Environment Strategy, and the climate plans, visions and commitments of the governments we serve.

Strategy

We recognise that the climate and wider environmental emergencies present significant risks to society and the planet. We are committed to supporting our clients to meet net zero by 2050 and meeting net zero in our own assets and leases by 2030.

Climate-related risks and opportunities

Climate-related risks have the potential to impact Serco over the short, medium, and long term. We face potential physical risks including extreme weather events as well as transition risks resulting from the transition to a lower carbon economy, including the cost of transitioning products and services to lower emission options.

As an outsourcing organisation operating across multiple sectors and geographies, the ways in which climate change may impact our own and our customers' assets (where we deliver the majority of our services) and their requirements is hugely diverse. Following our Divisional workshops, we identified risks and opportunities which could be material to Serco at the Group level, see **Summary of material risks** opposite.

Summary of material risks

Risk	Category	Description	How we are managing this risk / the action we are taking	Time horizon
Physical risk				
Increased severity of extreme weather events such as heatwaves, hurricanes, and floods	Acute	<p>We operate across multiple sectors and geographies and the type and severity of extreme weather events varies by region.</p> <p>These events have the potential to disrupt our ability to deliver on our contractual obligations by disrupting our service provision or damaging assets and infrastructure.</p> <p>This could result in repair costs, adaptation investments and potential reductions in revenue from the inability to provide services.</p>	<p>This risk is principally managed through our catastrophic incident principal risk.</p> <p>Regular insights from external advisers on climate analytics and scenario analysis will help prioritise and inform site-specific risks and ensure focus in contract/location specific risk registers, environmental aspect and impact registers and business continuity planning, taking into account contractual mitigations where the risk of damage to assets and infrastructure sits with our customers or is covered via contractual protection, such as force majeure clauses.</p>	Short-medium.
Transition risk				
Introduction of and increases in carbon taxes and levies	Energy	<p>Carbon taxes to date have remained relatively low but are expected to increase substantially in line with global government commitments to meet the 2015 Paris Agreement. Serco could be materially impacted by the implementation of carbon taxes due to:</p> <ul style="list-style-type: none"> - An increase in energy, fuel and associated operating costs. - Indirect carbon taxes which are passed to us through our supply chain. 	<p>Monitoring of policy and tax changes across our operating geographies and understanding where costs will be borne by Serco or a pass through cost to customers.</p> <p>Where we control electricity contracts, we are looking to transition across to green energy tariffs where possible. We also support clients/landlords with renewable generation projects where applicable.</p> <p>We are seeking to move away from fossil fuel use in our fleets where we can, by transitioning to hybrid and electric vehicles in a number of areas.</p> <p>Our sustainable procurement charter will focus on measuring and managing carbon within our supply chain and we are seeking to influence suppliers to take positive steps toward measuring carbon and setting net zero targets.</p>	Short-medium

Scenario analysis

In 2021 we undertook scenario analysis assisted by an external climate analytics advisory firm. This is a vital step in helping us to understand how climate risks and opportunities may evolve under certain situations, helping us to assess and improve our climate resilience. Climate scenarios are used to demonstrate a range of pathways and possible emission trajectories over the remainder of the century, and the impact these could have on global temperature increases compared to pre-industrial levels. These trajectories are based on the different rates of decarbonisation of the world economy and will impact how physical and transition risks manifest. We selected publicly available climate scenarios, see **Scenarios considered** below, sourced from the International Energy Agency ("IEA") and the Intergovernmental Panel on Climate Change ("IPCC") to help reach plausible outcomes.

ESG Impact and Integrity continued

Scenarios considered and high-level assumptions

Warming trajectory by 2100	Transition scenarios ("IEA")	Physical scenarios ("IPCC")
1.5°C	IEA Net Zero Emissions ("NZE") This scenario assumes a rapid transition as available technologies are deployed quickly and governments cooperate.	Not considered.
<2°C	IEA Sustainable Development Scenario ("SDS") This scenario assumes a steady, orderly transition as all current net zero pledges are achieved in full and there are extensive efforts to realise near-term emissions reductions.	IPCC Shared Socioeconomic Pathways ("SSP") 1-2.6. This scenario assumes there are low challenges to climate mitigation and adaption and there is a societal shift to sustainable lifestyles and inequality is lessened globally.
2-3°C	IEA Announce Pledges Scenario ("APS") / IEA Stated Policies Scenario ("STEPS") These scenarios consider current government net zero pledges but are more conservative, assuming that not all will be met.	IPCC SSP 2-4.5. This scenario assumes medium challenges to mitigation and adaptation. Institutions make slow progress in achieving sustainable development goals and environmental systems continue to experience degradation and the shift to sustainable lifestyles is slow.
4°C	Not considered.	IPCC SSP 5-8.5. This scenario places greater emphasis on competitive markets, innovation and participatory societies to produce rapid technological progress toward sustainable development. Globalisation and the exploitation of fossil fuels continue.

Impact pathway approach

We have modelled impacts for the following material risks based on future operations remaining similar to current sectors and geographies. We have used a range of internal business data and analytics:

Extreme weather events

Understanding the potential financial impacts of extreme weather events to Serco's operations, including the damage to assets, facilities and sites where we operate and the long-term impact of weather patterns.

Carbon taxes and levies

The impact of carbon taxes and levies across the geographies in which Serco operates.

We have used impact pathways in our scenario analysis, see **Impact pathway approach** below, as a first step in quantifying the financial impacts of climate change. This approach displays the logical steps from event to financial impact, helping to identify the types of business impacts and develop a narrative, facilitating the development of calculation logic which underpins our scenario analysis.

Impact pathway approach



Extreme weather events

We considered financial impacts from reduced revenue, as a result of disruption to operations caused by extreme weather, and also asset damage and increased costs as a result of physical destruction and damage of Serco / client assets leading to difficulties in fulfilling contractual obligations.

52 sites were selected for modelling using a risk-based approach consulted on with external stakeholders. These sites represent approximately 10% of Serco's operating locations and c. 26% of our 2020 annual revenue. Information from these sites was uploaded by a climate analytics firm into their 'ClimateScore global climate risk model' which returns the magnitude and frequency of extreme weather-related hazards, as well as the expected damage and loss from flood and wind events, for a given value of a property.

Impacts from a business-as-usual emissions scenario resulting in a >4° temperature increase include:

- Sites along the East coast and South-East of the United States ("US") experiencing a large increase in rainfall and storms. Implications for Serco would be operational impacts / supply chain delays and downtime due to disruption.
- Middle East sites will experience more days of extreme heat and require increased overheads to ensure sites are kept cool through air conditioning. Reduced productivity from employees given high temperatures, disrupting operations and increasing costs. This will be particularly prevalent for sites where operations take place outdoors. We could face difficulty recruiting / retaining staff in locations where temperatures are increasing due to impacts on wellbeing and increased living costs associated with air conditioning.
- In Australia and UK, increased days of extreme heat will impact our employees but also people in our care, with hospitals and Justice & Immigration sites requiring appropriate cooling infrastructure and business continuity planning required should equipment fail or not be sufficient to support the comfort conditions required.

Extreme weather event assumptions and approach:

- We have used IPCC scenarios for physical risks.
- Contracts and sites selected were:
 - based on vulnerability to extreme weather, longer-term contracts and sites with vulnerable people in our care (ie hospitals and prisons); and
 - spread across our Divisions (6 Middle East, 10 Americas, 24 UK & Europe and 12 Asia Pacific) and sectors (8 Citizen Services, 11 Defence, 5 Health, 13 Justice & Immigration, 6 Transport and 9 Corporate sites).
- Impact on buildings, contents and business downtime was assessed using Serco insurance data, and it was noted that customers will often have insurance.

ESG Impact and Integrity continued

Next steps

To achieve a greater understanding of the risks posed and the vulnerability of Serco/client sites and operating locations, we plan to undertake future analysis, potentially expanding the number of sites reviewed via an external climate analytics firm, working in partnership with clients and drawing upon their insights, intelligence and climate mitigation and adaptation planning to build collective climate resilience.

Our scenario analysis has identified potential future risks and costs relating to extreme weather events under various scenarios and we intend to review the force majeure and business interruption / downtime elements in current and future contracts to understand the impacts on Serco and clients in order to mature our collective resilience to climate impacts. Based on this initial modelling and analysis we do not perceive substantial financial impacts across the Group as a whole given that the hazards will impact at different times across our geographies / operating locations and clients will often share a proportion of the risks and liabilities on their sites and assets, such as through insurance and under contractual provisions such as force majeure type clauses.

Carbon taxes and levies

We considered the financial impact of future carbon pricing. Carbon taxes and levies to date have remained relatively low but are expected to substantially increase in line with government commitments to meet the 2015 Paris Agreement. Major commitments to fast track the transition to a lower carbon economy were agreed by major economies at the United Nations ("UN") Conference of Parties ("COP26").

We consider the following financial impacts to be the most significant:

Reduced revenue as a result of:

- Operational costs which could increase as a result of carbon costs being passed down the value chain. This could result in Serco's increasing prices making Serco less competitive.
- An increase in the complexity of contractual arrangements to understand and agree with customers on the party that will be liable to bear the costs of a carbon tax.

Increased costs as a result of:

- Cost of carbon tax and levies to the business for energy and fuel use in cases where these cannot be passed on to customers.
- Indirect carbon taxes which are passed to the Serco through its supply chain.
- Early retirement of assets or investment to reduce asset emissions.
- Retrofitting/replacement costs to transition to lower emission fuels.

Next steps

Our scenario analysis has identified potential future risks and costs relating to carbon pricing under various scenarios and we intend to understand further where the liability will lie in current and future contracts and where significant costs could arise in our supply chain. We will mitigate these risks by continuing to implement our Group environment strategy and net zero planning in partnership with clients to transition away from fuel and energy sources which will attract future carbon taxes and levies.

We recognise that scenario analysis and modelling is subject to limitations, for example the physical climate risks can be unpredictable and carbon price forecasts are subject to many contributing factors which will change over time. Our modelling uses many fixed assumptions which are also subject to change (for example, our carbon targets and reporting scope may change following review in 2022). As we mature our scenario analysis, we will explore ways in which to move from a more qualitative narrative-based approach in explaining the potential range of climate change implications, to a more quantitative-based approach, improving and refining our data and modelling techniques to help illustrate potential pathways. This will support us in further integrating scenarios in our business, strategy, and financial planning.

Carbon tax and levies key assumptions:

- The IEA's projected energy carbon pricing for each scenario to 2050 are used for all sectors.
- Scope 1 & 2 carbon emissions in 2030, 2040 and 2050 are projected using Serco's internal carbon emissions reduction targets (38%, 69% and 100% respectively), in line with the Paris agreement of net zero by 2050.

Metrics and targets

We have set a range of metrics and targets in our Group environmental strategy against our themes of Carbon and Climate, Resource Efficiency and Environmental Protection. The climate-related metric categories are outlined below:

Climate-related metric categories

Metric category	Unit of measure	Metric	Group targets set and reported?	Example linkage to identified risks and opportunities
Green House Gas ("GHG") emissions Absolute Scope 1, 2 & 3 emissions	tCO ₂ e	Absolute Scope 1, 2 & 3 emissions (market based)	Yes ¹	Impact of carbon taxes and levies
GHG emissions Emissions intensity	tCO ₂ e per full time equivalent ("FTE") and £m revenue	Scope 1 & 2 emissions per FTE and £m revenue (market based)	No, reported as an indicator ¹ and considering for future reporting, for example business travel tCO ₂ e per FTE	Impact of carbon taxes and levies
Climate-related risk Proportion of real assets exposed to 1:100 and 1:200 climate related hazards*	%	Proportion of sites where Serco operates with medium to high risk of flooding	No, reported as an indicator ² for sites selected for modelling and to be expanded in the future	Increased severity of extreme weather events
Climate-related risk Impact of carbon taxes and levies	£GBP	Climate-related taxes/levies included in annual electricity and gas costs	No, reported as an indicator ²	Impact of carbon taxes and levies
Climate-related opportunity Transition to renewable electricity	% and Megawatt hour ("MWh")	% and MWh of electricity consumption sourced from green tariffs and/or energy attribute certificates	No, reported as indicator ² , targets to be considered in the environment strategy refresh in 2022	Impact of carbon taxes and levies
Climate-related opportunity Transition to greener fleet	%	% of vehicles by fuel type	No, reported as indicator ² , targets to be considered in the environment strategy refresh in 2022	Impact of carbon taxes and levies
Climate-related opportunity ISO Management System certification	%	% of operations covered by relevant ISO certified management systems	No, reported as indicator ² , targets to be considered in the environment strategy refresh in 2022	Contract risk
Climate-related opportunity Board level and workforce competence	Number	Executive/Non-Executive membership of Chapter Zero. Training provided to key functions and groups/professional body membership/staff with environment/climate focused roles	No, targets to be considered in the environment strategy refresh in 2022	Upskilling to support transition to lower emission products and services

* We cannot yet report fully on this proportion but can report on 52 sites sampled and will seek to refine in future.

1 See ESG performance and disclosure data, pages 69 to 76.

2 See ESG performance and disclosure data in our full ESG Report 2021.

ESG Impact and Integrity continued

In 2019-20 we formulated and set Scope 1 and 2 carbon emission reduction targets that aligned with net zero 2050 using the most appropriate Science Based Targets initiative (“SBTi”) methodology at the time, based on the guidance of an SBTi-approved consultancy. Our current targets are based on Scope 2 market-based approach for electricity emissions and are in line with a scenario between 1.5°C and 2°C and net zero by 2050:

- Scope 1 & 2 absolute reduction of 22% vs 2019 baseline by 2025 (market-based Scope 2). 2021 performance = 20.7% reduction achieved.
- Scope 1 & 2 absolute reduction of 38% vs 2019 baseline by 2030 (market-based Scope 2).
- Scope 3 business travel reduction of 25% vs 2019 baseline by 2021 (set pre-Covid). 2021 performance = 55% reduction (Covid impacted significantly on the reductions achieved).

As well as the above targets, we have set a 2030 target for net zero in our own assets, leases and business travel, given we have more control and influence over these elements and do not rely as much on our customers’ approach to net zero and the upgrade of their owned/leased assets which we operate and include in our current carbon reporting boundary.

We recognise the need to review our climate targets in 2022 based on:

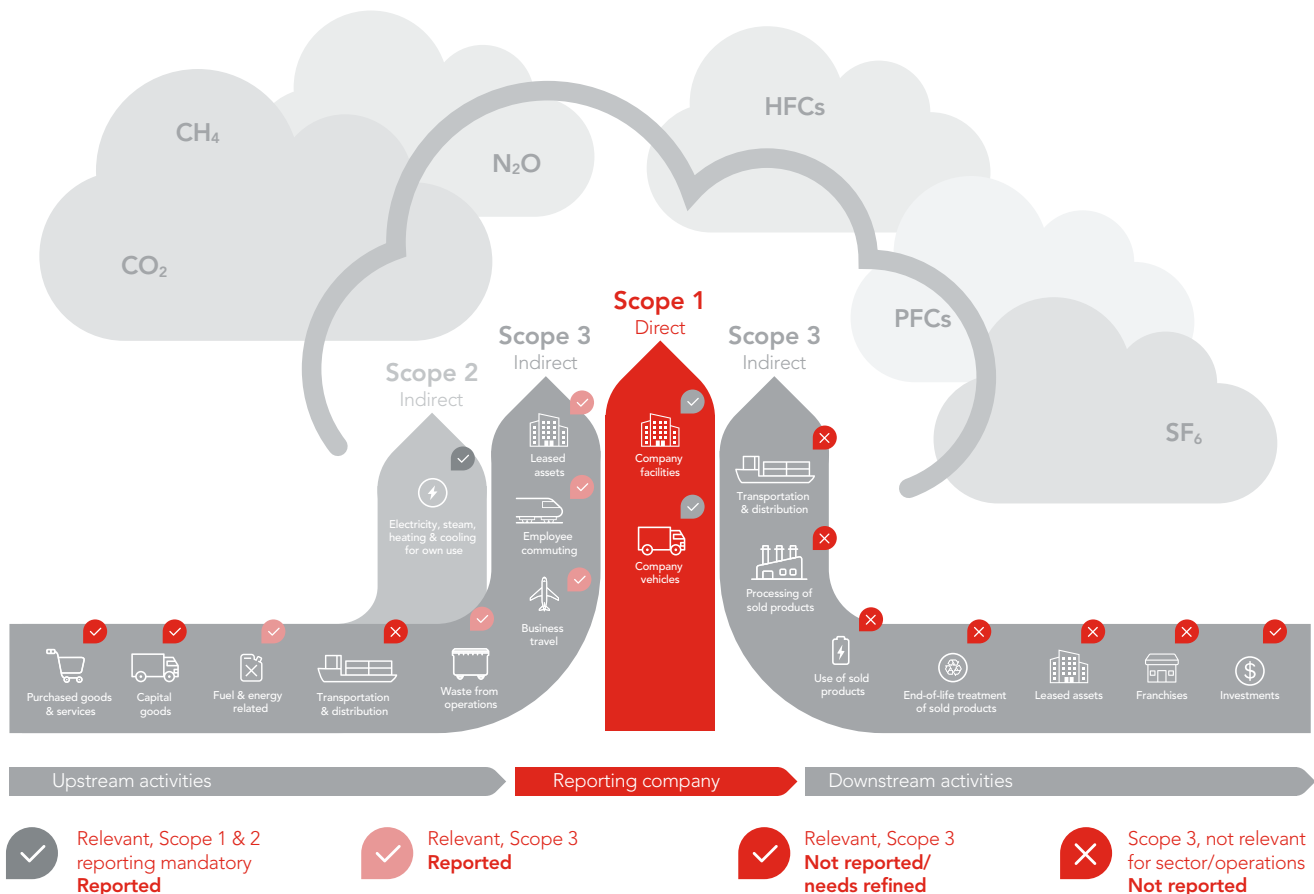
- Serco/customer carbon reporting boundary review;
- increased ambition and urgency from the governments we serve;

- the latest climate science, which shows near-term action is a necessity;
- the need for inclusion of all relevant Scope 3 categories (in particular supply chain) in our net zero targets; and
- updated guidance and methodologies on net zero target setting for the sectors in which we operate.

As part of this process, we will acquire external support in reviewing our targets and will consider the merits of formally signing up to the new SBTi net-zero standard or other mechanisms to gain independent validation of our net zero targets. For our performance against current targets, see **ESG performance and disclosure data**, pages 69 to 76 and in our full ESG Report 2021.

Serco has previously commissioned an independent analysis of our Scope 3 emissions by an SBTi-approved consultant. Based on our operations, a relevance test was undertaken against all Scope 3 reporting categories in line with the GHG protocol corporate reporting standard. See **Carbon reporting scopes and reporting categories material to Serco**, below, for the Scope 3 categories material to our operations and sectors. The total Scope 3 footprint is reported in our ESG report however, as per all organisations, we are refining our approach to supply chain carbon measurement for category 1 (purchased goods and services) and category 2 (capital goods). The relevance of our Scope 3 reporting categories is scrutinized annually as part of our wider ISO 14064 verification audit on our carbon reporting processes and data. For a further breakdown of our Scope 1, 2 and 3 carbon emissions, see **ESG performance and disclosure data** on pages 69 to 76 here and in our full ESG Report 2021.

Carbon reporting scopes and reporting categories material to Serco



ESG performance and disclosure data 2021

Here we share select datapoints from our ESG performance and disclosure data. Other indicators relating to governance feature elsewhere in this Annual Report.

The complete Serco ESG Databook 2021 can be found in our full ESG Report 2021 and as a standalone Excel file, both of which are available at www.serco.com/esg

Trend key: ● Positive ● Steady ● Negative ○ New/non-indicator										
Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Our people										
Safe operations										
Employee engagement: Safety	Avg. score	–	77	79	79	78	-1	-1.3	1, 2	●
Lost Time Incident ("LTI") Frequency Rate	Per 1m hours worked	4.41	5.30	5.69	4.48	4.13	-0.35	-7.7	3	●
LTI Severity Rate	Avg. days	23.74	27.80	24.05	25.96	22.00	-3.96	-15.2	4	●
Major Incident Frequency Rate ("MIFR")	Per 1m hours worked	0.45	0.50	0.39	0.41	0.36	-0.05	-11.7		●
Work-related fatalities	Number	0	1	0	0	0	0	–	5	●
Fatal Incident Frequency Rate	Per 1m hours worked	0.00	0.01	0.00	0.00	0.00	0	–		●
Physical Assault Frequency Rate	Per 1m hours worked	8.96	13.13	8.09	7.61	6.24	-1.37	-18.0		●
Serious Physical Assault Frequency Rate	Per 1m hours worked	0.87	1.32	0.63	0.62	0.56	-0.06	-9.7	6	●
Prosecutions	Number	0	0	0	0	0	0	–		●
Fines paid	£'000	116	0	0	0	0	0	–	7	●
Improvement/enforcement notices	Number	1	2	1	2	2	0	–	8	●

Performance commentary and Group strategic targets

We ended 2021 positively against all targets except LTI Severity Rate. However, lost working days reduced by approx. 1,000 days, with Serco also working nearly 20 million more hours than in 2020. This positive performance is reflected in the LTI Frequency Rate ("LTIFR") which sits at 4.13 for 2021 against a target of 4.5 and previous year performance of 4.48 in 2020 and 5.69 in 2019. Considerable focus has been given to reducing LTIs across the Group with particular attention to reducing incidents relating to physical assaults (also reduced compared to 2020), helping the Group to remain within target. Further analysis of our MIFR and LTIFR performance is included in the Key Performance Indicators section of the Serco Annual Report and Accounts 2021.

Minor revisions have been made to strategic safety thresholds (targets) in light of performance in 2020 and 2021. All targets are for the year 2022, representing % improvement against a 2019 baseline. Lost Time Incident Frequency Rate: 19%. Major Incident Frequency Rate: 12%. Lost Time Incident Severity Rate: 24%. Physical Assault Frequency Rate: 25%. Serious Physical Assault Frequency Rate: 9%.

Employee health and wellbeing

Employee engagement: Wellbeing	Avg. score	–	–	64	76	76	0	–	1, 2, 9	●
Absence due to sickness	Avg. days per employee	7.4	5.6	6.3	6.7	6.6	-0.1	-1.5		●

Performance commentary and Group strategic targets

In 2019 we set ourselves the target of a year-on-year absence reduction of 5%. Once adjusted for Covid-19 absence, we achieved a reduction of 0.1 days per employee in 2021. Although this is short of our target, the pandemic has impacted healthcare availability since 2020 and we experienced a c. 29% increase in colleagues taking time off for operations and recovery in 2021 compared to 2020. We view maintaining absence levels for 2021 as a positive achievement given the broader spectrum of Covid-19 impacts on our employees. Meanwhile, we have continued to increase and sharpen our focus on the health and wellbeing of all colleagues.

Absence due to sickness: Annual target: 5% reduction on previous year.

ESG Impact and Integrity continued

Trend key: ● Positive ● Steady ● Negative ○ New/non-indicator

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Employee engagement and development										
Employee engagement	Avg. score	–	67	71	73	70	-3	-4.1	1	●
New hires	%	28.5	30.2	34.8	34.2	36.6	2.4	7.1		○
Staff turnover	%	31.1	27.3	27.3	23.3	31.5	8.2	35.2		●
Redundancies	Number	973	405	402	519	356	-163	-31.4		○
Employees covered by collective bargaining agreements	%	–	–	–	58.8	59.1	0.3	0.5	10	○

Performance commentary and Group strategic targets

Employee engagement

We have sustained high levels of engagement at all levels measured in our survey, achieving an overall score of 70 with a response rate of 68%. Although marginally lower than our 2020 results (overall score: 73; response rate: 71%); our scores 2019-2021 are consistent with the return to pre-pandemic levels experienced by employers who experienced a sharp increase in 2020, followed by a levelling out in 2021; and our 2021 response rate is arguably very strong given the level of significant change to our organisation in the last year, including acquisitions and Contract exits, and also represents the same number of respondents to the nearest 1,000 as in 2020.

Employee engagement: Target 2023: >72

Staff turnover

Like many organisations, our turnover dropped sharply during the early months of the Covid-19 pandemic as employees around the world prioritised job security. The external labour market remains particularly buoyant for candidates, with all our significant workforce locations experiencing sharp increases in vacancies during 2021, predominately in the second half. The UK market is the most significant example, with over 1.2m vacancies nationally by December 2021 – a doubling on the same period in 2020, notwithstanding the furloughing impact. This is giving candidates and Serco talent greater opportunities in the job market. Our overall turnover also includes contract exits, of which the Dubai Metro accounted for more than 1,000 leavers alone. Our voluntary attrition rate has been declining since October 2021 as we start to see the benefits of our retention plans.

Diverse workforce and inclusive workplace										11
Employee engagement: Diversity & Inclusion	Avg. score	–	74	79	78.5	79	0.5	0.6	1, 2	●
Serco Group plc Board % women	%	30.0	33.3	33.3	33.3	44.4	11.1	33.2		●
Executive Committee and direct reports % women	%	21.7	31.8	29.4	27.3	26.1	-1.2	-4.4	12, 13	●
All other employee levels % women	%	41.6	42.4	43.1	43.0	44.7	1.7	4.0		●
Global Leadership Team % women	%	–	–	–	29.1	32.2	3.1	10.6	14	●
Age profile – Serco Group plc Board										
16-24	%	–	–	–	–	0.0	–	–		○
25-40	%	–	–	–	–	0.0	–	–		○
41-54	%	–	–	–	–	22.2	–	–		○
55-64	%	–	–	–	–	44.4	–	–		○
65+	%	–	–	–	–	22.2	–	–		○
Undisclosed	%	–	–	–	–	11.1	–	–		○

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Ethnicity - Serco Group plc Board										
Asian	%	–	–	–	–	11.1	–	–		○
Black	%	–	–	–	–	0	–	–		○
Mixed	%	–	–	–	–	0	–	–		○
Other	%	–	–	–	–	0	–	–		○
White	%	–	–	–	–	88.9	–	–		○
Undisclosed	%	–	–	–	–	0	–	–		○

Performance commentary and Group strategic targets

We continue to make steady progress against all of our Diversity and Inclusion metrics with ongoing focus on women in Leadership, UK Gender Pay Gap, ethnicity data disclosure and disability representation. We have improved our overall women in leadership representation by more than 2% since 2020; our ethnicity data disclosure gap has reduced to 28% across the UK; and colleagues identifying as having a disability or health condition has increased to 5%. Each of these steps forward indicate a positive shift that can be sustained over time, making a real difference to the diversity of our workforce for the future.

Global Leadership Team – % women: Target 2023: 35%

Notes

- Employee engagement data is from our annual employee engagement survey, Viewpoint. Pre-2018 engagement scores calculated as %, not average score. For 2017 data, see our 2020 report.
- Represents scores per one or more specific questions within our employee engagement survey.
- Restatement of 2020 from 4.43 to 4.48. Increase of eight LTIs due to late reporting/categorisation of 2020 incidents.
- Restatement of 2020 from 25.44 to 25.96. Increase of 448 working days lost due to additional incidents combined with late update of ongoing incidents at the time of reporting.
- 2018: Asia Pacific – Hong Kong. Male employee (Traffic Officer II) fell while ascending steps of a crew bus, tragically suffering a fatal head injury.
- Restatement of 2020 from 0.67 to 0.62. Reduction of two incidents due to incorrect categorisation in 2020 following review of Assault categorisation in Serco Asia Pacific in 2021.
- 2017 data relates to Dubai Metro: February 2017 (500,000AED) public hazard relating to escalator maintenance by a sub-contractor – fine paid by sub-contractor and revised work instructions implemented; August 2017 (100,000AED) unsafe lifting operations relating to glass movement in station – revised work instructions implemented.
- 2017: Enforcement notice, Asylum Support Services (COMPASS) contract, UK. 2018: Improvement notice, Environmental Services contract, Hammersmith & Fulham, UK; enforcement notice, HMP Dovegate, UK. 2019: Improvement notice, Environmental Services contract, Breckland, UK. 2020: Notices of contravention, Environmental Services contracts, Bexley and Sandwell, UK. 2021: Improvement notice, Asylum Accommodation and Support Services Contract, UK; Notice of contravention, Prisoner Escorting and Custody Services contract, UK.
- Targeted wellbeing questions not introduced into employee engagement survey until 2019.
- Includes estimates for parts of our UK business. Also includes employees covered by national pay bargaining arrangements for Local Government in our UK Citizen Services business, and employees who are members of Workers Councils in Serco Europe. In both the United Arab Emirates and Kingdom of Saudi Arabia there remain no independent trade unions and while there are trade union organisations in both Qatar and Iraq, there is no direct link to our employees there. For all our employees in the region, however, we encourage direct employee engagement through: regular briefings from management to colleagues on a wide range of operational and employment matters; adherence to our global standards, as outlined in the Serco Management System and associated internal policies, such as the Employee Wellbeing Divisional Standard Operating Procedure – which provides a number of routes for individuals to raise any workplace issues or concerns; and continued use of our annual employee engagement survey where individuals share their views with us on an entirely confidential basis. Separate to our internal mechanisms, employees are also able to raise workplace concerns via the relevant labour offices in each country.
- Diverse workforce data is representative only of employees for whom relevant data is available.
- Restatement of 2020 from 24.7 to 27.3 due to erroneous omission of the three female members of the Serco Inc. (Serco Americas) Board of Directors.
- 2021: Based on data submitted to the UK Hampton-Alexander Review in October 2021. Current projection for 2022, based on actual and anticipated numbers, is 28%.
- Includes Board and Executive Committee members and direct reports to the Executive Committee.

ESG Impact and Integrity continued

Trend key: ● Positive ● Steady ● Negative ○ New/non-indicator

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Our world										
Contributing to communities										
Serco Foundation – grants made	£ Number	–	–	–	597,520	201,519	-396,001	-66.3		○
Serco People Fund – seed funding	£ Number	–	–	–	–	4,000,000	–	–		○
Performance commentary and Group strategic targets										
The Serco Foundation continues to make grants to a range of causes in line with its charitable purpose. A specific focus was driven in 2020 due to Covid-19, which saw an increase in grants made. For more information, see www.sercofoundation.org . The Serco People Fund, a new independent charity providing support to current and retired colleagues and close family members facing extraordinary financial challenges, launched in 2021 with £4m seed funding from Serco. For more information, see www.sercopeoplefund.org										
Managing our environmental impact and supporting customer environmental objectives										
Carbon dioxide equivalent (Scope 1+2) market-based Scope 2										
– Total Group	tCO ₂ e	244,918	257,086	262,996	225,456	208,639	-16,817	-7.5	1	●
Total UK	tCO ₂ e	184,388	188,601	189,490	156,814	161,283	4,469	2.8	2	●
Total Rest of world	tCO ₂ e	60,530	68,485	73,506	68,642	47,356	-21,286	-31.0	2	●
Carbon dioxide equivalent (Scope 1+2) location-based Scope 2										
– Total Group	tCO ₂ e	253,655	259,814	266,894	237,759	218,018	-19,741	-8.3		●
Total UK	tCO ₂ e	193,125	191,329	193,387	169,117	170,604	1,487	0.9	2	●
Total Rest of world	tCO ₂ e	60,530	68,485	73,507	68,642	47,414	-21,228	-30.9	2	●
Combustion of fuels and operation of facilities (Scope 1) – Total Group (all fuel types)										
UK (all fuel types)	tCO ₂ e	174,289	176,254	181,413	165,259	165,417	158	0.1		●
Rest of world (all fuel types)	tCO ₂ e	5,064	6,233	5,732	8,881	5,855	-3,025	-34.1	4	●
Gas (Scope 1) – Total Group										
UK	tCO ₂ e	25,680	26,381	26,658	19,931	22,168	2,237	11.2		●
Rest of world	tCO ₂ e	25,256	25,449	25,887	18,787	20,544	1,757	9.4		●
Petrol (Scope 1) – Total Group										
UK	tCO ₂ e	424	932	771	1,145	1,624	479	41.8		●
Rest of world	tCO ₂ e	2,862	4,067	3,546	4,283	3,725	-558	-13.0		●
Diesel (Scope 1) – Total Group										
UK	tCO ₂ e	23,965	24,633	27,369	28,665	27,824	-841	-2.9		●
Rest of world	tCO ₂ e	23,592	24,237	27,082	27,864	26,793	-1,071	-3.8	5	●
Burning oil / Kerosene (Scope 1) – Total Group										
UK	tCO ₂ e	373	396	287	801	1,031	230	28.8	6	●
Rest of world	tCO ₂ e	463	384	1,098	834	928	94	11.3		●
LPG / Propane (Scope 1) – Total Group										
UK	tCO ₂ e	462	384	1,098	834	928	94	11.3		●
Rest of world	tCO ₂ e	1	0	0	0	0	0	–		●
LPG / Propane (Scope 1) – Total Group										
UK	tCO ₂ e	2,198	1,672	2,131	2,063	435	-1,628	-78.9		●
Rest of world	tCO ₂ e	182	221	339	213	151	-62	-29.1		●
LPG / Propane (Scope 1) – Total Group										
UK	tCO ₂ e	2,016	1,451	1,792	1,850	284	-1,566	-84.7		●

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Gas oil (Scope 1) – Total Group	tCO ₂ e	3,199	2,973	1,899	1,421	1,228	-193	-13.6		●
UK	tCO ₂ e	3,199	2,973	1,899	1,421	1,228	-193	-13.6		●
Rest of world	tCO ₂ e	0	0	0	0	0	0	–		●
Specialist marine fuel (Scope 1) – Total Group	tCO ₂ e	115,652	115,883	118,480	107,011	107,877	866	0.8		●
UK	tCO ₂ e	115,652	115,883	118,480	106,350	107,877	1,527	1.4		●
Rest of world	tCO ₂ e	0	0	0	661	0	-661	-100.0		●
Biomass (Scope 1) – Total Group	tCO ₂ e	–	–	–	46	57	11	23.9		●
UK	tCO ₂ e	–	–	–	46	57	11	23.9		●
Rest of world	tCO ₂ e	–	–	–	0	0	0	–		●
Fugitive emissions (Scope 1) – Total Group	tCO ₂ e	270	263	232	1,005	1,173	168	16.7		●
UK	tCO ₂ e	270	263	232	377	336	-41	-10.9		●
Rest of world	tCO ₂ e	–	–	–	628	837	209	33.3		●
Scope 2 – Grid electricity purchased for own use (market-based) – Total Group	tCO ₂ e	70,629	80,832	81,583	60,197	43,222	-16,975	-28.2		●
UK	tCO ₂ e	15,163	18,580	13,809	436	1,721	1,285	294.7		●
Rest of world	tCO ₂ e	55,466	62,252	67,774	59,761	41,501	-18,260	-30.6		●
Scope 2 – Grid electricity purchased for own use (location-based) – Total Group	tCO ₂ e	79,366	83,560	85,481	72,500	52,601	-19,899	-27.4		●
UK	tCO ₂ e	23,900	21,308	17,707	12,739	11,042	-1,697	-13.3		●
Rest of world	tCO ₂ e	55,466	62,252	67,774	59,761	41,559	-18,202	-30.5		●
Scope 2 – Grid electricity purchased for own use (location-based)	MWh	151,708	167,375	170,493	152,154	130,575	-21,579	-14.2		●
Energy consumption used to calculate Scope 1+2 emissions – Total Group	MWh	873,287	891,931	918,740	827,475	811,377	-16,098	-1.9		●
UK	MWh	763,268	772,007	792,086	693,610	709,939	16,329	2.4		●
Rest of world	MWh	110,019	119,924	126,654	133,865	101,438	-32,427	-24.2		●
Headcount intensity (Scope 1+2) market-based Scope 2	tCO ₂ e/FTE	5.36	5.74	5.78	4.53	3.21	-1.32	-29.2		●
Headcount intensity (Scope 1+2) location-based Scope 2	tCO ₂ e/FTE	5.56	5.80	5.87	4.78	3.35	-1.43	-29.8		●
Financial intensity (Scope 1+2) market-based Scope 2	tCO ₂ e/per £m revenue	82.99	90.62	80.97	58.04	47.15	-10.88	-18.7		●
Financial intensity (Scope 1+2) location-based Scope 2	tCO ₂ e/per £m revenue	85.96	91.58	82.17	61.20	49.27	-11.93	-19.5		●
Total fuel consumption, non-renewable sources	MWh	721,579	724,556	748,247	672,314	677,387	5,073	0.8		●
Total fuel consumption, renewable sources	MWh	0	0	0	3,007	3,754	747	24.8		●

ESG Impact and Integrity continued

Trend key: ● Positive ● Steady ● Negative ○ New/non-indicator

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Total purchased/acquired electricity consumption, non-renewable sources	MWh	151,708	167,375	170,493	108,533	88,593	-19,940	-18.4		●
Total purchased/acquired electricity consumption, renewable sources	MWh	0	0	0	43,621	41,983	-1,639	-3.8		●
Total transport fleet fuel consumption	tCO ₂ e	142,479	144,583	149,395	139,959	139,429	-530	-0.4		●
Total transport fleet fuel consumption	MWh	–	–	581,616	545,381	545,452	71	0.01		●
Basic screening, Quantis Scope 3 evaluator	tCO ₂ e	1,208,078	1,258,528	981,237	867,559	1,745,238	877,679	101.2	7, 8	○
% of overall Scope 1, 2 and 3, Quantis evaluator	%	82.7	82.9	78.7	78.5	88.9	10.4	13.2		○
Total water consumption	Megalitres	–	–	–	–	0.86	–	–		○
Non-hazardous waste generated	Metric tonnes	–	–	–	–	11,049	–	–		○
Carbon Disclosure Project	Score	B	C	C	B	B	–	–		●
Operations covered by certified ISO 14001 EMS	%	–	–	–	34	40	6	17.6	9, 10	●
Operations covered by certified ISO 50001 EnMS	%	–	–	–	15	11	-4	-26.7	11, 12	●
Prosecutions	Number	0	0	0	0	0	0	–		●
Fines paid	£'000	0	0	0	0	0	0	–		●
Enforcement notices	Number	0	0	0	0	0	0	–		●

Performance commentary and Group strategic targets

We remain on course to meet our net-zero targets for Scope 1 and (market-based) Scope 2, achieving a 7.5% reduction against 2020 and a 20.7% reduction against our 2019 baseline year. Our targets are under review in 2022 as we look to further develop our net zero transition pathway and account for updated sector-specific net zero guidance from the Science Based Target Initiative. Our environmental reporting was expanded in 2021 to provide more granularity at Divisional level and also to include additional performance metrics, such as waste, water, energy and climate risk.

Carbon dioxide equivalent (Scope 1+2) market-based Scope 2 – Total Group: Target 2025: 22% reduction against 2019 baseline; Target 2030: 38% reduction against 2019 baseline.

Notes

Our reporting year for greenhouse gas (GHG) emissions is one quarter behind our financial year, namely 1 October 2020 to 30 September 2021.

See our Environmental Basis of Reporting Supplement for information on our reporting boundary and methodologies, available at www.serco.com/esg/environment

We quantify and report to ISO 14064-3:2019, using an operational control approach to define our organisational boundary.

We report all material emission sources for which we consider ourselves responsible and have set our materiality threshold at 5%.

For examples of energy efficiency action as required by Streamlined Energy and Carbon Reporting, see our full ESG Report 2021, available at www.serco.com/esg

1. Improved precision in reporting actual electricity consumption data in Serco Asia Pacific (Justice & Immigration Business Unit) has reduced estimation. Covid-19 impacts and loss of energy intensive Contracts (UK Leisure business) have also contributed significantly to reductions.
2. Restatement of 2017 per notes 3-6.
3. Restatement of 2017 from 164,663 to 169,225; proportion of UK data erroneously included in rest of world. Restatement of 2018 from 169,759 to 170,022; proportion of UK data erroneously included in rest of world.
4. Restatement of 2017 from 9,626 to 5,064; proportion of UK data erroneously included in rest of world. Restatement of 2018 from 6,496 to 6,233; proportion of UK data erroneously included in rest of world.
5. Restatement of 2017 from 19,526 to 23,592; proportion of UK data erroneously included in rest of world.
6. Restatement of 2017 from 4,440 to 373; proportion of UK data erroneously included in rest of world.

7. For many companies, more than 80% of their GHG impacts occur outside of their own operations. Quantifying and reporting these Scope 3 'value chain' emissions can be time/resource intensive, yet it is a growing stakeholder expectation and globally recognised as good practice. The Quantis Scope 3 evaluator tool was developed by the World Resource Institute / World Business Council for Sustainable Development's GHG Protocol. It is designed as a first-step screening process to encourage the measurement and reporting of value chain GHG emissions.
8. Increase in 2021 attributed to: (a) access to spend data by category now across all Divisions - Serco Americas no longer estimated; significant increased spend in a UK Government Contract.
9. EMS = Environment Management System.
10. All Contracts are required to comply with our SMS and environmental requirements, which align with ISO 14001. 40% of Contracts where we have management control and report environment data externally are covered by Serco certified ISO 14001 management systems. At many of our contracts we also operate within customer ISO 14001 certified management systems.
11. EnMS = Energy Management System.
12. A smaller proportion of our contracts have certified ISO 50001 management systems, as only our more energy-intensive operations benefit from this standard.

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Our shareholders										
Living our Values, behaving with integrity and respecting human rights										
Employee engagement: Our Values	Avg. score	–	81	82	69	67	-2	-2.9	1, 2, 3	●
Employee engagement: Business Integrity	Avg. score	–	73	75	75	76	1	1.3	1, 2	●
Upheld cases of corrupt behaviour	Number	0	0	0	0	0	0	–		●
Upheld cases of human rights violations (incl. indigenous)	Number	0	0	0	0	0	0	–		●
Upheld cases of anti-competitive behaviour	Number	0	0	0	0	0	0	–		●
Substantiated complaints from data protection regulators	Number	–	–	–	–	3	–	–	4	○
Total number of significant data breaches	Number	–	–	–	–	2	–	–	5	○
Speak Up cases										
Case rate per 100 employees	Number	1.22	1.08	0.95	1.29	1.14	-0.15	-11.6	6	●
Anonymous cases	%	25	35	52	62	59	-3	-4.8		●
Investigated	%	90	94	92	91	97	6	6.6		●
Average days to close	Number	59	69	60	44	44	0	–	7	●
Cases closed within three months	%	89	75	89	84	86	2	2.4	8	●
Closed case substantiation rate	%	43	40	37	24	22	-2	-8.3		●
Corrective action taken	%	42	54	52	40	39	-1.0	-2.5	9	●
Disciplinary action taken against one or more individuals involved in a case	%	9	18	24	26	21	-5	-19.2	10	●
Dismissal of one or more individuals involved in a case	%	5	11	8	8	9	1	12.5		●
Agent payments Total Group	£'000	–	–	–	1,275	2,223	948	74.4		○
Lobbying payments Total Group	£'000	–	–	–	230	274	44	19.1		○

ESG Impact and Integrity continued

Trend key: ● Positive ● Steady ● Negative ○ New/non-indicator

Performance commentary and Group strategic targets

Values and integrity

Our Values remain strong and are regularly referenced across the Ethics and Compliance (EC) programme. Viewpoint is our main barometer with four questions reflecting EC matters scoring well. We continue to review the data to identify specific contract and divisional actions.

As custodians that care for personal data held on our Customers, suppliers, business partners, employees and data subjects, Serco have put in place a privacy framework, integrated into our management system and Customer requirements. Our vision is to meet Serco's Data Protection/Privacy requirements, a risk-based approach is taken, supported by policies, standards and processes adapted by our operating culture and to ensure we operate and continuously improve our business in a compliant, ethical and responsible way.

Speak Up

Whilst case numbers were slightly up in 2021, the case rate per 100 employees came down 12% on 2020 (1.29). Although a decline, it is an improvement over 2018 and 2019, reflecting better employee awareness of Speak Up and willingness to use it. Covid-19 impacts contributed to the higher rate in 2020. Focus on investigations has seen an improvement in time to close cases.

The decrease in substantiation rates raises questions on the quality of issues being raised, which is being reviewed. No potential material issues were substantiated.

Agents and Lobbyists

Considerable work has been completed to ensure agents and significant third parties and joint venture partners have been subject to an appropriate level of due diligence. Whilst the spend on agents and lobbyists saw slight increases, they are in line with activities undertaken and being monitored.

Indicator/disclosure	Units	2017	2018	2019	2020	2021	2020 vs. 2021	Var %	Notes	Trend
Effective governance and managed risk										
Annual SMS self-assessments completed	%	–	–	95.7	99.7	98.9	-0.8	-0.8		●
Annual Compliance Assurance plan delivered	%	–	–	94.3	85.2	95.0	9.8	11.5		●
Annual Audit plan delivered	%	–	–	100.0	94.6	100.0	5.4	5.7		●

Notes

- Employee engagement data is from our annual employee engagement survey, Viewpoint. Pre-2018 engagement scores calculated as %, not average score. For 2017 data, see our 2020 report.
- Represents scores per one or more specific questions within our employee engagement survey.
- Each year we refine our survey questions to examine areas of strength and raise the bar for future improvement. The significant shift in score from 2019-2020 is due to a new, targeted focus on the recognition of Values-led behaviour.
- Perth IDC Contract: case upheld no further action or recommendations for Serco. Villawood IDC Contract: case ongoing. Auckland South Corrections Facility Contract – case upheld and recommendations for Serco complied with.
- European business, reported to Belgian regulator. HMP Lowdham Grange, reported to UK Information Commissioner's Office. No action was taken by the Regulators.
- Restatement of 2020 from 1.30 to 1.29. Reduction due to small increase in 2020 headcount as UK & Europe Corporate omitted.
- Restatement of 2020 from 47 to 44. Reduction due to late update of 48 cases.
- Restatement of 2020 from 89 to 84. Reduction due to late update of 48 cases.
- Restatement of 2020 from 39 to 40. Increase due to late update of 48 cases.
- Restatement of 2020 from 25 to 26. Increase due to late update of 48 cases.

General notes on Serco ESG performance and disclosure data:

Data is for the total Group unless otherwise stated.

Data excludes joint ventures to enable like-for-like comparison.

'UK' includes Serco Business Services and Group functions unless otherwise stated.

Data is as reported internally in January 2022 unless otherwise stated. Additional data may arise after this date. Where this occurs, numbers will be restated in the following year's report.

Unless otherwise stated, where like-for-like historic data is not available, we have marked –.

Current performance levels are in line with benchmark targets for the geographies and markets in which we operate. However, we continue to try to improve them.

All targets identified are Group targets. Other targets are managed at local and regional levels.

Finance Review



Revenue of £4,425m grew by 14% which included 10% organic growth. Underlying Trading profit up by 40% to £229m with margin improving by 100bps to 5.2%. Strong Free Cash Flow of £190m with Adjusted Net Debt of £178m and covenant leverage below the target range at 0.7x; after cash acquisitions of around £250m made during the year. Recommend a final dividend of 1.61p and new share buyback programme of £90m.

Nigel Crossley
Group Chief Financial Officer

For the year ended 31 December 2021	Underlying £m	Non-underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre- exceptional £m	Exceptional items £m	Statutory £m
Revenue	4,424.6	–	4,424.6	–	4,424.6	–	4,424.6
Cost of sales	(3,961.1)	4.5	(3,956.6)	–	(3,956.6)	–	(3,956.6)
Gross profit	463.5	4.5	468.0	–	468.0	–	468.0
Administrative expenses	(243.3)	–	(243.3)	–	(243.3)	–	(243.3)
Other exceptional operating items	–	–	–	–	–	(1.2)	(1.2)
Other expenses	–	–	–	(16.0)	(16.0)	–	(16.0)
Share of profits in joint ventures and associates, net of interest and tax	8.7	–	8.7	–	8.7	–	8.7
Profit before interest and tax	228.9	4.5	233.4	(16.0)	217.4	(1.2)	216.2
Margin	5.2%	–	5.3%	–	4.9%	–	4.9%
Net finance costs	(24.0)	–	(24.0)	–	(24.0)	–	(24.0)
Profit before tax	204.9	4.5	209.4	(16.0)	193.4	(1.2)	192.2
Tax (charge)/credit	(48.6)	156.2	107.6	4.3	111.9	(0.2)	111.7
Effective tax rate	23.7%	–	(51.4%)	–	(57.9%)	–	(58.1%)
Profit for the period	156.3	160.7	317.0	(11.7)	305.3	(1.4)	303.9
Minority interest	–	–	–	–	–	–	–
Earnings per share – basic (pence)	12.78	–	25.93	–	24.97	–	24.86
Earnings per share – diluted (pence)	12.56	–	25.48	–	24.54	–	24.43

Finance Review continued

For the year ended 31 December 2020	Underlying £m	Non-underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory-pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	3,884.8	–	3,884.8	–	3,884.8	–	3,884.8
Cost of sales	(3,514.4)	12.6	(3,501.8)	–	(3,501.8)	–	(3,501.8)
Gross profit	370.4	12.6	383.0	–	383.0	–	383.0
Administrative expenses	(220.0)	–	(220.0)	–	(220.0)	–	(220.0)
Exceptional profit on disposal of subsidiaries and operations	–	–	–	–	–	11.0	11.0
Other exceptional operating items	–	–	–	–	–	1.5	1.5
Other expenses	–	–	–	(9.0)	(9.0)	–	(9.0)
Share of profits in joint ventures and associates, net of interest and tax	12.7	–	12.7	–	12.7	–	12.7
Profit before interest and tax	163.1	12.6	175.7	(9.0)	166.7	12.5	179.2
Margin	4.2%		4.5%		4.3%		4.6%
Net finance costs	(25.9)	–	(25.9)	–	(25.9)	–	(25.9)
Profit before tax	137.2	12.6	149.8	(9.0)	140.8	12.5	153.3
Tax (charge)/credit	(31.2)	10.5	(20.7)	1.8	(18.9)	(0.4)	(19.3)
Effective tax rate	22.7%		13.8%		13.4%		12.6%
Profit for the period	106.0	23.1	129.1	(7.2)	121.9	12.1	134.0
Minority interest	0.2		0.2		0.2		0.2
Earnings per share – basic (pence)	8.61		10.49		9.90		10.89
Earnings per share – diluted (pence)	8.43		10.28		9.70		10.67

Alternative Performance Measures (APMs) and other related definitions

Overview

APMs used by the Group are reviewed below to provide a definition and reconciliation from each non-IFRS APM to its IFRS equivalent, and to explain the purpose and usefulness of each APM.

In general, APMs are presented externally to meet investors' requirements for further clarity and transparency of the Group's financial performance. The APMs are also used internally in the management of our business performance, budgeting and forecasting, and for determining Executive Directors' remuneration and that of other Management throughout the business.

APMs are non-IFRS measures. Where additional revenue is being included in an APM, this reflects revenues presented elsewhere within the reported financial information, except where amounts are recalculated to reflect constant currency. Where items of profits or costs are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual profits or costs of the Group, except where amounts are recalculated to reflect constant currency. As a result, APMs allow investors and other readers to review different kinds of revenue, profits and costs and should not be used in isolation. Other commentary within the Strategic Report, including the other sections of this Finance Review, as well as the Consolidated Financial Statements and their accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

The methodology applied to calculating the APMs has not changed since 31 December 2020.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Consolidated Income Statement on page 191, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous year's results, reported revenue is recalculated by translating non-Sterling values for the year to 31 December 2021 into Sterling at the average exchange rates for the year ended 31 December 2020.

For the year ended 31 December	2021 £m
Reported revenue at constant currency	4,497.6
Foreign exchange differences	(73.0)
Reported revenue at reported currency	4,424.6

Organic Revenue at constant currency

Reported revenue may include revenue generated by businesses acquired during a particular year from the date of acquisition and/or generated by businesses sold during a particular year up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals, Organic Revenue at constant currency is recalculated by excluding the impact of any relevant acquisitions or disposals.

There are three acquisitions excluded for the calculation of Organic Revenue in the year to 31 December 2021 being the acquisitions of Facilities First Australia Holdings Pty Ltd, Whitney, Bradley & Brown, Inc and Mercurius Finance S.A.. The acquisitions completed on 4 January 2021, 27 April 2021 and 30 June 2021 respectively.

The Group also disposed of its interest in its Viapath joint venture on 31 May 2020, however no adjustment is required to Organic Revenue since the joint venture results were accounted for on an equity accounting basis and therefore had no impact on Group revenue.

Organic Revenue growth is calculated by comparing the current year Organic Revenue at constant currency exchange rates with the prior year Organic Revenue at reported currency exchange rates.

For the year ended 31 December	2021 £m
Organic Revenue at constant currency	4,277.1
Foreign exchange differences	(68.3)
Organic Revenue at reported currency	4,208.8
Impact of any relevant acquisitions or disposals	215.8
Reported revenue at reported currency	4,424.6

For the year ended 31 December	2020 £m
Organic Revenue at reported currency	3,884.8
Impact of any relevant acquisitions or disposals	–
Reported revenue at reported currency	3,884.8

Revenue plus share of joint ventures and associates

Reported revenue, as shown on the Group's Consolidated Income Statement on page 191, excludes the Group's share of revenue from joint ventures and associates, with Serco's share of profits in joint ventures and associates (net of interest and tax) consolidated within reported operating profit as a single line in the Consolidated Income Statement. The alternative measure includes the share of joint ventures and associates for the benefit of reflecting the overall change in scale of the Group's ongoing operations, which is particularly relevant for evaluating Serco's presence in market sectors such as Defence and Transport. The alternative measure allows the performance of the joint venture and associate operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post-tax result.

For the year ended 31 December	2021 £m	2020 £m
Revenue plus share of joint ventures and associates	4,663.0	4,249.9
Exclude share of revenue from joint ventures and associates	(238.4)	(365.1)
Reported revenue	4,424.6	3,884.8

Finance Review continued

Alternative profit measures

For the year ended 31 December	2021 £m	2020 £m
Underlying Trading Profit	228.9	163.1
Non-underlying items:		
OCP charges and releases	1.3	5.8
Other Contract & Balance Sheet Review adjustments and one-time items	3.2	6.8
Total non-underlying items	4.5	12.6
Trading Profit	233.4	175.7
Operating exceptional items	(1.2)	12.5
Amortisation and impairment of intangibles arising on acquisition	(16.0)	(9.0)
Operating profit	216.2	179.2

Underlying Trading Profit (UTP)

The Group uses an alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur and to remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current year.

Charges and releases on all Onerous Contract Provisions (OCPs) that arose during the 2014 Contract & Balance Sheet Review are excluded from UTP in the current and prior years. Charges associated with the creation of new OCPs identified are included within UTP to the extent that they are not considered sufficiently material to require separate disclosure on an individual basis. During the period, net charges on new and existing OCPs of £1.3m (2020: £5.6m) were taken within UTP. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual year. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £0.3m in 2021 (2020: £1.8m).

Revisions to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review are reported alongside other one-time items where the impact of an individual item is material. Items recorded within this category during 2021 are a settlement received relating to a judgement made as part of the 2014 Contract & Balance Sheet Review and releases of provisions held against possible contractual requirements that could have required settlement by the Group, but which have now exceeded the period during which such a claim against the Group can be made.

Both OCP adjustments and other Contract & Balance Sheet Review and one-time items are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items.

Underlying trading margin is calculated as UTP divided by statutory revenue.

The non-underlying column in the summary income statement on page 77 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Trading Profit

The Group uses Trading Profit as an alternative measure to operating profit, as shown on the Group's Consolidated Income Statement on page 191, by making two adjustments.

First, Trading Profit excludes exceptional items, being those considered material and outside of the normal operating practices of the Group to be suitable for separate presentation and detailed explanation.

Second, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgements about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice.

UTP at constant currency

UTP disclosed above has been translated at the average foreign exchange rates for the year. In order to provide a comparable movement on the previous year's results, UTP is recalculated by translating non-Sterling values for the year to 31 December 2021 into Sterling at the average exchange rate for the year ended 31 December 2020.

For the year ended 31 December	2021 £m
Underlying Trading Profit at constant currency	235.8
Foreign exchange differences	(6.9)
Underlying Trading Profit at reported currency	228.9

Alternative Earnings Per Share (EPS) measures

For the year ended 31 December	2021 pence	2020 pence
Underlying EPS, basic	12.78	8.61
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	12.19	1.29
EPS before exceptional items, basic	24.97	9.90
Impact of exceptional items	(0.11)	0.99
Reported EPS, basic	24.86	10.89

For the year ended 31 December	2021 pence	2020 pence
Underlying EPS, diluted	12.56	8.43
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	11.98	1.27
EPS before exceptional items, diluted	24.54	9.70
Impact of exceptional items	(0.11)	0.97
Reported EPS, diluted	24.43	10.67

Underlying EPS

Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on page 77.

EPS before exceptional items

EPS, as shown on the Group's Consolidated Income Statement on page 191, includes exceptional items charged or credited to the income statement in the year. EPS before exceptional items aids consistency with historical operating performance.

Alternative cash flow and Net Debt measures

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect cash flow from operating activities before exceptional items, which is the measure shown on the Consolidated Cash Flow Statement on page 195. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates and exclude net interest paid, the capital element of lease payments and net capital expenditure on tangible and intangible asset purchases.

For the year ended 31 December	2021 £m	2020 £m
Free Cash Flow	189.5	134.9
Exclude dividends from joint ventures and associates	(13.5)	(19.8)
Exclude net interest paid	24.3	24.6
Exclude capitalised finance costs paid	0.6	0.9
Exclude capital element of lease repayments	111.3	100.8
Exclude proceeds received from exercise of share options	(0.2)	(0.1)
Exclude purchase of own shares to satisfy share awards	20.3	–
Exclude purchase of intangible and tangible assets net of proceeds from disposal	25.1	29.2
Cash flow from operating activities before exceptional items	357.4	270.5
Exceptional operating cash flows	(7.5)	(2.0)
Cash flow from operating activities	349.9	268.5

UTP cash conversion

FCF as defined above, includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UTP, Trading Cash Flow is derived from FCF by excluding tax and interest items. UTP cash conversion therefore provides a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

Finance Review continued

For the year ended 31 December	2021 £m	2020 £m
Free Cash Flow	189.5	134.9
Add back:		
Tax paid	42.1	35.9
Non-cash R&D expenditure	–	0.1
Net interest paid	24.3	24.6
Capitalised finance costs paid	0.6	0.9
Trading Cash Flow	256.5	196.4
Underlying Trading Profit	228.9	163.1
Underlying Trading Profit cash conversion	112%	120%

Net Debt and Adjusted Net Debt

We present an alternative measure to bring together the various funding sources that are included on the Group's Consolidated Balance Sheet on page 194 and in the accompanying notes. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net Debt includes all lease liabilities, whilst Adjusted Net Debt is derived from Net Debt by excluding liabilities associated with leases.

The Adjusted Net Debt measure was introduced because it more closely aligns to the Consolidated Total Net Borrowings measure used for the Group's debt covenants, which is prepared under accounting standards applicable prior to the adoption of IFRS 16 Leases. Principally as a result of the Asylum Accommodation and Support Services Contract (AASC), the Group has entered into a significant number of leases which contain a termination option. The use of Adjusted Net Debt removes the volatility that would result from estimations of lease periods and the recognition of liabilities associated with such leases where the Group has the right to cancel the lease and hence the corresponding obligation. Though the intention is not to exercise the options to cancel the leases, it is available, unlike other debt obligations.

For the year ended 31 December	2021 £m	2020 £m
Cash and cash equivalents	198.4	335.7
Loans payable	(377.0)	(388.8)
Lease liabilities	(430.3)	(402.6)
Derivatives relating to Net Debt	0.6	(4.7)
Net Debt	(608.3)	(460.4)
Add back: Lease liabilities	430.3	402.6
Adjusted Net Debt	(178.0)	(57.8)

Pre-tax Return on Invested Capital (ROIC)

ROIC is a measure to assess the efficiency of the resources used by the Group and is one of the metrics used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UTP and Trading Profit using the Group's Consolidated Income Statement for the year and a two-point average of the opening and closing balance sheets. The composition of Invested Capital and calculation of ROIC are summarised in the table below.

Invested Capital excludes right of use assets recognised under IFRS 16 Leases. This is because the Invested Capital of the Group are those items within which resources are, or have been, committed, which is not the case for many leases which would previously have been classified as operating leases under IAS 17 Leases where termination options exist and commitments for expenditure are in future years.

For the year ended 31 December	2021 £m	2020 £m
ROIC excluding right of use assets		
Non-current assets		
Goodwill	852.7	669.6
Other intangible assets	144.0	80.6
Property, plant and equipment	55.5	54.2
Interest in joint ventures and associates	17.6	19.2
Contract assets, trade and other receivables	16.2	25.3
Current assets		
Inventory	19.6	21.4
Contract assets, trade and other receivables	624.7	609.6
Total invested capital assets	1,730.3	1,479.9
Current liabilities		
Contract liabilities, trade and other payables	(587.3)	(576.2)
Non-current liabilities		
Contract liabilities, trade and other payables	(55.9)	(56.9)
Total invested capital liabilities	(643.2)	(633.1)
Invested Capital	1,087.1	846.8
Two-point average of opening and closing Invested Capital	967.0	855.5
Trading Profit	233.4	175.7
ROIC%	24.1%	20.5%
Underlying Trading Profit	228.9	163.1
Underlying ROIC%	23.7%	19.1%

Overview of financial performance

Revenue

Reported revenue increased by 13.9% in the year to £4,424.6m (2020: £3,884.8m), a 15.8% increase at constant currency. Organic revenue growth at constant currency was 10.1%. This is in line with the trading update issued on 15 November 2021 where revenue was expected to be £4.4bn for the year ended 31 December 2021.

Commentary on the revenue performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Trading Profit

Trading Profit for the year was £233.4m (2020: £175.7m).

Commentary on the trading performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Underlying Trading Profit

UTP was £228.9m (2020: £163.1m), up 40.3%. At constant currency, UTP was £235.8m, up 44.6%. This is in line with the trading update issued on 15 November 2021 where UTP was expected to be not less than £225m for the year ended 31 December 2021.

Commentary on the underlying performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections.

Excluded from UTP were net releases from OCPs of £1.3m (2020: net releases of £5.8m) following the detailed reassessment undertaken as part of the budgeting process. Also excluded from UTP were net releases and additional profits of £3.2m (2020: net releases and additional profits of £6.8m) relating to items identified during the 2014 Contract & Balance Sheet Review and other one-time items.

The tax impact of items in UTP and other non-underlying tax items is discussed in the tax section of this Finance Review.

Joint ventures and associates – share of results

In 2021, the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited (AWEML), prior to the handing back of the AWEML contract on 30 June 2021, and Merseyrail Services Holding Company Limited (Merseyrail), with dividends received of £13.5m (2020: £15.5m) and £nil (2020: £1.5m) respectively. Total revenues generated by these businesses were £638.7m (2020: £1,106.8m) and £161.0m (2020: £150.7m), respectively.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWEML on 30 June 2021.

Finance Review continued

As announced on 24 June 2021, Vivo Defence Services Limited (VIVO), a joint venture between Serco Limited and ENGIE SA, has been awarded contracts to provide repairs and maintenance work for Service Family Accommodation (SFA) by the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO). VIVO is not a material joint venture to the Group in 2021.

While the revenues and individual line items are not consolidated in the Group's Consolidated Income Statement, summary financial performance measures for the Group's proportion of the aggregate of all joint ventures and associates are set out below for information purposes.

For the year ended 31 December	2021 £m	2020 £m
Revenue	238.4	365.1
Operating profit	11.5	15.4
Net finance cost	(0.1)	–
Income tax charge	(2.7)	(2.7)
Profit after tax	8.7	12.7
Dividends received from joint ventures and associates	13.5	19.8

The change in revenue and profits on the prior year is primarily due to the exit from the AWEML contract. Merseyrail continued to make losses during 2021, however these have reduced against prior year due to the lifting of Covid-19 measures resulting in increased passenger volumes.

Dividends received have also reduced due to the exit from the AWEML contract as well as the sale of Viapath which contributed £1.0m in dividends during 2020. Northern Rail and Hong Kong Parking also contributed £1.0m and £0.8m respectively in 2020. As Merseyrail recorded a loss in 2021, no dividends were received during the year. Future dividends received from the joint ventures are likely to take into consideration operating performance as a result of the pandemic and a requirement to maintain an appropriate level of cash resources within the entities given the impact of Covid-19, though most notably in respect of the Merseyrail joint venture.

Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. These require separate disclosure on the face of the income statement to assist in the understanding of the performance of the Group. In 2021, the total exceptional charge for the year net of tax was £1.4m (2020: gain of £12.1m).

The Group completed the acquisition of Facilities First Australia Holdings Pty Limited (FFA) and Whitney, Bradley & Brown, Inc (WBB) in 2021. The combined transaction and implementation costs incurred during the year ended 31 December 2021 of £4.9m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2020.

During 2021, the Group sold an investment recording a profit of £4.2m which was treated as exceptional in line with the Group's accounting policy.

The Group has recorded an additional £0.6m property provision related to the onerous lease of a building to cover the expected loss until March 2025. The building was vacated following the strategy review completed in 2014 and therefore the associated cost treated as exceptional.

Exceptional costs of £1.3m were recorded in 2020 associated with the UK Government review and the programme of Corporate Renewal. No such costs were incurred in the current financial year.

Exceptional tax

Exceptional tax for the period was a tax charge of £0.2m (2020: charge of £0.4m) which arises on exceptional items within operating profit.

The tax charge on exceptional costs has been increased as an element of the exceptional costs associated with the WBB acquisition were not allowable for tax. This is partially offset by previously unrecognised capital losses in Australia that were utilised against the gain arising on the sale of an investment reducing the charge.

Finance costs and investment revenue

Net finance costs were £24.0m (2020: £25.9m) and net interest paid was £24.3m (2020: £24.6m).

Investment revenue of £2.4m (2020: £1.9m) consists primarily of interest accruing on net retirement benefit assets of £1.1m (2020: £1.2m), dividends received of £0.6m (2020: £0.4m) and interest receivable of £0.6m (2020: £0.2m).

The finance costs of £26.4m (2020: £27.8m) include interest incurred on the US private placement loan notes and the revolving credit facility of £15.6m (2020: £15.3m) and lease interest payable of £7.8m (2020: £9.5m) as well as other financing related costs including the impact of foreign exchange on financing activities.

Tax

Tax charge

Underlying tax

In 2021 we recognised a tax charge of £48.6m on underlying trading profits after net finance costs. The effective tax rate (23.7%) is slightly higher than in 2020 (22.7%). The increase compared with 2020, is primarily due to the recognition of deferred tax assets in the UK as discussed below. This means that utilisation of losses brought forward to offset current year profits does not reduce the tax rate in 2021 as it did in the prior year. Further, there has been a reduction in profits made by our joint ventures and associates whose post tax profits are included in our profit before tax. This is partially offset by a reduction in our expenses not deductible for tax together with the impact of movements in provisions as part of our regular reassessment of tax exposures across the Group.

Pre-exceptional tax

A tax credit of £111.9m (2020: £18.9m charge) on pre-exceptional profits has been recognised which includes an underlying tax charge of £48.6m, the tax impact of amortisation of intangibles arising on acquisition of £4.3m credit and a £156.2m credit on non-underlying items.

Of the £156.2m credit on non-underlying items, £157.2m relates to UK deferred tax. £144.8m of this credit arises from the recognition of deferred tax assets in relation to the Group's UK operations which have not previously been recognised as assets. It is now considered that the UK business has returned to sustainable profitability, and there is sufficient certainty of future taxable profits against which these deductions can be utilised to enable the recognition of an increased deferred tax asset. £10.8m of the UK deferred tax credit relates to the revaluation of the deferred tax asset at 1 January 2021, following the announcement in the UK Budget earlier this year that the tax rate in the UK is to increase in 2023 to 25% and £1.6m of the UK deferred tax credit relates to non-underlying movements in the deferred tax asset where the value of the asset has been impacted by factors outside of current period trading, such as changes in future forecasts. The remaining £1.0m non-underlying tax charge relates to tax on non-underlying income that is taxable.

The tax rate on profits before exceptional items at (57.9)% is lower than the UK standard corporation tax rate of 19.0%. This is mainly due to the impact of non-underlying tax items noted above (reducing rate by 81.3%) together with a reduction in provisions held for uncertain tax positions (reducing rate by 1.4%). As part of our regular reassessment of tax exposures across the Group, we have concluded that certain provisions are no longer likely to lead to an outflow of tax. The impact of this is only partially offset by higher statutory rates of tax being suffered on overseas profits (increasing rate by 5.8%).

Exceptional tax

Analysis of exceptional tax is provided within the exceptional items section above.

Deferred tax assets

At 31 December 2021 there is a net deferred tax asset of £174.0m (2020: £56.3m). This consists of a deferred tax asset of £214.3m (31 December 2020: £83.2m) and a deferred tax liability of £40.3m (31 December 2020: £26.9m).

A £162.8m UK tax asset is recognised on the Group's balance sheet at 31 December 2021 (31 December 2020: £30.6m) on the basis that improved performance in the underlying UK business indicates a sustained return to profitability which would enable accumulated tax losses within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long-term contracts being entered into, as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business.

Taxes paid

Net corporate income tax of £42.1m was paid during the year, relating primarily to our operations in AsPac (£24.4m), North America (£17.6m), Middle East (£1.2m), UK (£0.8m refund) and Europe (£0.3m net refund). The refund in the UK consists of £1.2m which was paid to HMRC net of £2.0m which was received in the period from our joint ventures and associates for 2019 losses sold to them. The refund in Europe relates to various overpayments of tax instalment payments which were refunded during the year.

The amount of tax paid (£42.1m) differs from the tax credit in the period (£111.9m) mainly due to the impact of the additional deferred tax assets recognised during the period. In addition, taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit, and there is a time lag on receipts of cash from joint ventures and associates for losses transferred to them resulting in a net tax inflow.

Total tax contribution

Our tax strategy of paying the appropriate amount of tax as determined by local legislation in the countries in which we operate, means that we pay a variety of taxes across the globe. We have shown below the cash taxes that we have paid across our regional markets.

In total during 2021, Serco globally contributed £815.2m of tax to government in the jurisdictions in which we operate.

Finance Review continued

Taxes by category

For the year ended 31 December 2021	Taxes borne £m	Taxes collected £m	Total £m
Corporation tax	44.0	–	44.0
VAT and similar	8.5	246.6	255.1
People taxes	133.7	375.5	509.2
Other taxes	6.8	0.1	6.9
Total	193.0	622.2	815.2

Taxes by region

For the year ended 31 December 2021	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	90.0	335.4	425.4
AsPac	49.0	184.7	233.7
Americas	51.3	98.7	150.0
Middle East	2.7	3.4	6.1
Total	193.0	622.2	815.2

Corporation tax, which is the only cost to be separately disclosed in our Consolidated Financial Statements, is only one element of our tax contribution. For every £1 of corporate tax paid directly by the Group (tax borne), we bear a further £3.39 in other business taxes. The largest proportion of these is in connection with employing our people.

In addition, for every £1 of tax that we bear, we collect £3.22 on behalf of national governments (taxes collected). This amount is directly impacted by the people that we employ and the sales that we make.

Dividends and share buyback

During the year to 31 December 2021, the Group has paid dividends of £26.5m (2020: £nil) in respect of the final dividend for the year ended 31 December 2020 and the interim dividend in respect of the six months ended 30 June 2021. As noted in the Chief Executive's Review, the Board has decided to declare a final dividend of 1.61p per share in respect of the year ended 31 December 2021 (2020: 1.4p per share).

Following the successful completion of the share buyback programme during 2021, in which 30.7m shares were repurchased at an average price of 1.32p, the Group has announced its intention to commence a further share buyback of up to £90m. Consistent with the Group's capital allocation policy, the objective of the programme is to provide additional returns to shareholders as well as aid the Group in meeting its medium-term leverage targets. The buyback programme is expected to complete within 12 months with the shares either cancelled or held in Treasury.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,222.6m for the year ended 31 December 2021 (2020: 1,229.1m) and diluted weighted average number of shares was 1,244.0m (2020: 1,254.3m).

The number of ordinary shares in issue has reduced during the year ended 31 December 2021 as a result of the Serco Share Repurchase Programme (the Programme). At the end of 2020, the Group announced its intention to repurchase ordinary shares with a value of up to £40m, subject to a maximum of 122,338,063 ordinary shares being purchased, during the period 4 January 2021 to 11 June 2021. Through the Programme, the Group repurchased 30,721,849 ordinary shares for total consideration of £40.7m including fees.

On 28 June 2021, the Group announced that, of the ordinary shares repurchased and held in Treasury, 15,350,000 were transferred to the Employee Share Ownership Trust to be used to satisfy awards granted under the Group's share award schemes. The 15,371,849 ordinary shares remaining in Treasury were cancelled on 28 June 2021.

Basic EPS before exceptional items was 24.97p per share (2020: 9.90p); including the impact of exceptional items, Basic EPS was 24.86p (2020: 10.89p). Basic Underlying EPS was 12.78p per share (2020: 8.61p).

Diluted EPS before exceptional items was 24.54p per share (2020: 9.70p); including the impact of exceptional items, Diluted EPS was 24.43p (2020: 10.67p). Diluted Underlying EPS was 12.56p per share (2020: 8.43p).

Cash flows

UTP of £228.9m (2020: £163.1m) converts into a trading cash inflow of £256.5m (2020: £196.4m). The improvement in 2021 trading cashflows reflects the increase in profitability from revenue and profit growth offset by £20.3m spent on the repurchase of the Group's own shares to satisfy share awards. The Group has delivered a working capital inflow which is better than expected as the working capital position on the Dubai Metro contract has unwound following its exit during the year. There also continues to be a focus on collections across the Group.

The table below shows the operating profit and Free Cash Flow (FCF) reconciled to movements in Adjusted Net Debt. FCF for the year was an inflow of £189.5m compared to £134.9 in 2020. The improvement in FCF is largely as a result of improved trading cash inflows, as discussed above.

Adjusted Net Debt has increased by of £120.2m in 2021, a reconciliation of which is provided at the bottom of the following table. The increase is due to £189.5m of free cash flow generated, offset by £234.9m of cash outflow related to acquisitions, £14.3m used to settle historic intercompany positions at Facilities First Australia Holdings Limited Pty, £26.5m of dividend payments and £20.4m of cash paid out as part of the Serco Share Repurchase Programme.

For the year ended 31 December	2021 £m	2020 £m
Operating profit	216.2	179.2
Remove exceptional items	1.2	(12.5)
Operating profit before exceptional items	217.4	166.7
Less: share of profit from joint ventures and associates	(8.7)	(12.7)
Movement in provisions	(7.2)	16.2
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	47.2	39.2
Depreciation and impairment of right of use assets	109.0	93.9
Other non-cash movements	16.6	8.5
Operating cash inflow before movements in working capital, exceptional items and tax	374.3	311.8
Working capital movements	25.2	(5.3)
Tax paid	(42.1)	(35.9)
Non-cash R&D expenditure	–	(0.1)
Cash flow from operating activities before exceptional items	357.4	270.5
Dividends from joint ventures and associates	13.5	19.8
Interest received	0.6	0.3
Interest paid	(24.9)	(24.9)
Capital element of lease repayments	(111.3)	(100.8)
Capitalised finance costs paid	(0.6)	(0.9)
Purchase of intangible and tangible assets net of proceeds from disposals	(25.1)	(29.2)
Purchase of own shares to satisfy share awards	(20.3)	–
Proceeds received from exercise of share options	0.2	0.1
Free Cash Flow	189.5	134.9
Net cash (outflow)/inflow on acquisition and disposal of subsidiaries, joint ventures and associates	(234.9)	6.1
Net increase in debt items on acquisition and disposal of subsidiaries, joint ventures and associates	(14.3)	–
Dividends paid to shareholders	(26.5)	–
Purchase of own shares	(20.4)	–
Movements on other investment balances	0.6	0.5
Exceptional sale of other investments	13.0	–
Capitalisation and amortisation of loan costs	(0.7)	–
Exceptional items	(7.5)	(2.0)
Exceptional proceeds from loans receivable	–	1.2
Exceptional distribution from joint venture	–	1.9
Cash movements on hedging instruments	(16.6)	2.4
Foreign exchange (loss)/gain on Adjusted Net Debt	(2.4)	11.7
Movement in Adjusted Net Debt	(120.2)	156.7
Opening Adjusted Net Debt	(57.8)	(214.5)
Closing Adjusted Net Debt	(178.0)	(57.8)
Lease liabilities	(430.3)	(402.6)
Closing Net Debt at 31 December	(608.3)	(460.4)

Finance Review continued

Net Debt

As at 31 December	2021 £m	2020 £m
Cash and cash equivalents	198.4	335.7
Loans payable	(377.0)	(388.8)
Lease liabilities	(430.3)	(402.6)
Derivatives relating to Net Debt	0.6	(4.7)
Net Debt	(608.3)	(460.4)
Exclude lease liabilities	430.3	402.6
Adjusted Net Debt	(178.0)	(57.8)

Average Adjusted Net Debt as calculated on a daily basis for the year ended 31 December 2021 was £216.1m (2020: £209.2m). Peak Adjusted Net Debt was £346.3m (2020: £355.7m).

Treasury operations and risk management

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised Treasury function whose principal role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise and that the financial risk arising from the Group's underlying operations is effectively identified and managed.

Treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for hedging purposes and speculation is not permitted. A monthly report is provided to senior Management outlining performance against the Treasury Policy and the Treasury function is subject to periodic internal audit review.

Liquidity and funding

As at 31 December 2021, the Group had committed funding of £629m (2020: £642m), comprising £259m of US private placement notes, a £120m term loan facility which was fully drawn and a £250m revolving credit facility (RCF) which was undrawn in its entirety. The Group does not engage in any external financing arrangements associated with either receivables or payables.

The Group's RCF provides £250m of committed funding for five years from the arrangement date in December 2018. The US private placement notes are repayable in bullet payments between 2022 and 2032.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our Treasury Policy requires us to maintain a minimum proportion of fixed rate debt as a proportion of overall Adjusted Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2021, £259.2m of debt was held at fixed rates and Adjusted Net Debt was £178.0m.

Foreign exchange risk

The Group is subject to currency exposure on the translation to Sterling of its net investments in overseas subsidiaries. The Group manages this risk where appropriate, by borrowing in the same currency as those investments. Group borrowings are predominantly denominated in Sterling and US Dollar. The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate to hedge net currency flows.

Credit risk

Cash deposits and in-the-money financial instruments give rise to credit risk on the amounts due from counterparties. The Group manages this risk by adhering to counterparty exposure limits based on external credit ratings of the relevant counterparty.

Debt covenants

The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility, with a maximum Consolidated Total Net Borrowings (CTNB) to covenant EBITDA of 3.5 times and minimum covenant EBITDA to net finance costs of 3.0 times, tested semi-annually. A reconciliation of the basis of calculation is set out in the table below.

Following the refinancing in December 2018, the debt covenants were amended to include the impact of IFRS 15 *Revenue from Contracts with Customers*. The covenants continue to exclude the impact of IFRS 16 *Leases* on the Group's results.

For the year ended 31 December	2021 £m	2020 £m
Operating profit before exceptional items	217.4	166.7
Remove: Amortisation and impairment of intangibles arising on acquisition	16.0	9.0
Trading Profit	233.4	175.7
Exclude: Share of joint venture post-tax profits	(8.7)	(12.7)
Include: Dividends from joint ventures	13.5	19.8
Add back: Net non-exceptional charges to covenant OCPs	1.3	4.9
Add back: Net covenant OCP utilisation	(0.6)	(0.7)
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets	31.2	30.2
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets held under finance leases – in accordance with IAS 17 Leases	5.0	4.3
Add back: Foreign exchange credit on investing and financing arrangements	(0.6)	(0.7)
Add back: Share based payment expense	15.8	11.2
Other covenant adjustments to EBITDA	6.3	(7.2)
Covenant EBITDA	296.6	224.8
Net finance costs	24.0	25.9
Exclude: Net interest receivable on retirement benefit obligations	1.1	1.2
Exclude: Movement in discount on other debtors	0.1	0.1
Exclude: Other dividends received	0.6	0.4
Exclude: Foreign exchange on investing and financing arrangements	(0.6)	(0.7)
Add back: Movement in discount on provisions	–	(0.2)
Other covenant adjustments to net finance costs resulting from IFRS 16 Leases	(7.3)	(9.1)
Covenant net finance costs	17.9	17.6
Adjusted Net Debt	178.0	57.8
Obligations under finance leases – in accordance with IAS 17 Leases	26.5	24.1
Recourse Net Debt	204.5	81.9
Exclude: Amortised capitalised finance costs, encumbered cash and other adjustments	2.9	(1.7)
Covenant adjustment for average FX rates	(5.7)	21.3
CTNB	201.7	101.5
CTNB / covenant EBITDA (not to exceed 3.5x)	0.68x	0.45x
Covenant EBITDA / covenant net finance costs (at least 3.0x)	16.6x	12.8x

Finance Review continued

Net assets summary

As at 31 December	2021 £m	2020 £m
Non-current assets		
Goodwill	852.7	669.6
Other intangible assets	144.0	80.6
Property, plant and equipment	55.5	54.2
Right of use assets	416.7	387.5
Contract assets, trade receivables and other non-current assets	33.8	44.5
Deferred tax assets	214.3	83.2
Retirement benefit assets	166.2	114.6
Total non-current assets	1,883.2	1,434.2
Current assets		
Inventories	19.6	21.4
Contract assets, trade receivables and other current assets	627.3	614.1
Current tax assets	5.5	4.9
Cash and cash equivalents	198.4	335.7
Total current assets	850.8	976.1
Total assets	2,734.0	2,410.3
Current liabilities		
Contract liabilities, trade payables and other current liabilities	(589.3)	(585.5)
Current tax liabilities	(17.2)	(21.6)
Provisions	(95.6)	(62.1)
Lease obligations	(126.3)	(109.3)
Loans	(64.9)	(89.7)
Total current liabilities	(893.3)	(868.2)
Non-current liabilities		
Contract liabilities, trade payables and other non-current liabilities	(55.9)	(57.0)
Deferred tax liabilities	(40.3)	(26.9)
Provisions	(102.0)	(115.9)
Lease obligations	(304.0)	(293.3)
Loans	(312.1)	(299.1)
Retirement benefit obligations	(18.0)	(34.9)
Total non-current liabilities	(832.3)	(827.1)
Total liabilities	(1,725.6)	(1,695.3)
Net assets	1,008.4	715.0

At 31 December 2021 the Group had net assets of £1,008.4m, a movement of £293.4m from the closing net asset position of £715.0m as at 31 December 2020. The increase in net assets is mainly due to the following movements:

- An increase in goodwill of £183.1m due to additional goodwill on the acquisitions of Facilities First Australia Holdings Limited Pty (FFA), Whitney, Bradley & Brown, Inc (WBB) and Mercurius Finance S.A. together with an increase due to foreign exchange movements.
- An increase in other intangible assets of £63.4m due to the combined intangibles recognised on the FFA and WBB acquisitions, offset by amortisation charged in the period.
- Deferred taxes have increased by £117.7m owing to the Group's recognition of assets relating to historic losses in the UK. Previously, only losses likely to be utilised over a five-year period were recognised in the UK, however given the structural change in performance of the UK entities the majority of losses have now been recognised.
- An increase in the net retirement benefit asset of £68.5m. An increase in risk free rates and a corresponding increase in the discount rate applied to the defined benefit obligation associated with the Group's most significant pension scheme resulted in a decrease in the liabilities of the scheme. The scheme's assets also saw favourable net returns during the year.
- Cash and cash equivalents have decreased by £137.3m which includes a net exchange loss of £4.8m. In the year the Group has generated cash inflows of £357.4m from operations before exceptionals. The net spend on tangible and intangible assets was £25.1m and the capital element of lease repayments in the year was £111.3m. Including associated costs, the spend on shares repurchased during the year totals £40.7m and dividends totalling £26.5m have been paid. The other significant cash outflow is the spend on acquisitions which, inclusive of costs but net of cash received, totalled £234.9m.

Acquisitions

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited (FFA), for consideration of AU Dollars \$52.2m (£29.6m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included AU Dollars \$3.6m (£2.1m) of cash resulting in a net cash outflow on acquisition of AU Dollars \$48.6m (£27.5m). At the same time, the Group transferred AU Dollars \$25.2m (£14.3m) to allow FFA to settle existing debt and debt-like balances. FFA is a specialist provider of cleaning, facility maintenance and management services in Australia. The operating results, assets and liabilities have been recognised effective 4 January 2021.

On 27 April 2021, the Group acquired 100% of the issued share capital of Whitney, Bradley & Brown, Inc (WBB) for US Dollars \$300.5m (£211.9m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included US Dollars \$7.2m (£5.1m) of cash resulting in a net cash outflow on acquisition of US Dollars \$293.3m (£206.8m). The acquisition will increase the scale, breadth and capability of Serco's North American Defence business and will give Serco a strong platform from which to address all major segments of the US Defence services market. The operating results, assets and liabilities have been recognised effective 27 April 2021.

On 30 June 2021, the Group acquired 100% of the issued share capital of Mercurius Finance S.A., the holding company of Clemaco Trading N.V., Clemaco Contracting N.V. and Targets N.V. (together Clemaco), for €7.8m (£6.7m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included €7.1m (£6.1m) of cash resulting in a net cash outflow on acquisition of €0.7m (£0.6m). Clemaco specialises in the support and maintenance of ships for the Belgian Navy, enabling Serco to provide additional value to existing Serco and Clemaco customers and expanding the Group's existing activities with the Belgian Navy. The operating results, assets and liabilities have been recognised effective 30 June 2021.

Pensions

Serco's pension schemes are in a strong funding position and show an accounting surplus before tax, of £148.2m (2020: £79.7m) on scheme gross assets of £1.6bn and gross liabilities of £1.5bn. The opening net asset position led to a net credit within net finance costs of £1.1m (2020: £1.2m). For the Group's main scheme, the Serco Pension and Life Assurance Scheme (SPLAS), the purchase of a bulk annuity from an insurer, which covers around half of all scheme members, has the effect of fully removing longevity, investment and accounting risks for those members; the gross liability remains recognised on our balance sheet, but there is an equal and opposite insurance asset reflecting the perfect hedge established by the annuity.

Covid-19

In 2021, the Group continued to support governments in their management of the pandemic through its immigration support, testing and tracing services. Whilst there continues to be some negative impact within the Group's transport, leisure, health and environmental waste sectors, the financial performance within these is improving as the impact of the pandemic reduces, and the restrictions implemented by governments are eased. It remains unknown whether volumes or costs within these sectors will return to pre-pandemic levels, however given the diverse nature of the Group's operations the financial impact is mitigated.

As noted in 2020, the Group returned all Covid-19 financial support offered by governments with the exception of the US tax deferrals which will be repaid in line with regulations given there is no mechanism to repay early; the amount remaining to be repaid is £7.7m.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties. The Group does not currently assess the merits as strong, especially given the legal uncertainties in such actions.

Information on other contingent liabilities can be found in Note 28 to the Consolidated Financial Statements.



Nigel Crossley
Group Chief Financial Officer
23 February 2022

Risk Management

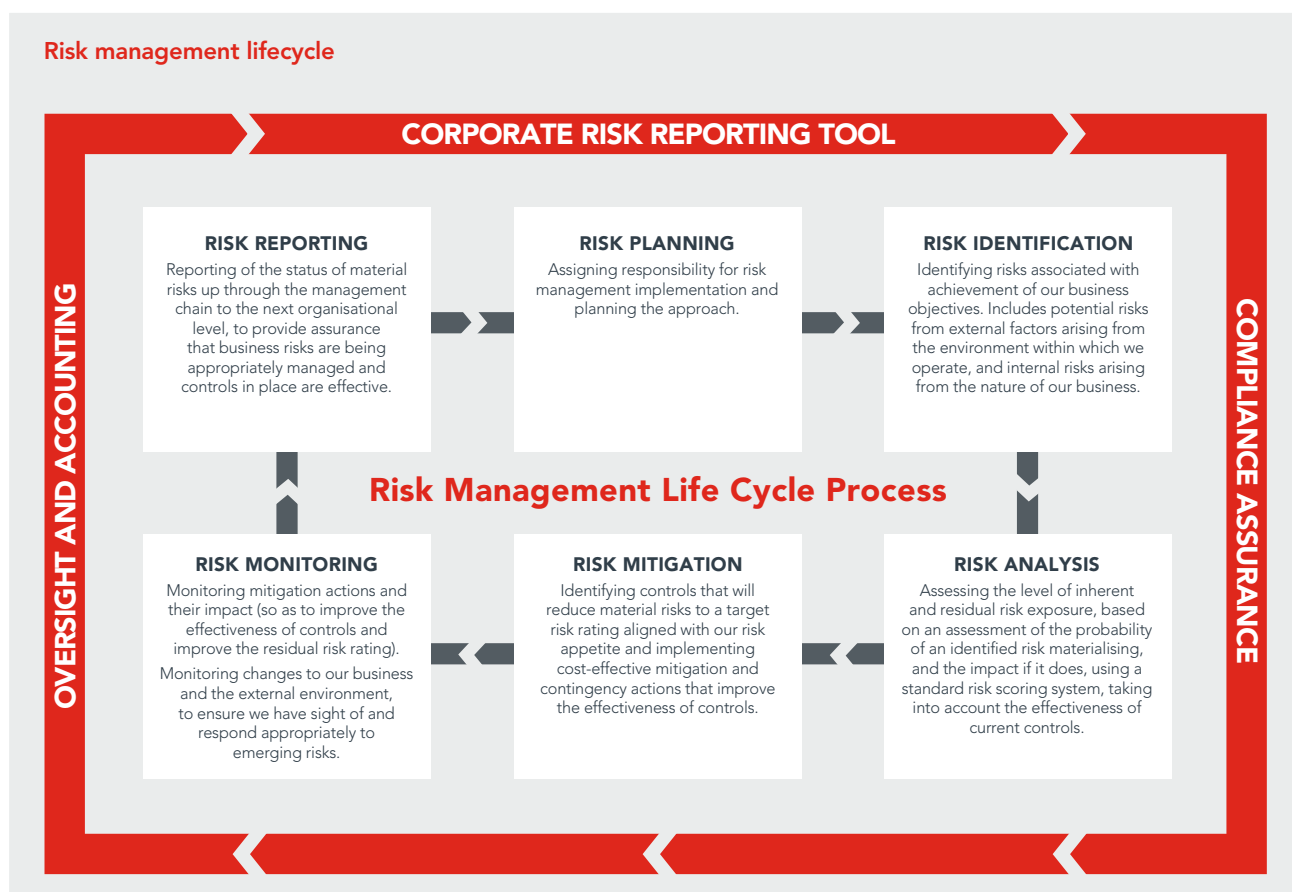
Managing Risk

Serco is exposed to a wide range of risks that, should they materialise, could have a detrimental impact on our financial performance, reputation and operational resilience. We therefore take risk management extremely seriously and invest significant effort into identifying and managing risks. The Board oversees the Company's risk management and internal control processes within an Enterprise Risk Management ("ERM") framework, discharging its oversight responsibilities through the Group Risk Committee ("GRC"), supported by the Corporate Responsibility Committee ("CRC") and the Audit Committee.

Our ERM approach is not about eliminating risk but seeks to identify, understand, mitigate and manage risks that might disrupt our ability to execute our strategy or deliver against our customer and contractual commitments. Our key risks are agreed through an annual review with the Executive Committee and through quarterly challenge and review at either the GRC, CRC, Audit Committee or Board supported by Divisional level quarterly reviews with the Executive Management teams. Each risk response reflects the nature of the activities being undertaken and the level of control considered necessary to protect our interests and those of our stakeholders. In addition to the operational focus on risk, consideration and assessment of risk is an integral part of our annual strategic review that helps inform our approach to operating across geographies, jurisdictions and sectors. These discussions include consideration of several of our principal risks, most notably Failure to Grow. We have assessed our markets and possible growth over the next five years as part of our strategy review to ensure it is sustainable and provides sufficient growth opportunities to meet our ambition without the need for a material shift in our operating model and existing markets. Further detail on our market can be found on page 4.

A key focus throughout 2021 has been on the continued development of our ERM maturity to ensure consistent application of our Group policies and procedures. This has included undertaking a Group-wide capability assessment that has highlighted where we would like to see development and where best practices can be shared. Each Division specific improvement plan aligned to this review will form the basis of a programme of activity through 2022. In parallel, the risk management process has been subject to an Internal Audit. The key themes from that audit included potential improvements in how contracts are managing risk and opportunities and increased visibility and confidence in assurance levels across the key risks. As a result of these reports an additional ERM discussion was undertaken at the GRC noting specific plans for improvement and that our North America division operates its approach slightly differently to accommodate customer security requirements. We have also launched a review of our SMS to ensure it remains the most effective and efficient vehicle to document and communicate our processes and controls that remain a core component of our control environment.

Our plans for 2022 include implementation of the associated improvement actions referenced above. Additionally, our programme to prepare for governance improvements resulting from the BEIS consultation in 2021 is leading us to make further changes including investment in a new Governance, Risk and Compliance tool.



Risk Management Process

Our risk policy is set at a Group level with implementation and execution of that policy owned within each of our Divisions. The Serco risk management lifecycle process is mandated throughout the Company to seek a consistent approach to identification, analysis, monitoring and reporting of risks and to provide further assurance that the risk mitigation in place is sufficiently effective and appropriate.

We undertake a bottom-up review of risks quarterly, with our Business Units identifying the main threats to achievement of their objectives, documenting and analysing their potential impact, and defining clear actions to reduce the likelihood of those risks materialising and/or the financial impact if they should still occur. The Business Unit risks are consolidated and reported to Divisional leadership teams in a check and challenge capacity to ensure that risks on the Business Unit risk registers accurately reflect the concerns of local senior leadership. Once approved, the Divisional risks are reviewed by the Group ERM team and help inform the principal risk updates. The Board is updated after each GRC meeting.

Our principal risks, detailed on page 95 are those risks that we determine to be the most material when considered against our strategic ambition (as outlined on page 11) and that can materially affect the performance, prospects, or reputation of our business. These risks are identified and assessed as part of our strategic review and through additional discussions at the Executive Committee and the GRC where internal and external emerging risk trends are considered. Once identified, each risk's inherent, residual and target position is assessed against a standardised set of impact categories that include financial, reputational, operational and strategic considerations on a worst-case credible scenario basis. The likelihood of each risk occurring is then assessed, resulting in a residual risk position that enables us to score the risk from minor to severe and rank accordingly. Each principal risk has a Subject Matter Expert ("SME") and a nominated Executive Committee sponsor allocated to it, supporting its review and management. Detailed reviews of our principal risks are carried out as part of the GRC reporting schedule, as well as topical "deep dives" that focus on pertinent risk themes. These deep dives may be focused on a region, led by the Divisional CEOs, or on functional or business unit areas involving specialists from our business operations. This risk focused approach facilitates flexibility that allows us to be responsive to changes in our risk profile throughout the year whilst still maintaining appropriate coverage of our principal risks and divisional risk landscapes. Our principal risks and uncertainties are detailed on page 95.

Each of our principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept as well as informing our decision-making. The statements include one of four appetite categories, averse, cautious, moderate and flexible, that reflect the Board's tolerance to each risk. These statements are aligned to our Values, Code of Conduct and other ethical requirements to support and drive the right risk culture within the Group and are set through discussion with the principal risk Executive Committee Sponsor and SME and ratified annually by the GRC.

As part of our ERM approach we have dedicated Compliance Assurance teams which operate as a second line function focusing on validation and testing of key controls to augment annual control self-assessments and biannual compliance assurance attestation statements. Key controls are mapped against our principal risks and our SMS and testing plans are reviewed annually to identify and respond to any significant amendments in the control environment. Whilst many controls are tailored to meet divisional requirements, there are consistent themes across our control environment to include clear oversight and reporting by divisional management teams, robust bid governance processes, a focus on the health, safety and wellbeing of our colleagues and service users and prioritisation of maintaining integrity and a strong ethics culture. In addition to our in-house assurance teams work we are also subject to significant third line assurance activities and audits delivered through external third parties appropriate to the regulatory environment, certification standards and customer requirements in our varied service lines and business units. These reviews include those that support the range of ISO certifications we manage across the business as well as independent performance and regulatory reports on Serco operations.

Emerging Risks

As part of the review of our Corporate risk profile we have a process to identify and monitor emerging risks to ensure that adequate steps are being taken to understand and mitigate new risk themes before they materialise and to assess any impact on our principal risks. This assessment is completed through individual discussions with our Executive Committee members, via input from our Divisional risk teams and through the monitoring of external macro risk trends. A key theme arising from our emerging risk discussions is the importance of our ability to demonstrate our commitment to the Environmental, Social and Governance ("ESG") agenda, including treatment of climate change.

ESG: We are committed to addressing the ESG risks that are material to us and important to our stakeholders, recognising their deep strategic relevance. Managing these risks and taking them seriously is something we have been doing for many years, woven inseparably into our operational and commercial landscape, our strategy and governance and how we analyse our performance and prospects. Our ESG Framework brings all our ESG priorities together in one model, structured around our key stakeholder groups. The elements within our framework are considered in strategy development and firmly embedded in how we manage our business, with appropriate Board and Executive oversight and dedicated leadership at both Group and Divisional levels. Our ERM approach plays a key role in how we identify, understand and manage our ESG risks and priorities, monitoring a broad spectrum of present and emerging risks informed by a wide range of ESG factors. Following discussion at both the Executive Committee and the Group Risk Committee in 2021, we continue to treat ESG as an embedded consideration across several of our principal risks rather than a stand-alone item at the Group level. We are mindful that there are differing views amongst investors about our activities in the Defence and Immigration sectors. We take those views into account in considering the types of business we undertake in different countries whilst noting that defending a nation and having effective controls on immigration are both topics which all governments have a need to address. More information on our approach to ESG can be found on page 39.

Risk Management continued

Climate change: Whilst Governance and Social risks apply to all our operations, our Environmental footprint varies significantly between our contracts and business units and is dependent upon the boundary and scope of our environmental reporting. Across much of our business we work on our customers' premises and are not in direct control of environmental impacts. Regardless of where we operate we recognise the need to drive consistent environmental behaviours and performance improvements throughout our operations. For example, by working to green our supply chain and by ensuring our employees are engaged, competent and encouraged to contribute to environmental improvements via our global network of green ambassadors who continue to create and foster a strong environmental culture at contract and functional level. Collectively our approach helps Serco to not only reduce our own environmental footprint but to also support our customers' environmental goals, make positive contributions to the communities in which we work, and address the environmental risks of our overall value chain. Climate-related risks have the potential to impact Serco over the short, medium and long term. We face physical risks including extreme weather events as well as transition risks from technology, policy and legal, market and reputational perspectives. Transitional risk examples include the impact of future carbon taxes and levies on our operations and the cost of transitioning products and services to lower emission options. The nature of our services requires us to manage and operate client assets, therefore understanding climate risk at our operating locations is also beneficial for our clients. Building employee and leadership literacy on climate risks is vital for us to deliver the level of support our clients will need in future and we continue to focus on training and awareness through initiatives such as Chapter Zero and corporate membership of industry bodies. To build climate resilience we have developed a specific programme of work to consider climate change risks and opportunities. In 2021 we ran a series of cross-functional climate risk and opportunity workshops in each Division supported by external advisers, helping to develop a more detailed understanding of the key risks and opportunities faced by the business in each geography. These risks and opportunities have been assessed using our risk management framework and detailed climate risk scenario analysis has been completed on material risks to inform our understanding and approach whilst also supporting our TCFD reporting obligations. Similar to the ESG risk approach, we have chosen not to consider climate risk as a stand-alone principal risk and instead consider it as a cross-cutting scenario under several of our principal risks, including Catastrophic Incident, and have embedded this more clearly in the principal risk narrative. We will continue to monitor the profile of both the ESG and climate change matters as part of our ongoing quarterly risk reviews and both remain a focus area for development throughout 2022. Further detail on our approach to TCFD can be found on page 58.

We have also continued to monitor and manage the impact of the Covid-19 pandemic and associated emerging risks across the business. Our ongoing and uninterrupted focus is on the continued delivery of essential public services as well as the wellbeing of our colleagues and service users as we navigate the challenges of the pandemic. Covid-19 impacts have been considered against each principal risk at every quarterly Group Risk Committee led through the work under our Health, Safety and Wellbeing principal risk. Further detail on our Covid response can be found on page 39.

Brexit: We have continued to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on Serco over the last 12 months. Reiterating our position outlined in our 2020 Annual Report, we have not experienced direct negative impact on Serco to a material extent and we continue to manage this risk in the ordinary course of business.

Principal Risks and Uncertainties

Changes during the year

Our annual strategic review process (outlined on page 24) considers the risks and opportunities associated with our existing market and services and as such we do not see the need for a material shift in approach. As outlined in the Chief Executive's Review on page 16 we are reporting strong financial performance and we have not observed any material manifestation of risk that has caused significant operational or performance disruption even when considering the disruption of Covid as described on page 39. As a result, our principal risks remain valid with their definition and scope remaining largely unchanged. These risks continue to underpin our business model described on page 11 and mitigation of the risks link directly to our four strategic priorities as described in our management philosophy on page 9. Some changes are noted that reflect updated thinking and in response to operational influences. We have broadened the definition and scope of our Supply Chain risk to ensure wider coverage of this complex risk area and to accommodate potential disruptions as an ongoing impact of Covid. In a similar vein, we have also broadened the scope of our People risk ensuring that we consider capability attraction and retention from a wider perspective. This should enable us to understand and mitigate the impact of adverse labour market trends on the execution of our people strategies across the Group in the medium to long term. We have also retired Failure to Manage our Reputation as a principal risk, considering it instead a potential impact outcome in the event of one of our other principal risks materialising and explicitly considering it as a causal factor under the Failure to Act with Integrity risk and Failure to Grow Profitably risk.

Summary of principal risks and uncertainties

Principal risks, as described below, have been reviewed by the Executive Committee, GRC and the Board. Each risk is classified as a strategic, financial, operational, people, hazard, or legal and compliance risk. The risks are described on the following pages, together with the relevant strategic business objectives, key risk drivers, the Group-wide material controls which have been put in place to mitigate principal risks and the mitigation priorities to improve the effectiveness of the controls. We have included the residual risk trend indicator for each risk and a brief commentary to contextualise these trends. Each of the principal risks is relevant to the achievement of our KPIs as outlined on page 32 with the strongest links highlighted as part of the commentary.

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 105, which takes account of the principal risks in its assessment.

In addition to the principal risks and uncertainties already identified, there may be other risks, either unknown, or currently believed to be immaterial, which could turn out to be material, the Covid-19 pandemic being a good example. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.









Summary of Principal Risks

The table maps our Principal Risks to risk categories.

Strategic risks	Failure to grow profitably		
Financial risks	Financial control failure		
Operational risks	Major information security breach or cyber-attack	Contract non-compliance, non-performance or misreporting	Significant failure of supply chain
People risks	Failure to act with integrity	Failure to attract, engage and retain key talent	Health, safety and wellbeing
Hazard risks	Catastrophic incident		
Legal and compliance risks	Material legal and regulatory compliance failure		

Principal Risks and Uncertainties continued

The method and four priorities we use to deliver our strategy as part of our management philosophy are set out on page 9 namely Winning good business, Executing brilliantly, A place people are proud to work, and Profitable and sustainable. Each of our principal risks supports one or more of these priorities with the strongest link shown against each risk using the following icons. Appropriate consideration and management of the principal risks have a direct link to key Executive remuneration as outlined in the Remuneration Report on page 139.

 Winning good business	 Executing brilliantly	 A place people are proud to work	 Profitable and sustainable
 Increasing risk	 Decreasing risk	 No change	 New

The trend indicator depicts the trend of our residual risk rating internally over the course of 2021.

STRATEGIC RISKS

Failure to grow profitably

Integral to our Strategy Review process, this risk considers the potential impact of failure to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets, restricting revenue growth which may in turn have an adverse impact on Serco's profitability. This risk has a broad and direct link to our ability to meet the financial KPIs described on page 32. We have moderate appetite for this risk recognising that we will take reasonable and considered risks to generate profitable growth. Our business is linked to changes in the economy, fiscal and monetary policy, political stability and leadership, budget priorities, and the perception and attitude of governments and the wider public to outsourcing, which could result in decisions not to outsource services or lead to delays in placing work. Our ability to succeed is also linked to the competitive landscape and our ability to efficiently deploy resources as part of our service offering. We carried out a comprehensive strategy review that took the divisional five-year strategies and rolled these up for a Group view. This work concluded that our markets remain robust with significant revenue opportunity in our chosen markets and chosen activities.

In 2021 we have been successful in securing significant new business as well as renewing several critical contracts. Whilst certain key contracts such as Dubai Metro and AWE did end in 2021 they have been offset by new and existing business. We have also benefited from continuing demand for Covid-19 related support services such as testing, tracking and tracing across different geographies. On the other hand, tight employment markets have led to increased employment costs as well as vacancies that have adversely affected some parts of our portfolio. Overall, our revenues and Underlying Trading Profit increased by £539.8m and £65.8m respectively, however some of these gains are temporary and expected to level out once pandemic related work recedes. Further detail on our financial performance can be found on page 77. While the outlook for pandemic related services is unclear, we enter 2022 with a robust, qualified, new business pipeline and good win rate momentum, suggesting that the near and medium-term risk is stable.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>External factors reducing the pipeline of opportunities.</p> <p>Failure to be competitive.</p> <p>Inability to meet customer and solution requirements during design, implementation and delivery.</p> <p>Ineffective business development.</p>	<ul style="list-style-type: none"> - Serco Group and Divisional Strategy including periodic strategy reviews. - Investment Committees. - Sector-specific Centres of Excellence and Value Propositions. - Serco Institute developing thought leadership and innovation for our markets. - Business Lifecycle Review team process. - Pipeline and Business Development spend reviews. - Regular Growth Forum reviews. - Divisional Performance Reporting process. 	<ul style="list-style-type: none"> - Review pipeline opportunities to ensure all market activity is accurately captured and that budgets are allocated accordingly. - Review portfolio for new attractive organic expansion areas. - Continue to improve leveraging of Serco best practice and innovation and refinement of bid development processes. - Continue to adopt a robust bid qualification process. - Retain focus on effective management for major bids. - Develop efficient common platforms for service delivery. 	

FINANCIAL RISKS

Financial control failure

Serco operates complex financial controls systems and processes and there is an inherent risk that these may fail. Such failures may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a heightened risk of error and fraud: poor quality data leading to poor business decisions, or an inability to forecast accurately; the failure to create a suitable capital structure; and an inability to execute critical financial transactions, leading to financial instability, potential business losses, and negative reputational impact. This risk links directly to our ability to meet the financial KPIs outlined on page 32. We have an averse appetite for financial control failures and require a robust framework of financial processes, systems and controls to enable timely and accurate financial reporting.

At the start of the Covid-19 pandemic, it was recognised that the risk of financial control failure was heightened due to the fast-moving nature of the business, risk of absenteeism in both the in-house and outsourced finance organisation and disruption to core financial processes and data quality caused by new operating environments resulting from the items noted above and remote working. The Group mobilised quickly to ensure that key mitigants were put in place such as: additional assurance procedures; adequate remote working capacity, including within the Group's outsourced finance teams; monitoring of working capital; and data capture to understand the impact of Covid-19 on the Group's financial results. As a result of the actions taken, the risks which were identified at the start of the pandemic have not materialised in 2021 and our core financial processes and controls have continued to operate without significant disruption.

Over the last 12 months, the Group has worked with external advisers to develop a programme of work with the objective of improving the financial control environment within the Group. This is in preparation for anticipated changes following the issuance of the consultation document by the Department of Business, Energy and Industrial Strategy ("BEIS") entitled Restoring Trust in Audit and Corporate Governance. In addition to improving documentation and control standards, the programme also aims to review the operating model required to implement and sustain the improvements and embed an enhanced controls culture across the Group. The work performed to date is not dependent on the outcome of the BEIS consultation as a no-regrets policy has been adopted to ensure that any work performed would be considered best practice rather than required to support a formal controls attestation, as suggested within the consultation. As noted at the Capital Markets Day, the Company's controls, governance and risk management processes help to assure quality outcomes across the business. These controls operate at both the strategic and operational levels of the business and are embedded in our ESG framework described in detail on page 39.

As noted in the 2020 Annual Report and Accounts, the Group's European business was subject to a cyber-attack in January 2021. The results of the investigation into this attack, produced by both our internal investigations and by our external advisers, have not identified any compromise to the financial information used for the 2021 year-end reporting or to the integrity of financial results from the European Business Unit.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Not setting the right tone from the top.</p> <p>Poor financial processes.</p> <p>Inadequate financial controls within the business.</p> <p>Loss of critical roles and/or systems.</p> <p>Poorly skilled and resourced finance teams to address complex finance standards.</p>	<ul style="list-style-type: none"> - Group Governance and Finance strategy. - Standardised and mandated financial systems, processes (including forecasting and reporting) and data structures. - Governance and review procedures associated with managing the quality of services delivered by third party suppliers. - Skilled and adequately trained finance staff. - Disaster recovery plans and testing. - Board oversight via the Audit Committee. - Monthly Divisional performance reviews. - Dedicated Financial Assurance team testing. 	<ul style="list-style-type: none"> - Enhance the financial controls and assurance framework. - Continue to deliver effective financial reporting. - Continuously improve forecasting and reporting processes and data analysis. - Deliver global finance process improvement and efficiency through automation and robotics. - Develop a Group-wide training curriculum. - Effectiveness reviews of disaster recovery plans. - Ensure talent is retained within the finance function. 	

Principal Risks and Uncertainties continued

OPERATIONAL RISKS

Major information security breach or cyber-attack

Information security breaches or cyber-attacks represent a key risk for us. Such incidents could result in the loss or compromise of sensitive information (including personal or customer) or wilful damage resulting in the loss of service, causing significant reputational damage, financial penalties and loss of customer confidence. We operate an averse risk appetite to major information security breaches and cyber-attacks. We accept that due to the nature of the services we provide we face threats from both internal and external factors but will mitigate the impact of any breach and carry out immediate remedial actions.

As described at our Capital Markets Day, we operate on a business-to-government platform that leverages scale and helps simplify our processes with a well invested portfolio of best-in-class software solutions to support our contracts and shared services. We continue to make significant investments in our cyber-security both at our endpoints and in our core network. In most of our jurisdictions we test ourselves against government standards including CES+ in the UK and we also regularly run penetration tests as well as meeting specific security standards in line with customer requirements as a provider of public services to government. We have a continuing programme of upgrading old desktops and laptops, and the number of devices outside centralised management and monitoring is decreasing rapidly. We have our own in-house Security Operations Centre which monitors the networks and manages our response to cyber threats. The strategy review showed the benefit of investing in shared services to produce standardised and efficient processes.

Serco is committed to delivering secure services which protect our own and our customers' data and as such holds a variety of externally audited security-related certifications. This includes the Information Security Management System covering our UK corporate environment that is certified to ISO 27001. We also maintain certification, where specified, against the principal government security/cyber schemes in the markets we operate. Our certifications are generally publicly available on the relevant accreditors' websites or can be requested from the Company directly.

We continue to invest in staff security training as a key mitigant to this risk. Security training is delivered via our Learning Management System as part of the broader Serco Essentials framework. Training comprises mandatory modules that cover a range of areas including responsibilities when dealing with personal data and how to identify and respond to issues. All Serco employees, including contractors, must complete Serco Essentials and pass a test at the end or alternatively, in the case of subcontract or staff, their employer must demonstrate that they provide equivalent security training. Training is further supplemented, where appropriate, to cover specific points relevant to any particular contract, together with regular campaigns and awareness tests such as protecting against phishing threats.

However, the external threat landscape continues to evolve. As evidenced in a cyber-attack in our European business in January 2021 and recent attacks on our competitors involving ransomware, our industry is a particular target for extortion, and this, along with the increased public profile we have had because of our involvement with government contracts to respond to the Covid-19 pandemic, leads us to conclude that this risk is increasing.


Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Non-compliant or obsolescent systems.</p> <p>Non-compliance or misconfiguration with policies and standards.</p> <p>Vulnerability of systems and information.</p> <p>Unauthorised use of systems.</p> <p>Inadequate incident monitoring and response.</p> <p>Increased regulatory scrutiny.</p>	<ul style="list-style-type: none"> - Enterprise Architecture Boards & Solution Review meetings. - Serco Management System ("SMS") including detailed guidance on minimum security controls. - IT security infrastructure, processes and controls including isolated backups. - Privileged Access Management and multi-factor authentication for our centralised managed systems. - External assessments and scenario based cyber security testing and incident planning. - Regular attestation statements on security controls compliance. 	<ul style="list-style-type: none"> - Perform market reviews of deployed technology when services are reviewed at renewal to ensure we maintain our defences as threats change and develop in sophistication. - Ongoing continuous improvement programmes for our Security Operations Centres to maintain effective risk identification. - Continued routine vigilance and proactive vulnerability identification coordinated through our Security Operations Centres. - Continued use of global key security risk indicators and regular third-party testing and best practice configuration reviews to support mitigation priorities. - Leveraging Cloud adoption to ensure standardised control mechanisms. - A focus on the behavioural aspects of our employees. - Maintaining government security attestations. 	

Contract non-compliance, non-performance or misreporting  

There is a risk that we fail to deliver contractual requirements or to meet agreed service performance levels and report against these accurately. This failure may lead to significant financial penalties, legal notices, onerous contract provisions or, ultimately, early termination of contracts. We have an averse risk appetite to any possibility of deliberate misreporting of contractual performance and losing material contracts due to non-performance or non-compliance.

Governance in bid processes, transition and operations provide the primary means of managing this risk. The Serco Management System prescribes a review of contract risk through each of the stages of the bid lifecycle from prequalification to contract close out, including monthly performance reviews for all material contracts. As part of our commitment to ongoing improvement our mitigation priorities for the next year will focus on strengthening some of the key control processes and formalising these in the Serco Management System.

Whilst still in the early stages of development we will also begin to track Environmental, Social and Governance (“ESG”) impact from our contracts as the maturity of our reporting increases. Though our individual customer contracts vary on ESG-related commitments, our overall corporate commitment to ESG targets will permeate through to our contract teams and will form part of the overall assessment of contract performance and compliance.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Not setting the right tone from the top.</p> <p>Unclear contract requirements/ obligations.</p> <p>Human error (deliberate or unintentional).</p> <p>Operational delivery or reporting failures.</p>	<ul style="list-style-type: none"> - Contract Management application. - Monthly performance reviews at Contract, Business Unit and Divisional level. - Business Lifecycle Review team process. - Communication of Our Values and Code of Conduct. - Speak Up process (“Ethicspoint”). - Extensive internal and external assurance reviews, including independent third-party reviews and customer oversight processes. 	<ul style="list-style-type: none"> - Strengthen processes related to agreeing clear contracts, change management, bid to contract handover and KPI reporting, formalised through Serco Management System. - Contract Management training (Global and Divisional). - Greater visibility of performance through contract performance dashboard (“Gauge”). - Continued focus on consistent approach to risk assessment. - Operational excellence improvement plans. - Ongoing ethics, business conduct and compliance training. 	

Principal Risks and Uncertainties continued

Significant failure of the supply chain

If there was a significant failure in Serco's end-to-end supply chain to perform to the required standard, Serco may be exposed to risks that mean Serco is unable to meet its customer obligations, perform critical business operations or win new business. This could cause a financial, operational or reputational impact to Serco. Supply chain risk is broad; examples include operational performance risk, cyber risk, regulatory/legal compliance risk, ethical risk, environmental, social or governance risk. We use thousands of suppliers globally each year and take a proportionate approach to management of these third parties and have a moderate risk appetite for using them.

This year we have expanded this risk to encompass the broader risk to Serco from the supply chain rather than just the risk from the failure of a business-critical supplier. This new scope considers the risk to Serco from non-business critical suppliers and from the suppliers of our suppliers. This change was prompted by several factors including recognition of external challenges (e.g. mini umbrella companies) and our growing maturity in this area. The risk was historically focused largely on operational failure; by amending we have extended the coverage to ensure the risk covers all significant risk exposures and has a view on emerging risks in the supply chain. We have commenced a review of Serco's existing Supplier Risk Management processes, current supplier risk initiatives and key supplier risk exposures to identify any gaps and create alignment across the Group. The output of the review will be used to create a Supplier Risk Management Framework, encompassing risk exposures from information security/cyber, data protection, business integrity and social responsibility, regulatory and legal compliance, external and exceptional risks, supply chain performance, supply chain resilience, financial, environmental, and health, safety and wellbeing. In 2021, we also launched a Sustainable Procurement Charter which aims to improve our review of ESG and responsibility matters in our supply chain.

As a result of Covid-19 and Brexit our third-party suppliers are reporting supply constraints (e.g. resources/logistics) in line with the general supply chain instability that is being widely reported in the media. There is a risk of disruption in all divisions, with a higher perceived risk in the UK where we are experiencing and managing localised challenges. Although our rating for this risk remains constant, the probability is trending upwards driven by the supply constraints we are seeing in the UK.


Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Inadequate procurement standards, operating procedures and controls.</p> <p>Failures or inadequate due diligence and onboarding when bringing new suppliers, partners and sub-contractors into the business including poor specification of requirements, inadequate sourcing and selection and inadequate contracting.</p> <p>Inadequate / lack of monitoring – and management of supplier performance and risks.</p> <p>High volume of suppliers / complexity of supply chain.</p>	<ul style="list-style-type: none"> - SMS Procurement Policy, Standards and Procedure including Supplier Code of Conduct. - Supplier checks (pre-qualification/ on-boarding). - Serco standard contracts including appropriate obligations, Key Performance Indicators and Service Level Agreements. - Supplier Management Programme for most business-critical suppliers including performance. - Biannual Procurement review process of all business-critical suppliers. 	<ul style="list-style-type: none"> - Complete implementation of Supplier Risk Management Framework and commence delivery of resulting roadmap, including supplier triage and assessment. - Enhance Procurement & Supply Chain Group Standard improving clarity and understanding of policy requirements, processes, controls and responsibilities. - Risk assessment and mitigation plans incorporating actions to improve effective implementation of key risk controls for all material risk rated business-critical suppliers. - Expand scope of supplier management programme, taking a tiered approach relative to risk. Review tools and guidance for contract level supplier management for lower risk suppliers. 	<p style="text-align: center;"></p>

PEOPLE RISKS

Failure to act with integrity

As a people-based business employing over 50,000 employees there is an inherent risk of rogue employees engaging in significant corrupt or dishonest acts including bribery, fraud, misreporting, cheating or lying. If this risk occurred it would lead to reputation and brand damage and customers being reluctant to do business with us. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals may feel they are being placed under to deliver financial or operational performance and might lead to: the loss of existing business; restrictions on our ability to bid or win new business; a reduction in our ability to attract high-quality people or partners; or may impact shareholder, investor and financial institutions' confidence in Serco. We have an averse risk appetite to behaviours and actions that may compromise our integrity. Our values and purpose sit at the top of our Management Framework described on page 9 and integrity sits at the centre of and underpins our ESG framework. Whilst we are finding a new balance as the pandemic evolves, we continue to recognise that Covid-19 has brought additional challenges to many parts of the business, and these could lead to an increase in inherent risk. However, we remain confident in the controls we have in place to manage this, and we rate this risk as stable.

Building on work from 2020 we have rolled out improved ethics training, strengthened our internal capability through professional qualifications, continued to reinforce our strong tone at the top and further developed our ESG framework as outlined on page 40.


Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Not setting the right tone from the top.</p> <p>Weak values and culture.</p> <p>Increased pressure to deliver.</p> <p>Ineffective systems and processes.</p> <p>Weak diligence on where we work and who we work with.</p>	<ul style="list-style-type: none"> - Strong, meaningful and understood Values and required behaviours which are role modelled by leaders. - Robust governance (Corporate Responsibility Committee; Executive Committee; Investment Committee; Divisional Executive Management etc.) exercising oversight of decisions within delegated authorities. - Effective policy and procedures including financial controls and processes defined within the SMS and supported by our Code of Conduct. - Independent Speak Up process supported by corporate investigations. 	<ul style="list-style-type: none"> - Deliver our commitments under the DPA. - Drive greater leadership ownership and accountability for a strong ethical culture. - Embed Ethics Compliance controls and procedures as an integral part of business processes. - Continue to implement effective due diligence processes for all third parties. - Continue to strengthen Ethics Compliance resource and competency. - Strengthen assurance provided by Ethics Compliance controls. 	

Failure to attract, engage and retain key talent

It is our ambition to be regarded as the best-managed company in the sector and, notwithstanding our framework of people processes, systems and controls, there is a risk that we are unable to attract, engage and retain an appropriately sized, qualified and competent workforce and management team. The impact of this risk materialising would restrict Serco's ability to deliver on its customer obligations, execute its strategy and achieve its business objectives whilst driving employee pride in the organisation. The ESG framework is an implicit consideration in this risk and influences the achievement of our Employee Engagement KPI as outlined on page 34. We have a cautious risk appetite and take a pragmatic approach to the attraction, retention and development of key talent. We ensure that robust contingency plans are in place for business-critical roles but recognise that an element of churn is healthy for any business meaning that we are not averse to change.

This risk includes consideration of key person reliance in our leadership and executive teams including succession planning for our senior management team and other business-critical roles. It should be noted that there are difficulties in relation to labour markets, however, rather than being a problem across our whole business, we are currently addressing challenges in specific sectors, roles, or geographies. In response to Covid-19, a great deal of work has been done to streamline and simplify our approach to attracting and onboarding new colleagues. Extensive use of social media to promote recruitment activity and the "speed boarding" global onboarding process has now been embedded, leading to significant efficiencies in bringing new staff into Serco.

The Group Chief Operating Officer continues to work closely with the Board to develop effective succession planning, both for Executive Committee and Group roles.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Lack of staff development.</p> <p>Poor talent management and succession planning.</p> <p>Low employee engagement.</p> <p>Unsatisfactory reward framework.</p> <p>Recruitment failings.</p> <p>Inability to attract appropriate new hires.</p>	<ul style="list-style-type: none"> - Talent Management & Succession processes. - Leadership capability development. - Targeted retention arrangements. - Critical Resource Planning. - Annual Performance Management process. - Exit interviews. - Annual Viewpoint survey. 	<ul style="list-style-type: none"> - Ensure up-to-date understanding of local employment markets. - Continue to monitor channels to access external talent in chosen markets. - Ongoing benchmarking activity to ensure market competitive reward packages to aid retention of existing staff and attraction of new. - Continue with detailed review of succession plans and mitigation strategies as part of the Talent Review process. - Ensure ongoing use and analysis of exit interviews. - Follow up and action on themes identified as a result of annual people survey. 	

Principal Risks and Uncertainties continued


Health, safety and wellbeing

The diversity of services provided by Serco exposes our employees, customers and third parties to a wide range of health, safety and wellbeing risks inherent to our operations in both work and public environments. These may be caused by a process or control failure or by the wrong behaviour and/or an inadequate safety culture. As responsible employers we recognise the complexity of wellbeing risk and aim to ensure that working for Serco does not impose any additional wellbeing challenges on our employees. This is a wide-reaching risk that directly supports the KPI target for Major Incident Frequency Rate and Lost Time Incident Frequency Rate as described on page 34 and HSE related metrics outlined in our ESG report on page 69. We have an averse risk appetite for actions/failures that would cause loss of life. We cannot eradicate H&S risk entirely whilst maintaining operational delivery so we prioritise prevention of major injuries and threats to wellness whilst accepting that minor injuries will occur on occasion but are minimised by training, risk assessment, safe systems of work, operating procedures, PPE, site supervision and audit & inspection.

Our vision is zero harm. We aim to ensure that no one comes to harm because of the work we do. Wherever we work, we are committed to the prevention of injury and promoting a “just” safety culture in which we foster transparency, honesty and trust in order to identify root causes and prevent recurrence. Wherever we work, we are committed to the promotion of wellbeing and the prevention of ill health. We understand that healthier, happier employees go hand-in-hand with strong business performance, enhanced productivity, a far more positive culture and better outcomes for those we serve.

In addition to personal injury concerns, a breach of Health and Safety regulations or failure to meet our contracted expectations could disrupt our business, have a negative impact on our reputation and lead to contractual, financial and regulatory costs.

Much of 2020 had been dominated by the impact of the Covid-19 pandemic and this has continued into 2021 and will do so into at least 2022. We have continued our response to the Covid-19 pandemic where we have ensured focus on the protection of our employees, customers and third parties. Our Health, Safety & Wellbeing teams continue to support our Covid-19 response across the business, facilitating key mitigations and supporting the continuing recovery phase activities, including design and implementation of Covid-19 site specific risk assessments, remote working risk assessments, training and the development of mental health resources. We have also continued to develop and mature our Diversity and Inclusion network. We recognise that Covid-19 continues to present an ongoing challenge and elevates the position of this risk on our corporate profile.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Failure of the Serco Safety Management System.</p> <p>Insufficient communication of key issues, risks and changes.</p> <p>Lack of/out-of-date task specific competence.</p> <p>Human factors impact on behaviour.</p> <p>Occupational wellbeing risks including psychosocial risks.</p> <p>Public Health and wellbeing risks.</p> <p>Behavioural failures/human error resulting in injury or incident.</p> <p>Impact of the Covid-19 pandemic.</p>	<ul style="list-style-type: none"> - Serco Health, Safety, Environmental and Wellbeing (“HSEW”) Strategies and Safety Management System (policies and procedures inc. Covid-19 Secure and specific guidance and policies) underpinned by our ESG framework. - Safety and wellbeing training, communications, and guidance (inc. Serco Essentials) and individual development plans and processes based on role and operational risk. - Spontaneous and planned preventative, maintenance, inspection and repair programmes. - Effective incident/hear-miss observations reporting and investigations and effective use of ASSURE (independent reporting and compliance system). - Regular organisation wide and local Covid-19 specific guidance and communication. 	<ul style="list-style-type: none"> - Continue to embed updated Health, Safety, Environment and Wellbeing strategies and a positive “just” culture. - Increase Zero Harm Engagement and Safety Moment activity across the regions. - Drive wellbeing agenda and ensure appropriate focus at a corporate level. - Continuing 1st, 2nd and 3rd line assurance activities and ensuring understanding of appropriate levels of ownership, accountability, and responsibility. - Further embed the Serco (Health, Safety, Environmental and Wellbeing) Strategies and Safety Management System (policies and procedures inc. Covid-19 Secure and specific guidance and policies). - Further development and maturity of our ESG agenda and programme of improvements to meet best practice and evolving stakeholder expectations. - Continued review and sharing of lessons learnt throughout the Covid-19 pandemic recovery phases. 	<p></p>


HAZARD RISKS

Catastrophic incident

Given the nature of our business we are exposed to the risk of an event (incident or accident) occurring as a result of Serco's actions or failure to effectively respond to/prepare for an event that results in multiple fatalities, and/or severe property/asset damage/loss and/or very serious environmental damage. Management of this risk influences the KPI target for Major Incident Frequency Rate as described on page 34.

We aim to provide safe services and places to work and have an averse risk appetite for this risk.

Each division is continuing to assess risks at a contract level to ensure that all relevant material risks have been identified and to assess and assure mitigations, including insurance cover, are appropriate. Contracts considered inherently high risk are reviewed regularly. The physical risks linked to climate change related events are now included more explicitly in our risk management framework as part of the work initiated for TCFD and outlined in more detail on page 58. Existing business continuity and crisis management plans and processes have been used and served the business well during the Covid-19 pandemic and, despite a continued hard insurance market, we have secured extensive insurance protection as a key mitigant for this risk.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Factors resulting in unsafe conditions.</p> <p>Ineffective or inadequate policies, standards, and procedures.</p> <p>Lack of capability and experience.</p> <p>Lack of safety cultural alignment.</p> <p>Insufficient safety management oversight.</p> <p>Inadequate planning or response to a catastrophic event, including extreme weather or a climate change related event.</p>	<ul style="list-style-type: none"> - Regular reviews of high-risk contracts. - Serco Health, Safety, Environmental and Wellbeing ("HSEW") Strategies and Safety Management System (policies and procedures) underpinned by our ESG framework. - Safety training (including Serco Essentials) and individual development plans and processes based on role and operational risk. - Effective incident/near-miss investigations and effective use of ASSURE (independent reporting and compliance system). - Business continuity, crisis and incident emergency response plans and testing. - Risk transfer via insurance where appropriate. 	<ul style="list-style-type: none"> - Continue to embed updated HSE&W strategies and a positive "just" culture. - Ongoing work within divisions to identify and assess contract specific risks and liabilities. - Continued training in insurance and contractual risk management. - Review and optimisation of the insurance programme and captive structure. - Review levels and adequacy of compliance assurance. 	

Principal Risks and Uncertainties continued

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Serco operates in complex legal and regulatory environments across multiple industries and geographies and there is a risk that we might not comply with all relevant laws and regulations. Failure to comply with laws and regulations could cause significant loss and damage to the Group and its people including exposure to regulatory prosecution and fines, reputational damage and the potential loss of licences and authorisations, all of which may prejudice the prospects for future bids. Defending legal proceedings may be costly and may also divert management attention away from running the business for a prolonged period. Uninsured losses or financial penalties resulting from any current or threatened legal actions may also have a material adverse effect on the Group. We are averse to risks which may result in legal and regulatory non-compliance and require processes that seek to minimise regulatory fines and legal action, as well as targeted and selected assurance activity.

The Covid-19 pandemic, post-Brexit regulatory landscape in the UK and changes in many governments where our customers operate has introduced additional and fast-moving complexity to the legal compliance framework and we recognise that this may increase our risk exposure. In addition, various laws and regulations that apply across the business continue to be subject to increased focus and attention, including Anti-Bribery and Corruption laws, Market Abuse Regulation, Data and Privacy laws, Modern Slavery, Trade Compliance, Competition and Antitrust and Human Rights and Modern Slavery.

Our 2019 Annual Report documented our approach to the Deferred Prosecution Agreement (“DPA”) of one of the subsidiaries of Serco Group plc, Serco Geografix Limited (“SGL”) entered into with the Serious Fraud Office (“SFO”) in July 2019. Throughout 2020 and 2021 we have continued to implement and monitor delivery of our obligations under the DPA, including reporting to the SFO in June 2020 and June 2021. We will continue to focus on the implementation of our ongoing obligations via our DPA plan with both the Board and GRC providing review and oversight of progress.

The management of this risk is a key enabler of Serco’s governance for ESG purposes.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Lack of governance and oversight.</p> <p>Failure to comply with the SMS and contractual obligations.</p> <p>Failure to identify and respond to material changes in legal and regulatory requirements, including fast-moving new laws.</p> <p>Lack of awareness by employees of the legal and regulatory requirements placed upon them and the business.</p> <p>Inadequate provision of systems and tools.</p> <p>Legal or regulatory compliance failure by a third party.</p> <p>Class action litigation and increasing regulatory fines.</p> <p>Compliance with SFO DPA obligations.</p>	<ul style="list-style-type: none"> - Externally appointed legal specialists monitoring and advising on legal and regulatory obligations and changes. - Legal and contract experts aligned to various specialist areas across the business supported by mandatory and bespoke training. - Investment Committee and Business Lifecycle Review Team (“BLRT”) bid process and governance. - Third-party due diligence on all suppliers. - Speak Up process and systems and corporate investigation case management system. 	<ul style="list-style-type: none"> - Compliance with DPA obligations. - Automating legislation tracking and horizon scanning on key new laws and regulations. - Greater use of data and trend analysis. - Embedding risk based third-party due diligence including modern slavery risk assessment. - Continuing development of Serco Essentials training programmes including Code of Conduct training. - Continuing to improve key contract and compliance assurance reviews. 	

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code published by the Financial Reporting Council in July 2018, the Directors have assessed the prospects of the Group over the three-year period to 31 December 2024.

Three-Year Term

Whilst the Group operates many long term contracts, the nature of the Group's business relies on continued bidding activity and contract wins in order to sustain its revenue streams and facilitate growth. The pipeline of contract opportunities is carefully managed, however the outcome of bid submissions is binary and the Group uses past experience and estimated win rates to provide short term budgets against which performance is measured. As a result of the estimates used in developing the Group's forecast, it remains challenging to develop detailed projections against which the Group's viability can be assessed. Therefore, the Directors believe that a three-year period is appropriate since it reflects the fact that:

- Short term projections can be heavily reliant on successful bidding opportunities which have a binary outcome.
- The Group has limited visibility of contract bidding opportunities beyond three years given the lead times which generally exist before opportunities come to market.
- Approximately 63% (2020: 62%) of the current year revenue relates to contracts where the contract term potentially comes to an end within three years.

In addition, during the three-year period approximately 60% of the Group's debt funding will mature and the revolving credit facility will require refinancing. This represents a significant portion of the Group's available liquidity and impacts longer term investment and capital allocation.

In line with the annual budgeting process the Group has prepared an updated five-year business plan to establish whether it is on target to achieve its long-term strategic goals. The financials for the last three years of this period are largely extrapolations of key assumptions used in the budget process. Given the difficulties of forecasting over a longer time period it would be inappropriate to draw definitive conclusions on the future prospects of the Group and challenging to develop appropriate sensitivities and mitigation strategies. Therefore, whilst the five-year business plan continues to be developed, its nature is more akin to a strategic goal rather than a forecast based on known assumptions; this makes assessing the longer-term viability of the Group a challenge.

Financial forecasts

In assessing the prospects of the Group over the three-year period, the Directors have also considered the Group's current financial position as well as its financial projections in the context of the Group's debt facilities and associated covenants. These financial projections are based on a bottom-up Budget exercise for 2022 and 2023, and an extrapolation to 2024 using higher level assumptions based on local market growth rates and identified opportunities which has been approved by the Board.

The Group's covenant net debt balance at 31 December 2021 is £201.7m. The Group's base projections indicate that debt facilities and projected headroom are adequate to support the Group over the next three years. The Group's financial plan has been stress-tested against key sensitivities which could materialise as a result of the crystallisation of one or a number of the principal risks, the objective being that the future viability of the Group is tested against severe but plausible scenarios.

Funding facilities

At 31 December 2021, the Group's principal debt facilities comprised a £250m revolving credit facility (of which £0m was drawn), acquisition term loan facilities totalling £120m (of which £120m was drawn) and £259m of US private placement notes. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility and are outlined on page 88.

The Group refinanced its revolving credit facility at the end of 2018 and the associated five-year funding facility provides the financial platform to continue to invest in the growth of the Group. The refinanced bank debt expires during the three-year assessment period and the viability assessment assumes that it will be refinanced on similar terms. The Directors are of the opinion that refinancing the debt, to at least a level that would allow the Group to remain viable, is an achievable outcome.

During the period of assessment, £111m of the Group's US Private Placement (USPP) loan notes and facilities of £45m and £75m, mature. The long-term forecasts supporting this statement assume that if the acquisition facility is not refinanced and no further debt is raised, there is still sufficient liquidity headroom for the Group to remain viable.

The Group's financial position has also been enhanced by its improved ability to generate Free Cash Flow from its growing profits and the reduction in cash outflow associated with historic loss-making contracts.

Impact of Covid-19

During the year ended 31 December 2021, the Group continued to assist governments with their response to the Covid-19 pandemic. The Group has provided a variety of services in respect of the pandemic and the net impact on the Group's profit has been positive. Within the net positive result, the Group has seen certain contracts, particularly those relying on customer or consumer demand, suffer an adverse impact on profitability when compared to pre-pandemic levels. Where this is anticipated to continue into the three years to 31 December 2024, the impact has been included in the forecasts supporting this statement. Based on the impact seen to date, the Board consider it unlikely for Covid-19 to have a material effect on the Group's viability, which has not already been considered within the Group's forecast.

Risks

The Board and the Group Risk Committee continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, business model, future performance, solvency and liquidity. The potential outcome, management and mitigation of those principal risks have been taken into consideration when modelling scenarios to assess the future viability of the Group. The Group's risk review is set out on pages 95 to 104 and outlines the Group's principal risks and mitigating controls that are in place.

The external market is important to the Group's ability to win new contracts. Revenue is expected to decrease in 2022 as contracts which are specifically supporting Governments in managing the pandemic reduce, however it is expected that contracts which have been delayed

Viability Statement continued

or deferred as a result of the pandemic will begin to recover. Growth thereafter is more difficult to assess given the nature of the market. In addition, the Group will rebid two significant contracts in 2023; its Immigration Services contract in Australia and Center for Medicare & Medicaid Services (CMS) in the US which were both retained when previously rebid. However, we will continue to focus on margin improvement through improved efficiency whilst focusing business development investment on the most attractive market opportunities.

Severe but plausible scenarios

Having guided the Group through another year of trading during the Covid-19 pandemic, the Board have an improved ability to forecast the impacts associated with Covid-19. During the year to 31 December 2021, the net impact of Covid-19 on the Group's profit has been positive, and all known or anticipated adverse impacts on profit have been included in the forecasts supporting this statement. The Directors believe that any adverse impact resulting from Covid-19, that is not already included in the forecasts, would be covered under the various scenarios that have been used to model reductions in win rates and margins.

Due to the Group's long-term contracting nature, the sensitivities tested include a reduction in the win rates for rebids, extensions and the pipeline of new opportunities, a reduction in delivering margin improvements and a potential penalty arising from risks such as contract non-compliance, major information security breach or a material legal and regulatory compliance failure. A reverse stress test of the Group's profit forecast has been completed using different assumptions of new business and rebid win rates and the Group's profit margin. This analysis shows that the Group can afford to be unsuccessful on 60% of its target new business and rebid wins, or it can be unsuccessful on 40% of its target new business and rebid wins combined with a profit margin 40 basis points below the Group's forecast before the Group has insufficient liquidity available in May 2024, on the assumption that the Group's Revolving Credit Facility is refinanced on similar terms and all USPPs and other facilities are repaid during the period. May 2024 is the point with the lowest amount of liquidity headroom using the sensitivities outlined above against which the forecast has been stress tested.

As context, rebids have a more significant impact on the Group's revenue than new business wins, as contracts accounting for 63% of total revenues are expected to be rebid in the next three years. The Group has won more than 85% of its rebids and available contract extensions over the last two years, therefore a reduction of 60% or more to the budgeted win rates and rebid rates is not considered plausible. While these sensitivities will change in line with the Group's order book and contract performance going forward, including the impact of new contract wins and losses, the ability for the Group to absorb sensitivities of this scale within its existing financing arrangements drove the assumptions below which the Directors felt appropriate to disclose in making this viability statement.

Mitigations

It is considered unlikely, but not impossible, that the crystallisation of a single risk would test the future viability of the Group; however, unsurprisingly, and as with many companies, it is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different significant risks, could put pressure on the Group's ability to meet its financial covenants. At this point, the Group would look to address the issue by exploring a range of options including, amongst others, a temporary or permanent renegotiation of the financial covenants, disposals of parts of the Group's operations to reduce net debt and/or raising additional capital in the form of equity, subordinated debt or other such instruments.

Conclusions and assumptions

Subject to these risks and on the basis of the analysis undertaken, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases further out in time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The Directors have made the following key assumptions in connection with this assessment:

- The potential negative impacts of Covid-19 during the assessment period are not materially different the Group's forecasts;
- The Group is able to refinance the £250m revolving credit facility which matures during the assessment term;
- There is no significant unexpected contract attrition of existing work that becomes due for extension or rebid over the next three years;
- There is no significant reduction in scale of existing contract operations as a result of customer policy or other changes;
- There is no significant deterioration in new bid and rebid win rates from those anticipated;
- The Group is able to continue the execution of its strategy of growing revenue and profits; and
- The Group is not subject to any material penalties, claims or direct and indirect costs and/or debarment from bidding for new contracts.

Section 172 (1) Statement

The Directors of the Company are bound by their duties under the Companies Act 2006 and, in particular, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, taking into account the factors listed in section 172(1)(a) to (f) of the Companies Act 2006.

The following disclosure describes how the Board has had regard to those matters and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Board Engagement with Stakeholders

The Board is committed to enhancing engagement and seeks to build honest, respectful and transparent relationships with all of the Company's stakeholders. As with other large and complex companies, the Directors fulfil their duties partly through a governance framework which delegates day-to-day decision-making to the Executive Directors and, within defined levels of costs and impact, Divisional leadership teams. The Board recognises that such delegation needs to be much more than simple financial authorities and it covers areas such as risk, ethics, and new sector or country approaches.

The governance structure, which covers the values and behaviours expected of our employees, the standards to which they must adhere, how we engage with stakeholders and how the Board looks to ensure that we have a robust system of control and assurance processes, is designed to drive high standards of business conduct across the Group.

Our Environmental, Social and Governance ('ESG') Framework is structured around our key stakeholders, and the Board has continued to focus on our approach to and progress in delivering our ESG commitments. We summarise our progress and performance in the ESG Impact and Integrity section of this Annual Report on pages 39 to 76.

The Board considered the continued impact of Covid-19 on our stakeholders and the Company's response is set out throughout the Annual Report, with more detailed information in the Our People section on pages 35 to 38.

In addition to the methods of engagement described over the following pages, the interests of our stakeholder groups are considered by the Board through a combination of:

- Regular reports and presentations at scheduled Board and Committee meetings, including operational reports, presented by the Chief Executive Officer, and updates from the Chief Financial Officer, Chief Operating Officer, Group General Counsel and Company Secretary and other senior management on a range of matters including strategy, financial, treasury and tax matters, the approach to ESG, health and safety, assurance and controls, risk, ethics and compliance, cyber security, people matters (including employee engagement, workforce and management diversity, gender pay gap, workforce remuneration and related policies), markets, operational performance, suppliers, community, environment, and customer and investor feedback.
- Regular briefings from Divisional management, which include details of engagement with Divisional stakeholders, strategy, performance, local market and competitor positions, operational and employee matters, and customer satisfaction and business development.

- Attendance at virtual Divisional management conferences, Colleague ConneXion and Inclusion Hub events, and virtual and on-site contract visits. In 2021, members of the Board engaged in over 30 contract visits and events.
- Feedback from employees through responses to the "Tell the Board" section of the annual employee engagement survey, Viewpoint. More details are provided on this below.
- Unscheduled Board and Committee meetings if the Board needs to be informed of matters or when a decision is required before scheduled Board meetings such as Covid-19 developments, trading updates, bids or M&A opportunities.
- A rolling agenda of matters which are considered by the Board and Committees throughout the year, including a day long strategy review which considers the strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids, acquisitions, refinancing, share buybacks, dividends and other matters, including any factors which are relevant to major decisions taken by the Board through the year in line with the Delegation of Authority and Terms of Reference for each Board Committee.
- Regular meetings between the Non-Executive Directors and Divisional Risk Assurance Managers and Divisional Ethics and Compliance Managers without Executive Directors or other senior management present.

The Board also engages with stakeholders through news releases and stock exchange announcements on a wide range of matters including regular trading updates, in addition to the half and full-year results reports and accompanying presentations, changes to the Board, key leadership appointments, material shareholdings, refinancing and corporate transactions, acquisitions, contract awards and losses, and operational updates from across the Group. These news releases and stock exchange announcements drive ad hoc engagement with stakeholders and are available on the Company's website.

Details of the Group's key stakeholders, their key concerns and how the Board engages with them are set out below.

Section 172 (1) Statement continued

Our Shareholders

Engagement with and receiving the support of our shareholders is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity – all of which are critical for building trust.

Our shareholders and debt holders are concerned with a broad range of issues, including how the Company has responded to and is affected by Covid-19, other operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate.

The Chief Executive Officer and Group Chief Financial Officer and other members of the senior management team meet with shareholders to discuss relevant developments in the business at our post-results road shows and programme of investor meetings. We also consult with investors and fund managers to seek their views and actively engage with proxy advisers and ESG analysts to provide feedback on specific topics.

During 2021, we asked for feedback on our ESG reporting from our top 20 investors and those comments have been taken into account in this year's Annual Report and Accounts along with feedback received from shareholders and shareholder representative bodies. Following the announcement of his appointment, our Chairman, John Rishton, undertook a governance roadshow in January 2021 and met with a number of our top investors. The key themes of discussion were ESG, succession, growth and strategy. We repeated the governance roadshow in 2022 and the Chairman was joined by the Remuneration Committee Chair and the Group General Counsel and Company Secretary and further meetings with investors are planned.

In December 2021, we held a Capital Markets Day event. It was attended by the Chief Executive Officer and Group Chief Financial Officer, the Chairman, a number of the Non-Executive Directors, the Executive Committee and members of the Divisional and Group senior management teams. This included a series of presentations and Q&A sessions to provide an update and greater insight into the Group's strategy, business operations, and financials.

The Chief Executive Officer and Group Chief Financial Officer and other members of the senior management team also meet regularly with our debt investors, including lending banks and US private placement note holders, and bi-annual update calls or meetings are arranged with our debt investors after the half year and final results announcements.

The feedback received from the meetings with shareholders and debt investors is provided to the Board as part of the rolling agenda of matters to be considered by the Board and Committees throughout the year.

The Board also sees and discusses the feedback received from proxy and ESG analysts on the Annual Report, the proposals put to the Annual General Meeting and a range of ESG matters.

The AGM provides the Board with an opportunity to communicate with private and institutional investors. Due to the restrictions in place in force in the UK at the time of the 2021 AGM due to Covid-19, the AGM again took place as a closed meeting. Although it was not possible for the Board to meet with our shareholders in person at the 2021 AGM, all shareholders were invited to submit questions to the Board via email prior to the meeting.

Further relevant details are referred to elsewhere in this report:

- Key Performance Indicators on pages 32 to 34.
 - Further ESG items and details on our ESG performance and data are set out in the ESG Impact and Integrity section on pages 39 to 76.
 - Details of notifiable interests in the shares of the Company are provided on page 177 of the Directors' Report.
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Our People

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.

Through our annual Group-wide engagement survey, Viewpoint, and more frequent targeted 'pulse' surveying in selected parts of the business, we know that our people are happy working with Serco and would recommend Serco as a great place to work. Each year our colleagues provide their views on a wide range of topics so we can better understand their perspectives and experiences working with us. Currently we are focussing on two main areas: creating career opportunities; and providing channels for colleagues to feel heard. There were 12,609 "Tell the Board" comments submitted and, as in previous years, compensation and recognition were key areas to be prioritised. In addition to this, colleagues indicated that they would like the Board to focus on the journey out of Covid-19 with a key emphasis on the next phase of the business and personal wellbeing.

During the year, the Board endorsed the launch of the Serco People Fund, which is an independent charity and embraces Serco's value of Care, providing support to current and retired colleagues and their families in times of need and when facing extraordinary financial challenges. Dame Sue Owen, Non-Executive Director and the Employee Voice representative on the Board, updates the Board on feedback received from our people at virtual engagement activities held throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. Other members of the Board, the Executive Committee and leadership teams participated in a number of these virtual engagement activities and Serco Inclusion Hub events arranged by our employee networks: Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco. Reports on the activities of each network are received by the Board through the regular People reports provided by the Group Chief Operating Officer and the Board conducts a focused review of the output of the Viewpoint survey every year.

Further relevant details are referred to elsewhere in this report:

- Our People Report, available on the Company's website www.serco.com
 - ESG Impact and Integrity section on pages 39 to 76.
 - Employee engagement metrics as part of the Key Performance Indicators on page 34.
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Section 172 (1) Statement continued

Our Customers

As an international B2G business, our customers are many and varied, consisting of local, regional and national governments and agencies, those receiving our services at a contract level and those who use the services we provide on behalf of our customers.

Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with and responding to customer needs is a critical priority. While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents good value for money. This requires us to have both a deep understanding of their sector specific needs, and the technical and commercial 'know how' to deliver public services more efficiently.

In addition, there are significant regional and sector specific concerns that vary enormously and which also change over time. For example, nationalisation remains an issue for customers in the Middle East, and social value outcomes are core to most UK bids, and the importance of supporting indigenous communities has been a feature of many bids in the Middle East, Americas and AsPac Divisions. It is critical that we maintain a detailed appreciation of these concerns so that we can respond accordingly.

The Chief Executive Officer and Group Chief Financial Officer have continued to meet directly with different customers across all our regions although this has been more challenging due to Covid-19. The Divisional Performance Reviews, which are made available to the Board, also contain details on customer issues and engagement.

With the 2015 strategy having been implemented, with significant achievements and progress across the business, a detailed strategy review was conducted involving all parts of the business and carried out over several months in 2021. As in previous years, this process culminated in a day-long Board Strategy Day during which the Board debated current and future customer requirements at length. Further information about the outcome of the 2021 strategy review is provided on pages 18 and 19.

The Serco Institute, often in conjunction with customers, looks at macro societal issues and the research and development of public service solutions. Updates on the work of the Serco Institute are provided to the Board by the Group Strategy Director and a number of the Board have attended Serco Institute events. The Serco Institute conducts research, holds events and produces research papers, articles and thought pieces on a number of areas including:

- Delivering Better Services for the Public: How competition and choice can improve public service delivery in the UK
- People Powered Public Services: Monitoring Australian Opinion
- Competitive Tension: The value of contestable public services in a post-pandemic world (Australia)
- People Powered Public Services: Monitoring UK opinion
- What's heading down the tracks? The Future of Passenger Rail in Britain
- Transformation, digitisation & happiness: Public opinion on UAE government services
- Transformation, digitisation & happiness: Public opinion on government services in Saudi Arabia
- Vaccine Passports & UK Public Opinion

Further relevant details are referred to elsewhere in this report:

- Pipeline and Order Book metrics as part of Key Performance Indicators on page 33.
 - Divisional Reviews on pages 27 to 31.
 - Principal Risks on pages 95 to 104 and in particular the risks of contract non-compliance, failure to act with integrity and failure to grow profitably.
 - The Serco Institute website at www.sercoinstitute.com.
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Our Suppliers

Suppliers have an important role to play in Serco being a leading international provider of public services. We aim to build honest, respectful and transparent relationships with suppliers which have high levels of regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms and receiving prompt payment.

The Chief Executive Officer and Group Chief Financial Officer engage directly with key suppliers and the Board is regularly briefed on operational matters and on the management and assessment of suppliers by Divisional senior management, the Group Director Enterprise Risk, the Group Director Business Compliance and Ethics and the Director of Procurement.

The Board received a presentation on cyber security from a key supplier during the year which gave the Board an opportunity to receive feedback and engage directly with the supplier.

During the year, the Board has overseen the launch of the Serco Sustainable Procurement Charter, which was well received by suppliers, and were supportive of the assessment of current procurement practices against the ISO20400 framework (the standard for sustainable procurement). In addition, as part of the annual risk review process, the Group Risk Committee considered the definition of the principal risk, Significant Failure of the Supply Chain, and expanded the risk to encompass the broader risk from the supply chain.

Further relevant details are referred to elsewhere in this report:

- ESG Impact and Integrity section on pages 39 to 76.
- Principal Risks on pages 95 to 104, in particular the significant failure of the supply chain.

Our Communities and Environment

Our communities comprise those living and working in close proximity to our operations, those for whom we provide services on behalf of our government customers and those who represent the needs of the communities we operate in, including charities, independent bodies and local government.

Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.

We are also committed to building climate resilience and limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities through our strategic themes of carbon and climate resource efficiency and environmental protection. We are committed to addressing the environmental and climate emergencies and supporting the net zero carbon ambitions of our clients and wider society. Alongside our customers and other stakeholders, we recognise that environmental sustainability is a critical factor in the wellbeing of society. In 2020, the Board endorsed a new standalone Group Strategy for Environment, inclusive of carbon reduction targets, to sharpen focus and direction on delivering longer-term Group Environment, Energy and Sustainability commitments in our operations and supply chain. To address key challenges and opportunities over the next ten years, with oversight from the Board through the Corporate Responsibility Committee, we are focusing on enhancing understanding of our environmental and climate risks and opportunities; evolving our business lifecycle process to capture and cost carbon and environmental risks; reducing business travel, emissions and carbon; measuring and reducing the impact of our supply chain; and embedding environmental behaviours in Group culture.

Our communities are primarily concerned with the impact of our operations on society, the economy, and the environment and knowing that we operate and conduct our business as a respectful and responsible neighbour.

Members of the Board had the opportunity to meet with users of the services we provide on behalf of our customers during contract visits and the work of the Serco Institute and the Serco Foundation informs reports from management as part of the rolling agenda of matters considered during the year. The Director, Business Compliance & Ethics, Director, Health, Safety and Environment and the Group Head of Environment, Energy and Sustainability provide regular updates on ethics and business conduct matters, the Speak Up service and environmental strategy.

Further relevant details are referred to elsewhere in this report:

- ESG Impact and Integrity section on pages 39 to 76.
 - The ESG section of our website at www.serco.com.
 - The Serco Foundation website at www.sercofoundation.org
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Section 172 (1) Statement continued

Decision-making in practice

A summary of how the Board applied the factors listed in section 172(1)(a) to (f) of the Companies Act 2006 when making principal decisions during the year is provided below.

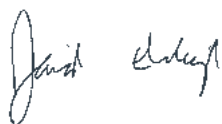
Principal Decision	S172 Considerations
<p>Acquisition of Whitney, Bradley & Brown Inc (WBB), a leading provider of advisory, engineering and technical services to the US Military.</p> <p>See also:</p> <ul style="list-style-type: none"> – Announcements released on 16 February 2021 and 27 April 2021 	<p>The Board considered the strategic rationale and how this acquisition would increase existing capabilities, facilitate growth in the defence sector, enhance the services available to existing and new Serco customers, the cultural alignment of the workforce, cost synergies, and integration costs.</p> <p>The Board also considered how the acquisition would be received by shareholders, the impact on Company margins and earnings per share, and the most appropriate financing method to complete the purchase, which was completed utilising existing debt facilities whilst staying well within the Company's target leverage ratio.</p>
<p>Covid-19 response and decision to make further payments to front line employees.</p> <p>See also:</p> <ul style="list-style-type: none"> – Trading update on 15 November 2021 	<p>The Board routinely reviewed the Company's worldwide response to the ongoing Covid-19 pandemic with updates from and discussions with the Group Chief Operating Officer to help ensure that sufficient focus was being directed to the wellbeing and welfare of employees and that its customers were getting the best service possible in challenging circumstances. It also spent time assessing the outcomes from the annual Viewpoint survey of employees. The Board demonstrated its focus on employees by recognising the intense pressure and extra work incurred as a result of Covid-19 by announcing in November 2021 a further ex-gratia payment to around 50,000 employees, as it did in 2020, and in addition agreed to make a significant one-off commitment to the recently established Serco People Fund. The fund provides cash and other support to current and retired colleagues and their families who would benefit from a little extra help. Together, these initiatives will cost the Company around £10m in 2021 and the Board considered the balance of employees and return to shareholders in its considerations. The Board also assessed the impact on Covid-19 of its supply chain and the risks inherent to that.</p>
<p>Bid for contract to support the UK Department for Work and Pensions Restart Programme.</p> <p>See also:</p> <ul style="list-style-type: none"> – Announcement released 27 April 2021 	<p>The Board considered how the Company could utilise existing experience and expertise to support the UK Government in delivering the Restart programme, which includes assessment of jobseekers' needs to devise individually tailored programmes, identifying and leveraging skills to help UK citizens find sustainable employment. The Board also considered the bid in the context of the Company's strategy and the Company's track record in employment services, and in enhancing the supply base by working with teams of expert partners, including small companies and charities, to achieve positive outcomes for individual job-seekers, the UK economy and the community more generally. The Company was awarded two contracts (covering the East Central region and Wales) in April 2021.</p>
<p>Bid for contract to continue providing support services to Covid-19 regional, local and mobile test centres in England and Northern Ireland for the UK Department of Health and Social Care (DHSC).</p>	<p>The Board considered how the services provided under this contract would utilise existing expertise and capabilities to provide asset administration support, cleaning and security services and allow the Company to continue to support the UK Government in building and operating the UK's Covid-19 testing infrastructure and meet the demand for testing. The Board noted the part the Company had played in building the UK's Covid-19 testing infrastructure which had benefited the customer, involved numerous suppliers and many small and medium-sized enterprises, as well as providing employment to thousands of new colleagues and providing benefit to the Company's shareholders.</p>
<p>Submission of second report to the SFO under the Deferred Prosecution Agreement (DPA) entered into in 2019</p>	<p>The Board and its committees regularly reviewed progress under the Company's DPA plan to ensure it was in accordance with the obligations and undertakings under the DPA. It was noted that this continued to demonstrate the strong values and robust governance and transparency undertaken by the Company, helped enhance its relationship with its key UK customers and improved the governance of its suppliers in helping to ensure an ethical supplier base. It reviewed and approved the delivery of the second of three reports to the SFO during the year, with the final report being due in June 2022.</p>

Principal Decision	S172 Considerations
ESG	<p>The Board maintain oversight and scrutiny of environmental, social and certain governance matters (including anti-corruption and anti-bribery, human rights, environmental approach, health and safety and other employee matters) through the Board's standing committee, the Corporate Responsibility Committee. Oversight and scrutiny of other governance matters is distributed between all standing committees of the Board, with certain matters reserved for the Board itself. In considering ESG matters it took into account the views of investors that had been gathered over the year as well as hearing from the Company's brokers on their views on ESG issues and how this is taken into account by investors. The Company's approach to ESG featured in the Capital Markets Day which many of the Board attended. The views of employees were considered in various ways either through the attendance of the Board at contract visits or attending events such as the D&I events outlined in this Report or through the work of the Non-Executive Director responsible as the key interface with employees. This was also relevant in the Board's reviews of the Speak Up process, Group Health & Safety strategy, Group Environmental strategy and the Group People strategy, including Wellbeing, and the Group Employee Voice. There was discussion on issues such as Social Value and how this was taken into account by customers and the Board received regular reports on ESG both at the Corporate Responsibility Committee and at the Board, reviewed ESG Key Performance Indicators ("KPIs") and discussed how analysts viewed the Company's approach to ESG and how it could adapt and improve its disclosures. In relation to suppliers, ESG considerations were taken into account with the Board's review of suppliers performance and in particular the review of the Sustainable Procurement Charter.</p>
Cyber	<p>The Board reviewed the Company's approach to cyber-security, data protection and cyber risk in the year including the Company's response to the cyber-attack on the Company's European business in January 2021. As part of that they discussed the possible impact on employees of possible data loss as well as the potential impact on customers. As part of wider reviews it discussed security assessments and accreditations as well as the approach to seek to improve the Company's cyber resilience and potential weaknesses in the supply chain or with joint venture partners. It also met with a key IT supplier to discuss that supplier's approach to cyber-attack and the resilience and business continuity plans it had in place. At the Audit Committee it received an update in relation to the Company's approach to data protection and covered, amongst other matters, how to improve training and employee awareness and improve 3rd party and supplier due diligence in this key area.</p>
Strategy	<p>Shareholders, Customers, People, Suppliers, Community and the Environment are both critical and central to any meaningful discussion on Strategy. The Board regularly reviewed updates from global functions, the global sector Centres of Excellence, as well as every operating Division throughout the course of the year, all of which contained elements of, and updates on, their respective strategies. In addition, all Board members held individual Strategy discussions with the Group Strategy Director during the year to discuss their key strategic questions and any new areas of desired strategic exploration for the Group – many of which related to our people, culture, ESG, social value, how investors regard us, and how we might better serve our customers. The Board discussed Strategy at length and in detail at the Annual Board Strategy Day, with presentations led by the Group Strategy Director, Group Chief Executive and Group Chief Financial Officer, and at further subsequent discussions following this meeting. These sessions and debates were relevant to all our stakeholders and reached conclusions on, amongst other things: the updated five-year plan for the Group in both financial and qualitative terms; the key steps, methods, strengths and weaknesses of this plan including customers, people, suppliers, community and the environment; a summary of the Divisional and Sector strategies for the next five years; the Group's portfolio for the next five years – including the position and potential of each Division and each Sector and how they fit together; the Company's top internal and external strategic challenges and opportunities in reaching its ambitions over the next five years and plans to address those; and Serco's B2G operating platform and offer to both customers and shareholders. The strategy formed the basis of the Capital Markets Day where the Board was able to ascertain reactions of both investors and customers who attended in person or virtually.</p>
<p>See also: – Capital Markets Day announcement and presentation released on 2 December 2022</p>	

Section 172 (1) Statement continued

Principal Decision	S172 Considerations
<p>Returning funds to shareholders: Dividends and Share Buyback programme.</p> <p>See also:</p> <ul style="list-style-type: none">– Finance Review (pages 77 to 91)– Results of AGM announcement (21 April 2021)– 2020 full year results announcement (25 February 2021)– 2021 half year results announcement (5 August 2021)	<p>In February 2020, the Board recommended the payment of a final dividend in respect of the year ended 31 December 2019, the first time it had been able to make such a recommendation since 2014. It was a milestone in the recovery of the Company. Covid-19 then intervened and, in April 2020, the Board withdrew the recommendation stating that: “At a time when the UK and other governments are helping Serco with its liquidity, it seems inappropriate to use that cash for anything other than its intended purpose of protecting the financial strength and resilience of our business.” The Board considered carefully the timing of the re-instatement of dividends, which was more than a simple financial calculation, given the importance of acting responsibly from a reputational perspective at that time. The Board was mindful of the views of some of the institutions and agencies whose opinion shareholders may value, as well as taking into account more broadly, to the extent that it could discern them, views of other stakeholders. It considered whether to defer payments of dividends again, given that the pandemic was still prevalent. However, it felt that Serco, as a company, had been saved by its shareholders and supported on its return to growth, with £850m of additional equity injected into the Company since May 2014 and the Board felt strongly that shareholders should see cash returns on their investment at the earliest moment it was appropriate and prudent for them to do so. The Board felt four things had changed since the earlier decision-points of the initial Covid-19 trading updates. First, any concerns on liquidity had proved groundless: there had been a successful refinancing of the Company’s long-term debt (and at lower cost) and the Company had been strongly cash-positive in 2020; leverage, even after the WBB acquisition, was in the middle of the Company’s target range. Secondly, the Company had refunded all employment and liquidity support paid to Serco by governments, with the exception of £12m in the USA at that time, for which there is no mechanism for early repayment. Thirdly, the profits arising from the Company’s work on Covid-19 did not represent a disproportionate proportion of the Company’s profits in the year at that time. Finally, the Board had sought to recognise the intense pressure and extra work that Covid-19 had brought to its staff by making an ex-gratia payment of £6m to 50,000 of our front-line colleagues. In the light of those four considerations, the Board felt it both appropriate and prudent to recommend the payment of a final dividend of 1.4p per share in respect of the year ended 31 December 2020. The Board also considered and agreed to cancel £20m of the £40m of shares, the re-purchase of which was announced at the pre-close Trading Update in December 2020; the £20m would have been roughly equivalent to the cash value of the 2019 final and 2020 interim dividends foregone. The payment of a dividend was unanimously supported by shareholders at the AGM. The Board further reviewed whether to make an interim dividend payment in the year and decided to declare an interim dividend of 0.8p in respect of the first half of 2021. The Board also explained its dividend approach at the Capital Markets Day to give more information to analysts and shareholders on its long term dividend policy.</p> <p>In addition, the Board has agreed a further share repurchase of up to £90 million shares over the next 12 months and is recommending a final dividend of 1.61p per share in respect of the year ended 31 December 2021.</p>

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



David Eveleigh
Group General Counsel and Company Secretary
23 February 2022

Corporate Governance

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Board of Directors



John Rishton
Chairman



Appointed to the Board

September 2016 (Chairman since April 2021)

Skills and experience

John Rishton has over 40 years' business experience gained in a variety of companies, industries and roles, including nearly 14 years as a chief executive or chief financial officer.

He has a BA in Economics from Nottingham University and is a Fellow of the Chartered Institute of Management Accountants.

Previous roles

Chief Executive of Rolls-Royce Group plc, Chief Executive and President of the Dutch international retailer, Royal Ahold NV (and prior to that, its Chief Financial Officer) and Chief Financial Officer of British Airways plc. Non-Executive Director of Associated British Ports, Allied Domecq and ICA Gruppen AB.

Current external commitments

Non-Executive Director and Chair of the Audit Committee of Unilever plc (until the 2022 Annual General Meeting).

Chair of Informa plc.

Non-Executive Director of Majid al Futtaim Properties LLC.



Rupert Soames OBE
Group Chief Executive Officer



Appointed to the Board

May 2014

Skills and experience

Rupert Soames is an experienced chief executive officer having held the role for nearly 20 years in other companies before joining Serco as Chief Executive in 2014.

He studied Politics, Philosophy and Economics at Oxford University, where he is now a visiting fellow, and was President of the Oxford Union.

Previous roles

Chief Executive of Aggreko plc and the Banking and Securities Division of Misyis plc.

Senior Independent Director and a member of the Remuneration, Nomination and Audit Committees of Electrocomponents plc.

Current external commitments

Non-Executive Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc.



Nigel Crossley
Group Chief Financial Officer



Appointed to the Board

April 2021

Skills and experience

Nigel Crossley is an experienced chief financial officer with over 30 years' experience in finance roles in international organisations. He has worked for Serco since 2014.

He has a BSc in mathematics from Hull University.

Previous roles

Director of Finance and transformation EMI, Group financial controller RHM plc and various finance roles at Procter & Gamble.

Current external commitments

None.

Key to Committee membership

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- C** Corporate Responsibility Committee
- GR** Group Risk Committee
- Committee Chair



Lynne Peacock

Senior Independent Non-Executive Director



Appointed to the Board

July 2017

Skills and experience:

Lynne Peacock has over 30 years' senior management experience in a range of roles including brand development, mergers and acquisitions, change management and business transformation.

She has a BA (Hons) in Business Studies.

Previous roles

Non-Executive Chair of Standard Life Assurance Limited and Non-Executive Director and a member of the Nomination and Governance Committee and Audit Committee of Standard Life Aberdeen plc.

Non-Executive Director and Chair of the Audit Committee of Scottish Water.

Senior Independent Director, Chair of the Remuneration Committee and member of the Audit, Risk and Nomination Committees of Nationwide Building Society.

Non-Executive Director and a member of the Audit and Risk, Nominations and Remuneration Committees of Jardine Lloyd Thompson Group plc.

Chief Executive of Woolwich plc and National Australia Bank Limited's UK businesses.

Current external commitments

Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc.

Senior Independent Director and Chair of the Remuneration Committee of TSB Bank plc.

Chair of the charity, Learning Disability Network London.



Kirsty Bashforth

Independent Non-Executive Director



Designated Director with responsibility for climate change

Appointed to the Board

September 2017

Skills and experience

Kirsty Bashforth is an experienced executive and board member within the construction, services, consumer goods, health and education industries, with expertise in change management, safety and risk management, organisational culture and leadership.

She has an MA in Economics from the University of Cambridge and is the author of "Culture Shift – a practical guide to managing organizational culture".

Previous roles

Non-Executive Director, Chair of the Safety, Health and Environment Committee and a member of the Nomination, Remuneration, Risk Management and Audit Committees of Kier Group plc.

Non-Executive Director and Chair of the Remuneration Committee of Diaverum AB.

Chief Executive Officer of QuayFive Limited.

Group Head of Organisational Effectiveness at bp plc and other global roles.

Non-Executive Director, Chair of the Remuneration & People Committee and a member of the Audit & Risk and Reputation & Ethics Committees of GEMS Education.

Governor of Leeds Beckett University and Ashville College.

Current external commitments

Chief Business Officer of Diaverum AB.

Non-Executive Director, Chair of the Remuneration Committee and a member of the Nomination and ESG Committees of PZ Cussons plc.



Kru Desai

Independent Non-Executive Director



Appointed to the Board

October 2021

Skills and experience

Kru Desai has over 30 years' experience of working with the public and private sector in leading transformation of public services in the UK and internationally. She has held general management and board leadership roles in sales and operational delivery.

She has an MSc in Politics and Administration from Birkbeck College, University of London and an Executive MBA from the University of Bristol.

Previous roles

Partner, KPMG LLP (UK).

Non-Executive Director and Chair of the Remuneration Committee of KPMG LLP (UK).

Executive Director and Member of the Group Management Board of Mouchel Group plc.

Executive Director and Member of Management Board of Hedra PLC.

Managing Director of Atos (UK).

Current external commitments

Chair of the Zinc Network.

Vice Chair and Chair of the Audit and Risk Committee at City, University of London.

Independent Non-Executive Director of Buro Happold limited.

Independent Commissioner of the Geospatial Commission.

Board of Directors continued



Ian El-Mokadem
Independent Non-Executive Director



Appointed to the Board
July 2017

Skills and experience

Ian El-Mokadem is an experienced chief executive officer with international experience in business transformation and in acquisitions and disposals.

He has a BSc (Hons) in Economics and Statistics from University College London and an MBA from INSEAD.

Previous roles

Chief Executive Officer of V. Group and Exova Group plc, Group Managing Director, UK & Ireland of Compass Group plc and senior management positions with Centrica plc and the global management consultancy, Accenture.

Current external commitments

Chief Executive Officer of RWS Holdings plc.

Director of Roegate Consulting Limited.



Tim Lodge
Independent Non-Executive Director



Appointed to the Board
February 2021

Skills and experience

Tim Lodge is a fellow of the Chartered Institute of Management Accountants and has a strong finance and accounting background with over 30 years' experience in financial roles within international organisations, some eight of which as chief financial officer. He has considerable experience in leading significant strategic and operational transformation and driving commercial performance.

He has an MA in Classics from the University of Cambridge.

Previous roles

Chief Financial Officer at Tate & Lyle PLC and COFCO International and a Non-Executive Director and Chair of the Audit Committee of Aryzta AG.

Current external commitments

Non-Executive Director and Chair of the Audit Committee of SSP Group plc.

Senior Independent Director of Arco Limited.

Director of An African Canvas (UK) Limited.

Chair of the management committee of the Cordwainers Livery Company.

Trustee of Gambia School Support.



Dame Sue Owen DCB
Independent Non-Executive Director



Designated Non-Executive Director for Employee Voice

Appointed to the Board
August 2020

Skills and experience

Dame Sue has significant experience of government and economic policy, having held senior roles in several government departments.

She has a MA in Economics from Cambridge University and an MSc in Economics from Cardiff University.

Previous roles

Permanent Secretary for the Department for Digital, Culture, Media and Sport, Civil Service LGB&T (straight ally) Champion and overall Diversity and Inclusion Champion, chair of the Charity for Civil Servants and senior posts in the Department for Work and Pensions, Department for International Development, Foreign Office and HM Treasury.

Current external commitments

Chair of the Royal Ballet Governors.

Specialist partner at Flint-Global.

Non-Executive Director of Pantheon International plc.

Non-Executive Director of Pool Reinsurance Company Limited and Pool Reinsurance (Nuclear) Limited.

Non-Executive Director of Methera-Global Communications.

Trustee of Opera Holland Park.

Trustee of The Windsor Leadership Trust.

Supervisory Board of DAF NV.

Key to Committee membership

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- C** Corporate Responsibility Committee
- GR** Group Risk Committee
- Committee Chair

Corporate Governance Report

Chairman's Governance Overview



This report sets out how Serco is governed and the key activities of the Board of Directors in promoting effective governance during 2021. Further information on how the Company complied with the UK Corporate Governance Code during 2021 is set out on pages 137 and 138.

John Rishton
Chairman

2021 Highlights

- Continued refreshment of Board and Committee membership
- Further improvements to internal procedures to improve Board effectiveness following the internal Board evaluation undertaken in 2020
- Maintaining momentum in our approach to “Employee Voice” throughout the organisation
- Evolution of the remit of the Group Risk Committee

Dear Shareholders

I am pleased to present the Corporate Governance Report for 2021. The Board believes that good governance is key to the long-term success of the Group and is committed to achieving high standards of governance.

I am pleased to confirm that, during 2021, the Company has complied fully with the principles and provisions of the UK Corporate Governance Code (“the Code”) with the exception of provisions 38 and 41, explanations for which are provided below and, in more detail, on page 138. Details of how the Company has complied with the Code are set out on pages 137 and 138.

The two items of non-compliance relate to the Chief Executive Officer's pension opportunity which, following the introduction of the Code, is being reduced over a period of time and which will align with the level of pension opportunity available to the wider workforce by 1 January 2023, and to the engagement of the wider workforce in setting executive pay. These are explained in more detail on page 138 and in the Directors' Remuneration Report on pages 139, 141, 142 and 156.

The work of the Board's committees is set out on the following pages. There have been several changes to the Board and membership of the Committees during the past year, including the appointments of a new Chairman, a new Chief Financial Officer, two new Non-Executive Directors and a new Senior Independent Director. Following the retirements of Sir Roy Gardner and Angus Cockburn at the 2021 Annual General Meeting, I became Chairman and Nigel Crossley became Chief Financial Officer. My previous roles as Senior Independent Director and Chair of the Audit Committee were assumed by Lynne Peacock and Tim Lodge respectively, Tim Lodge having been appointed as a Non-Executive Director earlier in the year. Kru Desai was also appointed as a Non-Executive Director and Eric Born stood down. The changes to Committee membership are set out on the following page.

The Board and its Committees have continued to work well together and we now have a separate discussion after each Board meeting with only the Non-Executive Directors present. We also have informal dinners – attended by all members of the Board – to which members of senior management are sometimes invited. These additional opportunities to meet have proved productive and effective.

Following my appointment as Chairman, accompanied by senior management, I met a number of shareholders to discuss governance matters and we have held a number of further meetings with shareholders during 2022. It is important to hear directly from shareholders to help us shape our approach to governance and to ensure our disclosure meets their specific requirements in addition to that required by regulation.

We have a strong and diverse Board with over 40% female representation and an increasing level of female representation within senior management, further details of which are set out below.

Corporate Governance Report continued

Chairman's Governance Overview continued

Our Board effectiveness evaluation was carried out externally in 2021 having last been undertaken externally in 2018. The outcome of the evaluation was generally positive and details of recommendations arising from it are set out later in this report.

Our commitment to engaging with the wider workforce continues, with Dame Sue Owen taking over from Kirsty Bashforth as the Board's employee representative as Colleague ConneXions lead and working closely with the Company, with the support of our Group Colleague Communications Manager, to ensure the Board fully understands employees' perspectives and issues. This is a key area of focus for the Board and, whilst it is led by Dame Sue Owen, a number of our Non-Executive Directors have actively participated in the various Diversity & Inclusion ("D&I") network events over the year. The D&I work we do is critical to the Company and, during the year, the Board has been involved in in@serco, our network for LGBT+ colleagues and their allies, Embrace, our network for multicultural colleagues, Unlimited, our network for disabled colleagues and their allies, and Inspire, an open network for all colleagues to talk gender. In addition, several of our Non-Executive Directors have participated in Fireside Sessions which have been particularly powerful. They have also joined calls with employees in forums addressing health & safety and ESG issues and they have all attended actual or virtual site visits, meeting with employees at our contracts in all of the geographies where the Company operates; such visits are a vital part of connecting with the wider business and hearing concerns which can be fed back to management.

Members of the Board were also able to participate in the Divisional Management Conferences which were held virtually last year. The high attendance levels at the Trust sessions held as part of the conferences and the feedback generated demonstrated how well our Values are embedded across the Group.

Non-Executive Directors also attended the Capital Markets Day in December 2021, providing an opportunity to meet investors, banks and customers at an event where we were able to demonstrate how good governance underpins our strategy.

A number of the Board attended Serco Institute events during the year.

The engagement scores in our annual employee engagement survey remained high, despite the challenges faced by the Company and its employees during the pandemic. The survey includes a section entitled "Tell the Board" and the issues raised are discussed by the Board and followed up to ensure that common or significant issues are addressed. Further details of the engagement survey are on page 34.

Our commitment to ESG, on which there has been considerable focus during the year, continues to be central to the way we operate. In particular, ESG targets are now included as a measure within the incentive schemes by way of an ESG scorecard which is more fully described in the Directors' Remuneration Report. We have endeavoured to further enhance our reporting in this area and have now aligned our reporting to the GRI index in addition to the SFDR reporting and made access easier to third party reports published in relation to a number of our operations. Further details of the Company's approach to ESG and activity during the year are included in the section of this report entitled "ESG Impact and Integrity" on pages 39 to 76 and in our separate ESG Report.

In addition to the ESG Report, I would encourage you to read the standalone People Report and the wealth of information available on our website. For example, our published supplements in relation to Human Rights and our approach to Anti-Bribery and Corruption.

Effectiveness

As Chairman, I am responsible for providing leadership to ensure that the Board operates effectively. I have been supported in this by all the Directors, in particular Lynne Peacock who was appointed our Senior Independent Director on 21 April 2021 when I became Chairman. Despite the challenges created by Covid-19 in meeting together as a Board during the first few months of the year, we were able to continue with our scheduled programme of Board meetings both by video conference and, when permitted, at our offices in Hook where the design of our offices enabled us to follow government guidance such that we were able to meet in person. I am pleased to say that, because we were able to meet the challenges presented, meetings continued to be held effectively, with presentations from management and third parties.

The annual reviews of Board effectiveness help the Board to consider how it operates and how its operations can be improved. This year, the review was undertaken externally by Gould Consulting Limited and the findings of this review have provided us with ideas to further improve the manner in which the Board operates which, together with progress against recommendations from the internally facilitated evaluation undertaken in 2020, are set out on page 124.

Changes in the Board

As announced in October 2020, Sir Roy Gardner stood down as Chairman at the Company's Annual General Meeting on 21 April 2021. Following Sir Roy's retirement, I became Chairman, Lynne Peacock assumed the role of Senior Independent Director and Tim Lodge, who was appointed as a Non-Executive Director and a member of the Audit, Group Risk and Remuneration Committees on 21 February 2021, became Chair of the Audit Committee.

As announced in December 2020, Angus Cockburn stood down as Chief Financial Officer at the Annual General Meeting and was succeeded by Nigel Crossley, who was previously Group Director of Finance and who joined the Board after the Annual General Meeting.

During the year, we announced the appointment of Kru Desai as a Non-Executive Director and a member of the Corporate Responsibility and Nomination Committees with effect from 21 October 2021; she has subsequently joined the Audit Committee.

We also announced that Eric Born, who joined the Board in 2019, would be standing down on 31 December 2021.

In addition to the changes in the composition of the Board, several changes were made to the membership of the Board's committees. The Nomination Committee was expanded on 21 April 2021 to include all Non-Executive Directors through the appointment of Kirsty Bashforth, Eric Born, Dame Sue Owen and Tim Lodge and subsequently, on her appointment as a Non-Executive Director, Kru Desai. Dame Sue Owen, who replaced Kirsty Bashforth as the lead Non-Executive Director for Employee Voice, was appointed as a member of the Corporate Responsibility Committee and stood down from the Audit Committee on 21 April 2021. At the same time Ian El-Mokadem stood down from the Corporate Responsibility Committee and was appointed as a member of the Audit Committee. The Chairs of the Audit and Group Risk Committees now sit on each other's committees providing a useful link between the two committees.

Contract visits and employee engagement

Non-Executive Directors are encouraged to continually increase their knowledge of the operations of the Company, its customers, its employees, end users and the communities it works in. This includes visits to contract sites which enable them to witness the day-to-day service provided by our contract teams as well as meeting customers and other stakeholders, and holding “town hall” sessions to hear the views of our employees. The visits provide a deeper level of understanding of the risks and opportunities faced by our contract teams on a daily basis, together with the Group-wide challenges regarding the scale and variety of our operations. In response to the continuing restrictions brought about by Covid-19, the number of physical visits it was possible to undertake was considerably reduced, but, in addition to those visits it was possible to make in person, a number of “virtual site visits” were made by Non-Executive Directors during 2021 and a programme of such visits for 2022 has been prepared, of which we hope many will be in person.

During site visits and visits to the Group’s international offices, both “virtual” and face-to-face, Non-Executive Directors take the opportunity to discuss issues with the wider workforce and senior management. In a normal year the Non-Executive Directors would have attended the Oxford Management Programme for senior management. Although involvement in this programme was severely restricted in 2021 due to Covid-19, Non-Executive Directors did participate in a number of Diversity & Inclusion events and also attended our International Day of Disabled People.

In addition, Non-Executive Directors were able to virtually attend Divisional Management Conferences at which they had the opportunity to reinforce the importance of good governance.

Diversity

The Board is committed to ensuring the development of gender and ethnic diversity amongst the Company’s senior management population and annually reviews its recommendations on gender and ethnic diversity for senior management roles. It recognises that there is more to do, not just at the Board level, but also in regard to Senior Leadership level.

Whilst the Board has become more balanced over recent years, culminating, at the end of 2021, with four of the Board, representing 44%, being women, we recognise we still have more to do, not least with regard to other areas of diversity at Board level.

Our overall gender balance now comprises of 44% women, some 24,000, across the organisation. While our gender balance differs based on specific roles, geographies and bands, we are pleased that female representation in our leadership population has increased to 32% and we are on track to deliver our aspiration of having at least 35% of the leadership group comprising of women by 2023.

On 5 April 2021, Serco employed approximately 23,000 people in the UK across a number of companies. We choose to voluntarily disclose our consolidated UK figures, for all UK colleagues at 5 April 2021, including the Directors of Serco Group plc. For April 2021, our median hourly pay gap is 6.96%, continuing the downward trend we have seen across the last four years of reporting and down from 10.9% in 2020. We are pleased to have maintained this reduction, but we still have a gender pay gap and much work still to do. Further information is available in our 2021 Gender Pay Gap report.

Whilst good progress is being made across the Group in many aspects of diversity and inclusion, sustainable change requires a long-term perspective and this continues to be a key focus for the Company which the Board will continue to address when considering refreshment of the Board. In relation to women in leadership roles at the Executive Committee and their direct reports, the level reported for the Hampton-Alexander review was 46.1%. Of our global leadership team of 984 senior leaders, 117 (representing 32%) were women. It is well recognised by the Board that the Company needs to improve female representation at this level of management and the Company has an active and targeted plan to further improve this in 2022.

More information is provided in the Nomination Committee Report on pages 133 and 134.

Shareholder engagement

Details on how the Board engaged with shareholders is set out in the s172 statement on page 108 and, as described earlier in this overview, members of the Board met or communicated with a number of shareholders to discuss a range of issues including governance and remuneration issues.



John Rishton
Chairman
23 February 2022

Corporate Governance Report continued

Chairman's Governance Overview continued

What the Board has achieved in 2021

During the year the Board receives regular reports and presentations on subjects including: operational matters (including the Centres of Excellence), business development pipeline, operational deep dives from across the Company's divisions and its shared services operation as part of the monitoring of the Group's operations, financial performance, budgets, finances, liquidity and tax matters, deep dives into key risks and oversight of detailed risk reviews undertaken by the Group Risk Committee, succession planning at board and senior management level, employee engagement, diversity and inclusion, people updates (covering matters affecting the health & safety and wellbeing of the Group's employees), pensions, gender pay gap, investor relations (including reporting by the Company's brokers), IT resilience and cyber security, ethics & compliance, ESG, legal & governance and matters discussed at each of the Board's Committees.

It also approves the full and half year results, trading updates, including any unscheduled trading updates, dividend policy and the recommendation of final and approval of interim dividends, material bid submissions, Board and Committee appointments, matters recommended to it by the Committees, Non-Executive Directors' fees, the Modern Slavery statement and changes required by evolving governance.

In addition, during 2021, the Board:

- Considered the impact of Covid-19 on the Company's financial position, in particular, liquidity, its culture and operational requirements (in particular people and supply chain) and on its existing business and the additional requirements of governments worldwide in meeting the challenges presented by the global pandemic.
- Recommended the re-introduction of dividend payments.
- Approved the repurchase of shares at a cost of £40 million, subsequently cancelling 15,371,849 shares and transferring 15,000,000 shares to the Company's Employee Benefit Trust to satisfy awards under the Company's share schemes.
- Reviewed and challenged the strategy of the Group, supported management in the Group's strategic development and approved the strategic approach and outcome.
- Held a Capital Markets Day.
- Reviewed and approved the acquisition of Whitney, Bradley & Brown Inc and considered other merger and acquisition opportunities.
- Reviewed the transition and integration of newly acquired businesses, in particular, Facilities First Australia Holdings Pty. Limited (acquired in 2020) and Whitney, Bradley & Brown Inc.
- Considered the impact of Brexit.
- Considered the impact of the loss of existing contracts and reasons for the failure of some bids and re-bids.
- Received training in matters including ESG, TCFD, Modern Slavery and corporate developments.
- Considered executive succession planning and oversaw the transition of the Chief Financial Officer.
- Reviewed cyber resilience with a key IT supplier.
- Considered and implemented recommendations arising from the Board performance evaluation.
- Further considered investor views on and the Company's approach to sustainability and ESG factors and the reporting thereof.
- Engaged with the Company's stakeholders.
- Attended management meetings and site visits in person and by video conference.
- Attended Management conferences by video conference in each of the Divisions.
- Continued the enhancement of risk management.
- Considered alternative arrangements for the Company's Annual General Meeting.
- Reviewed progress made under the compliance and implementation plan agreed with the Serious Fraud Office under the Deferred Prosecution Agreement and approved the second of three annual reports to be submitted to the SFO.
- Launched the Serco People Fund with £4 million to support current and retired colleagues and their families.

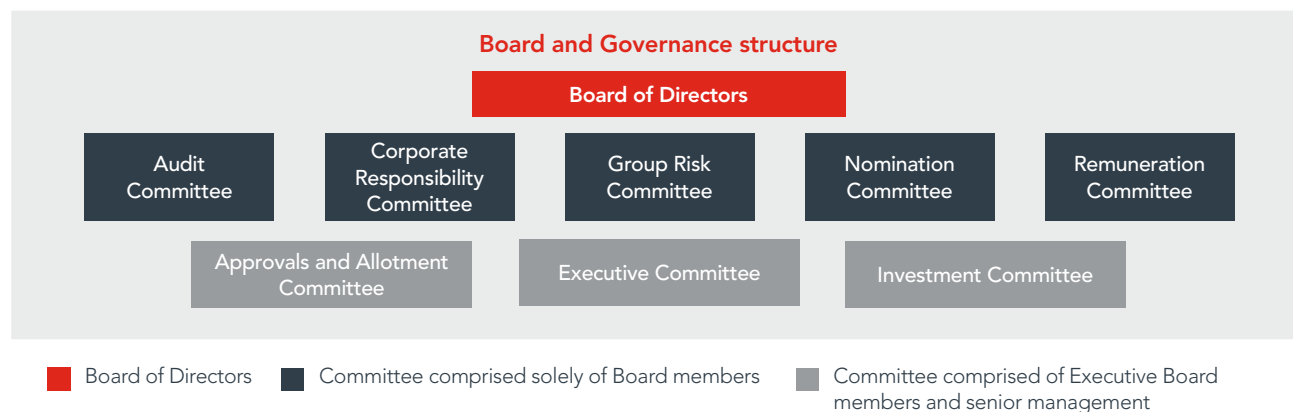
Board priorities for 2022

During 2022, the Board will continue to oversee those matters referred to above with particular focus on:

- Implementation of the outcome of the strategy review, including the development of the drivers of efficiency within our core platform
- Succession planning
- Board training
- ESG matters and enhancement of ESG scorecards
- TCFD
- Risk Management, Controls and Assurance
- Cyber and Data Security and Data Protection
- Diversity & Inclusion
- Close out of the Deferred Prosecution Agreement
- Review of key bids for new business and material re-bids for existing business
- Long-term effects of Covid-19
- Management conferences
- Further stakeholder engagement including on ESG and Remuneration matters
- Changes in governance, in particular, those arising from the proposals contained within the consultation document issued by BEIS

Board and Governance

The Board has a comprehensive corporate governance framework, with clearly defined responsibilities and accountabilities to safeguard long-term shareholder value, which provides an effective platform to realise the Group's strategy.



The Company's governance structure is illustrated above. There is a schedule of matters reserved for the Board which is available on the Company's website. The Board has delegated certain of its responsibilities to the Audit, Corporate Responsibility, Group Risk, Nomination and Remuneration Committees, the terms of reference of each of which are also available on the Company's website. In addition, there is a Disclosure Group which meets to consider the disclosure of information to meet legal and regulatory obligations under the Market Abuse Regulation.

The Executive Committee is chaired by the Group Chief Executive Officer and additionally comprises the Group Chief Financial Officer, Divisional Chief Executives, the Group Chief Operating Officer, the Group Strategy and Communications Director and the Group General Counsel and Company Secretary. The Committee has delegated responsibility from the Board to ensure the effective direction and control of the business and to deliver the Group's long-term strategy and goals.

The Investment Committee comprises the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Operating Officer, the Group Strategy and Operations Director, the Group General Counsel and Company Secretary and other members of the management team. It acts on behalf of the Board to review, monitor and approve bids, mergers, acquisitions and disposals and other corporate activity within specific authority limits delegated by the Board.

The Approvals and Allotment Committee comprises the Group Chief Executive Officer, the Group Chief Financial Officer and the Group General Counsel and Company Secretary. This Committee acts on behalf of the Board between Board meetings in respect of matters delegated to it by the Board and to finalise matters already approved in principle, including the approval of documentation for shareholders, the declaration of interim and the recommendation of final dividend payments and the allotment of shares.

The table below gives details of attendance at Board and Committee meetings during 2021. On occasions when Directors are unable to attend meetings due to conflicting appointments, their views are sought by the Chair of the Board or the relevant Committee in advance of the meeting to ensure they are taken into account at the meeting.

	Board	Audit	Corporate Responsibility	Group Risk	Nomination	Remuneration
John Rishton	12/12	1/1	–	1/1	5/5	5/5
Sir Roy Gardner (resigned 21 April 2021)	3/3	–	1/1	–	1/1	2/2
Rupert Soames	12/12	–	4/4	–	–	–
Nigel Crossley (appointed 21 April 2021)	9/9	–	–	–	–	–
Angus Cockburn (resigned 21 April 2021)	3/3	–	–	–	–	–
Kirsty Bashforth	12/12	–	4/4	5/5	4/4	5/5
Eric Born (resigned 31 December 2021)	12/12	5/5	4/4	–	4/4	–
Kru Desai (appointed 21 October 2021)	4/4	–	1/1	–	2/2	–
Ian El-Mokadem	12/12	4/4	1/1	5/5	5/5	–
Tim Lodge ¹ (appointed 21 February 2021)	10/11	5/5	–	5/5	4/4	4/4
Dame Sue Owen	12/12	1/1	3/3	5/5	4/4	–
Lynne Peacock	12/12	5/5	–	–	5/5	5/5

Notes:

1. Tim Lodge was unable to attend the Board meeting on 22 September 2021, a date on which he had another commitment made prior to joining the Board.

Corporate Governance Report continued

Board and Governance continued

Board evaluation

An internal evaluation was undertaken in 2020 using a questionnaire based on the UK Corporate Governance Code. This evaluation, acknowledging progress on areas identified in the previous external evaluation carried out in 2018 and the internal evaluation carried out in 2019, concluded that the Board and its Committees continued to operate effectively. During 2021, in response to the internal Board evaluation undertaken in 2020 and building on the work already undertaken in embedding the Corporate Responsibility Framework, the Board continued to address the promotion of the Company's contribution to wider society and ensure that workforce policies continued to support long term sustainable success. This has included the evolution of such policies as necessary and increased assessment and monitoring of culture. The Board continues to check that policy, practices and behaviour remain aligned with the Company's purpose, values and strategy and there has been further embedding of these processes to ensure that Environmental, Social and Governance issues are addressed and continue to be an important focus of the Board. This has included the enhancement of existing processes to ensure that account is taken of all stakeholders' interests by the Board.

An external evaluation was undertaken in 2021 by Gould Consulting Limited, which has no other connection with the Company. It was a comprehensive review covering the Board and its Committees and as part of which representatives of Gould Consulting had access to both current and historic board papers and attended a Board meeting and meetings of some of the Committees. This evaluation, acknowledging progress on areas of improvement identified in previous internal evaluations, including those from the 2020 evaluation described above, concluded that the Board continued to operate effectively. It was, however, recommended that the Board would benefit from holding a board meeting in the USA with the US board and members of the senior management team, more regular review of strategic issues and increased reporting of non-financial KPIs during the year, continued focus on succession planning and diversity throughout the organisation, holding of annual governance meetings for investors and the further refinement of ESG targets. These recommendations are being addressed through changes to the annual agenda plan.

Appointment, induction and training

The Chairman is responsible for ensuring that an appropriate induction is provided to new Board members. The induction programme is specifically tailored to the needs of the incoming Director and includes circulation of the Board's policies and procedures, meetings with senior management and contract site visits. Since March 2020, on the outbreak of the pandemic, although the majority of such meetings and visits have been undertaken virtually, it has, however, been possible for some to be undertaken in person.

Training is provided to the Board on a range of governance and other issues both at Board and Committee meetings and in other forums. Further training is also made available on a range of subjects, including those undertaken by executive management.

Individual training needs are identified as part of the annual appraisal process and Directors are encouraged to take advantage of both internally and externally provided training opportunities.

Although, as previously mentioned, site visits and involvement in management training, meetings and events (all of which are an important part of training) have been curtailed owing to Covid-19, all Non-Executive Directors undertook the key elements of the internal training which is undertaken by management and some Non-Executive Directors have attended Divisional management meetings by video conference.

External directorships

The Company has a policy which allows the Executive Directors to accept directorships of other quoted companies and to retain the fees paid, provided that they have obtained the prior permission of the Chairman. In accordance with the Code, and to ensure sufficient time is devoted to their executive role within the Company, no Executive Director would be permitted to take on more than one non-executive directorship in a FTSE 100 company or the chairmanship of such a company.

Angus Cockburn, who retired as a Director on 21 April 2021, was Senior Independent Director, Chair of the Audit Committee and a member of the Nomination and Remuneration Committees of Ashtead Group plc and a Non-Executive Director of The Edrington Group Limited throughout the period he was a Director of the Company during 2021.

Rupert Soames was Senior Independent Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc throughout the year. He will be retiring from the board of DS Smith Plc on 6 September 2022 and will cease to be Senior Independent Director on 28 February 2022.

Conflicts of interest

Every Director has a duty to avoid a conflict between their personal interests and those of the Company. The provisions of Section 175 of the Companies Act 2006 and the Company's Articles of Association permit the Board to authorise situations identified by a Director in which he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. The Board undertakes regular reviews of the external positions and interests held in and arrangements made with third parties by each Director and, where appropriate, authorises such conflicts. Notwithstanding the above, each Director is aware of their duty to notify the Board should there be any material change to their positions or interests during the year. Directors do not participate in Board discussions or decisions which relate to any matter in which they have, or may have, a conflict of interest.

Corporate Governance Report

Group Risk Committee Report

Group Risk Committee members

Ian El-Mokadem (Chair)
Kirsty Bashforth
Tim Lodge
Dame Sue Owen

Dear Shareholders,

Membership of our Committee evolved during the year in line with wider changes to the Group's Board. We welcomed Tim Lodge to the Committee on 21 February 2021 and following his appointment as Chairman on 21 April 2021, John Rishton stood down as a member of the Committee although he continues to be a regular attendee at the Committee's meetings.

Throughout 2021 the Committee has continued to oversee the Group's efforts to enhance its risk management capability and the way that the Risk Management Framework has been embedded at Divisional level. We have continued to review the risk profile on a quarterly basis and, during these sessions, have held focused discussions around our principal risks and their mitigations. These sessions have included ongoing monitoring of the impact of the Covid-19 pandemic against our principal risks, their key controls, mitigations and oversight of lessons learned.

Our approach to maintaining oversight of our principal risks has remained broadly consistent with previous years and we have continued to:

- conduct "deep dives" with Divisions, considering and challenging their approach to their material risks to gain a deeper understanding of the management approach to risk management generally, as well as reviewing risk themes delivered by business leads;
- examine and debate detailed updates from principal risk subject matter experts to gain a deeper understanding of the current status of risks;
- review divisional risk registers to understand their alignment with the Group's principal risks;
- ensure that Divisions have adequate capability to implement the Group's Risk Management Framework;
- review the output from the Group Executive Committee's annual review of principal and emerging risks;
- maintain oversight of insurance trends and internal insurance programme updates;
- monitor business continuity progress; and
- oversee the Compliance Assurance activities.

There has been significant focus on supporting the Group ERM function to drive process improvements and endorse developments towards a more integrated Enterprise Risk Management ("ERM") methodology, particularly in reference to how we define best practice for Serco and in how Divisions are applying the ERM approach. A Group-wide ERM capability assessment highlighted areas where we would like to see further process development and where best practices could be shared across Divisions. We are supportive of ongoing work to refine our Serco Management System and the continued drive to deliver both improved consistency of approach and resource models across the Group.

Improvement activity has also been a feature in our compliance assurance approach, evolving the way we self-assess controls to a more risk-based maturity model to drive a richer controls dialogue across the contracts and to increase value from the exercise.

Following a review by the Executive Committee, including a review of external and emerging risk trends, it was agreed that whilst there were no additions to the principal risks we would broaden the definition and scope of our Supply Chain risk to ensure wider coverage of this complex risk area. In a similar vein, we also broadened the scope of our People risk to ensure that we were considering capability attraction and retention from a wider perspective to capture the challenges from macro labour market trends impacting execution of our people strategies across the Group in the medium to long term. It was also agreed that we would retire Failure to Manage our Reputation as a principal risk, considering it instead a potential impact outcome in the event of one of our principal risks materialising and explicitly as a causal factor under the Failure to Act with Integrity risk. Some of the principal risks were also discussed at the Board including the Failure to Grow Profitably risk which was further underpinned by the extensive market reviews done as part of the strategy review and Audit Committee reviews around Financial Controls.

The discussions of emerging risk also considered the treatment of ESG and the risk of extreme weather/climate change incident and we determined to continue to treat ESG as an embedded consideration across a number of our principal risks rather than a stand-alone item at the Group level. Similarly, we have chosen not to consider climate risk as a standalone principal risk and instead consider it as a cross-cutting scenario under several of our principal risks, most notably under the Catastrophic Incident and Health, Safety and Wellbeing risk. Monitoring of our ESG and environmental strategy, including climate change, is led by the CRC which supports our approach to the new TCFD reporting requirements this year. More detail on this area can be found on page 58.

Our governance of principal risks has remained unchanged in 2021.

The Committee recognises the ongoing commitments under the DPA and notes that elements of the planned improvements associated with the DPA remain included in several of the mitigations captured against our principal risks. We will continue to oversee execution of these mitigations via our risk management process and through regular review and continuous improvement of the DPA plan.



Ian El-Mokadem
Chair of the Group Risk Committee
23 February 2022

Corporate Governance Report continued

Group Risk Committee Report continued

Committee's responsibilities

The Committee advises the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environments. The key responsibilities of the Committee are:

- overseeing the effectiveness of the Group's risk management framework, including the assessment of all the principal risks facing the Group, and the action being taken by management to mitigate risks that are outside of the Group's risk appetite;
- challenging and advising the Board on the current risk exposures facing the Group, future risk strategy and reviewing regular risk management reports which enable the Committee to consider the process for risk identification and management;
- assessing how key Group risks are controlled and monitored by management;
- in conjunction with the Audit Committee, reviewing the Group's risk assessment processes, and ensuring both qualitative and quantitative metrics are used to inform the Board's decision-making; and
- reviewing the Group's capability to identify and manage emerging risks, in conjunction with the other Board Committees as appropriate.

Membership and attendees

The Committee is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. Biographical details for each member of the Committee are provided on pages 116 to 118. The Committee met five times during the year, including an additional meeting where the Risk Committee met with all other members of the Board present. Details of attendance at meetings are set out on page 123. Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group General Counsel and Company Secretary, the Deputy Company Secretary, the Chairman, the Group Director Enterprise Risk and the Head of Group Internal Audit.

Activities of the Committee during 2021

During the year the Committee's key activities included:

- receiving updates regarding the Group's principal risks, detailing key changes, trends and ongoing Covid-19 impacts. These included discussion on the potential impacts of challenges in the supply of short-term resourcing, treatment of terrorism risk and updates on governance, risk, and compliance tooling options;
- considering internal and emerging risks and themes. These discussions included treatment of ESG, climate change, terrorism, IT infrastructure failure and geopolitical uncertainty;
- undertaking in-depth reviews ("deep dives") of the following risks: Major information security breach; Catastrophic incident, including a session focused on Maritime related risk; Material legal and regulatory compliance failure; and Significant failure of supply chain. The principal risk of Failure to act with integrity and risks around Health, safety and wellbeing, including focused sessions on fleet risk and regular updates on ESG, were reviewed by our Corporate Responsibility Committee; the principal risk of Financial control failure was reviewed by our Audit Committee; and Failure to grow profitably and additional sessions on Major information security breach were reviewed by the Board;
- receiving updates on all Divisional risk management processes including alignment of their risks to the Group principal risks and progress with implementing improvement opportunities identified in the Group-wide ERM capability assessment;
- overseeing the compliance assurance programme including monitoring of key findings and process improvements to the self-assessment process and proposed review of our Serco Management System; and
- ongoing challenge and support of the Group Director Enterprise Risk to improve, enhance and embed the risk management framework.

2022 priorities and focus

During 2022, the Committee will maintain its focus on undertaking detailed deep dive reviews into the Group's principal risks in line with our forward agenda. In addition, we will continue to maintain a more flexible approach to include deep dives into specific risk themes and emerging risks delivered by functional leads and/or business unit subject matter experts from across the Group operations. Meetings with the Divisional teams will also continue. Committee attention will remain on the progression of mitigation actions and their effectiveness, the development of our Enterprise Risk Management approach and the review and refresh of supporting policies, standards, and reporting. In addition, we will focus on implementing changes identified under the ERM process improvement initiative launched in 2021, as well as working closely with the Audit Committee on any changes required under the BEIS consultation and any potential associated regulatory changes. We will also continue our monitoring of governance of our Group-wide compliance assurance activity, including greater oversight of the three lines of defence and how they interrelate and work effectively. The Committee will continue to retain time at the end of each meeting to meet separately without management present and invite one of the Divisional Heads of Compliance Assurance to attend for part of this session. The Committee will also continue to meet privately with the Group Director Enterprise Risk.

Serco's approach to managing business risks and internal control

Serco's internal control framework includes financial, operational, compliance and risk management controls. These are designed to manage and minimise risks that would adversely affect services to our customers and to safeguard shareholders' investments, our assets, our people, and our reputation (collectively "business risks").

Internal controls and key processes are defined within the Serco Management System ("SMS"). To provide management assurance that these controls are effective, we use a "three lines of defence" compliance assurance model to test business compliance.

The Executive Committee is responsible for providing oversight, challenge, and direction across the first and second lines of defence, including the review of the Group Risk Register and individual risks as required.

The Board has overall responsibility for risk management and internal control and formally reviews the findings of the overall Internal Audit programme. It is supported in these duties by the Group Risk, Corporate Responsibility and Audit Committees.

The Board confirms that there has been a focus on the three lines of defence for the year under review and up to the date of approval of the 2021 Annual Report and Accounts.

First line of defence – Contract Managers, Business and Function leaders within the Group are responsible for identifying and managing risks and for implementing associated processes and controls.

We endeavour to ensure that appropriate processes and controls are in place through the implementation of our SMS and that suitably trained staff seek to ensure that customer, legal and regulatory requirements are adhered to. We have launched a review of our SMS to ensure it remains an effective and efficient vehicle to document and communicate our processes and controls. This review and associated improvement changes are expected to be completed in 2022. As part of our commitment to process improvement we have refreshed our approach to our annual SMS self-assessment. The assessment remains in place but has been refocused on the principal and top divisional risks and the associated key controls. In addition, we now ask our Contract Managers to complete the assessment using a maturity scale. This process enables a deeper understanding of SMS compliance levels by identifying specific actions for improvement. Progress against actions identified through this self-assessment is monitored by senior management. We recognise that whilst the SMS controls can provide reasonable assurance against misstatement or loss, this cannot be absolute.

Second line of defence – The Group Enterprise Risk Function is responsible for the development and implementation of policies and standards associated with Risk Management and Compliance Assurance. It is the custodian of the Group Compliance Assurance Programme ("CAP") and the Principal Risk Register, providing management oversight, assurance, and challenge. Divisional Risk and Assurance teams also form part of the second line.

The CAP aims to ensure we have a consistent approach to compliance assurance across all Divisions, with direction provided by Group around minimum requirements based upon our principal risks.

Third line of defence – The Group Head of Internal Audit reports functionally to the Audit Committee Chair and is responsible for the delivery of the Internal Audit programme.

Internal Audit provides an independent assessment of the design and operating effectiveness of the Group's governance, risk management and control frameworks in place to manage risk.

The Internal Audit team carries out an annual programme of risk-based audits reporting findings to the Audit Committee. The audit programme is approved by the Audit Committee. The in-house Internal Audit function uses the services of two co-sourced providers to supplement and enhance in-house skills and resources where required.

In addition to our in-house assurance teams, we are also subject to significant third line assurance activities and audits delivered through external third parties appropriate to the regulatory environment, certification standards and customer requirements in our varied service lines and business units. These reviews include those that support the range of ISO certifications we support across the business as well as independent performance and regulatory reports on Serco operations.

Corporate Governance Report continued

Audit Committee Report

Audit Committee members

Tim Lodge (Chair)
Kru Desai
Ian El-Mokadem
Lynne Peacock

Following the appointment of John Rishton as Chairman of Serco Group plc on 21 April 2021, his position as Chair of the Audit Committee was filled by Tim Lodge, who joined the Committee on 21 February 2021. Dame Sue Owen, who became the lead non-executive director for Employee Voice, stood down from the Audit Committee and was appointed as a member of the Corporate Responsibility Committee on 21 April 2021 and, at the same time, Ian El-Mokadem stood down from the Corporate Responsibility Committee and was appointed as a member of the Audit Committee. Eric Born resigned as a Non-Executive Director on 31 December 2021 and ceased to be a member of the Committee on that date and Kru Desai, who was appointed as a Non-Executive Director on 21 October 2021, became a member of the Committee on 1 January 2022.

Dear Shareholders

I am pleased to present the Committee's report for the year ended 31 December 2021, and my first as Chair of the Committee. This review gives an insight into how the Committee addressed significant issues during 2021, which were reported to the Board as a matter of course, and how other responsibilities of the Committee were discharged. The Audit Committee continues to have a fundamental role to play in reviewing, monitoring and challenging the effectiveness of the Group's financial reporting and internal control processes. During the year the Committee undertook a range of finance, accounting and control related reviews particularly in relation to specific risks identified within the Group's operations, new operating platforms which the Group is implementing and reviews of the Group's control effectiveness in relation to cyber security threats.

Throughout 2022, the Committee will continue to focus on the critical accounting judgements made, the effectiveness of the Group's financial controls and assurance programme, the operating performance of the finance operating structure, specifically the outsourced operating model as the contract with the Group's third party service provider comes to an end in 2024, compliance with the Deferred Prosecution Agreement for items under its terms of reference, and the delivery and effectiveness of the Group's Internal Audit function.

Additionally, during 2022, the Committee will continue to monitor developments from the review led by the Department for Business, Energy and Industrial Strategy (BEIS) into restoring trust in audit and corporate governance, and the impact the recommendations have on the Group's current internal control framework and the audit profession. The Committee will challenge and review how the Group adapts to address any legislative changes which arise from these recommendations.



Tim Lodge
Chair of the Audit Committee
23 February 2021

Committee's responsibilities

The Committee supports the Board in fulfilling its responsibilities in respect of: overseeing the Group's financial reporting processes; reviewing, challenging and approving significant accounting judgements proposed by management; assessing the way in which management ensures and monitors the adequacy of financial and compliance controls; the appointment, remuneration, independence and performance of the Group's External Auditor; and the independence and performance of the Group's Internal Audit function.

The Terms of Reference for the Committee are available on the Group's website.

Membership and attendees

The Committee is comprised solely of Independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code ("the Code") and that, between them, the members of the Committee bring strong international, service and public sector expertise and experience which is highly relevant to the Company. Having joined the Audit Committee on 21 February 2021, Tim Lodge became Chair of the Committee on 21 April 2021. Having previously been CFO at Tate & Lyle plc and COFCO International, as well as holding other non-executive positions, Tim provides assurance to the Board that recent and relevant financial experience, as required by the Code, is held within the Committee. Biographical details for each member of the Committee are provided on pages 116 and 118.

The Committee met five times during the year, which at times was virtually as a result of the local and national restrictions imposed as a result of Covid-19, and details of attendance at meetings are set out on page 123. Committee meetings are held in advance of Board meetings with the Committee Chair updating the Board directly on the outcomes of each meeting. In addition to the members of the Committee, the Chief Financial Officer, the Group Financial Controller, the Head of Internal Audit, the Group General Counsel and Company Secretary, the Deputy Company Secretary and representatives of the Company's External Auditor, KPMG LLP, attended and received papers for each meeting. The Committee retain time at the end of each meeting to meet separately without management present and invite either the Head of Internal Audit or KPMG LLP to attend for part of this session. The Committee also meets privately with the Chief Financial Officer.

Performance review

The Audit Committee's effectiveness was reviewed as part of the Board's annual performance evaluation which was undertaken externally by Gould Consulting Limited. The findings from the review were largely positive with it being noted that the Audit Committee is effective in its role with valuable input being received from all members and that the change in Committee Chair during the year was managed effectively. The level of information received at the Audit Committee is considered to be sufficient with appropriate challenge given to management and time allocated for the External Auditors to present the basis of their conclusions. It was agreed that the Committee would benefit from a combined Risk and Audit committee meeting in 2022 to assist in developing an integrated view of risk and assurance, more formal reporting to the Committee of whistleblowing (which is overseen by the Corporate Responsibility Committee), a review of the audit process to ensure contingency is built into its latter stages, and presentations to the Committee in respect of specific areas of risk within the Group.

Activities of the Committee during the year

During the year, the Audit Committee carried out core duties alongside the work required on significant judgements and issues. The core activities undertaken during the year included:

- Reviewing the integrity of the half-year and annual financial statements and the associated significant financial reporting judgements and disclosures including;
 - that the information presented in the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
 - the effectiveness of the disclosure controls and procedures designed to ensure that the Annual Report and Accounts complies with all relevant legal and regulatory requirements;
 - the process designed to ensure the External Auditor is aware of all 'relevant audit information', as required by Sections 418 and 419 of the Companies Act 2006.
- the management representation letter to the External Auditor; and
- the findings and opinions of the External Auditor;
- Considering the liquidity risk and the basis for preparing the half-year and annual financial statements on a going concern basis, and reviewing the related disclosures in the Annual Report and Accounts;
- Reviewing the 2021 Viability Statement to ensure that it is appropriate and balanced in respect of highlighting the risks the Group is exposed to, including the ongoing impact of Covid-19, and the assumptions being made in assessing its viability;
- Considering the provisions of the Code regarding going concern and viability statements and reviewing emerging practice and investor comment;
- Reviewing updates on accounting matters and those related to financial reporting including the recommendations and requirements of the Task Force on Climate-Related Financial Disclosures (TCFD);
- Reviewing the effectiveness of the Group's financial controls and financial assurance programme, including a deep dive into the management of the Financial Control Failure principal risk;
- Receiving updates from the Risk Committee Chair in respect of key items discussed within that Committee and assessing whether they resulted in any additional financial risks which should be considered within the Audit Committee;

- Providing oversight to the Group's Tax strategy, including how provisions for uncertain tax positions are derived, the status of tax audits being undertaken, the Group's position in relation to historic tax losses and associated recognition of a deferred tax asset, and the intention to comply with both the letter and spirit of tax legislation in all jurisdictions within which the Group operates;
- Reviewing the effectiveness and independence of the Group's Internal Audit function; and
- Maintaining the Group's relationship with the external auditor, including assessing the audit plan and monitoring both independence and effectiveness.

As well as carrying out the core duties above, the Audit Committee received the following updates which assisted the Committee in understanding the framework in place to improve financial controls and mitigate the specific risks associated with these aspects of the business:

- Ongoing updates on the Group's progress in reviewing and improving its documentation of internal controls whilst considering the proposals contained with the consultation document issued by BEIS;
- A review of the post-acquisition integration and performance of the Naval Systems Business Unit; and
- Reviewing progress against the Group's Deferred Prosecution Agreement obligations.

Internal control environment

The Committee is responsible for monitoring the Group's internal control environment and assessing its effectiveness. As part of this assessment the Committee receives regular updates on internal controls and in forming an opinion on effectiveness it also considers the requirement to make relevant recommendations to the Board.

The Group has both a financial assurance function and an Internal Audit function, with both making regular contributions to meetings of the Audit Committee. The findings of financial assurance are assessed, and guidance is given to direct their work. Similarly, Internal Audit reports are received by the Committee on a regular basis and if it is deemed relevant, the management teams from central functions, divisions or individual business units are invited to the meeting to discuss the findings arising from Internal Audit reviews. The Audit Committee also has responsibility for reviewing the annual Internal Audit programme of work and assessing both the adequacy of resources of the Internal Audit function and the scope of the Internal Audit programme.

Internal Audit

Internal Audit acts as a 'third line of defence' providing independent assurance to the Board, the Serco Group plc and Serco Inc Audit Committees and management, and in particular:

- Provides objective, independent assurance and advice to management and the Audit Committee on the design and operating effectiveness of the governance and internal control processes in place to identify and manage business risks;
- Delivers an annual programme of risk-based Internal Audits, reporting findings and recommendations for management actions to improve governance, risk management and controls to each Audit Committee meeting; and
- Reviews the annual Internal Audit programme regularly throughout the year to ensure it remains focused on key risks, recommending changes to the Audit Committee for their approval.

Corporate Governance Report continued

Audit Committee Report continued

Internal Audit gives particular regard to the ongoing evaluation of the effectiveness of the Group's financial controls and reporting processes. Internal Audit (outside of the Americas) is headed by the Group Head of Internal Audit who reports functionally to the Chair of the Serco Group plc Audit Committee. Within the Americas, to ensure compliance with the Special Security Agreement, there is a local Internal Audit team that reports functionally to the Americas CFO, but also has oversight by the Serco Inc Audit Committee (which is chaired by the CFO of Serco Group plc). These arrangements are designed to ensure that Internal Audit's independence is maintained. Internal Audits may focus on individual contracts, processes, functions or risk themes and in conjunction with the Group Risk Committee, the Group Audit Committee considers whether the Internal Audit programme is aligned to the Group's key risks. The Internal Audit function use the services of two co-sourced providers to supplement and enhance in-house skills and resources where required, particularly in specialist areas such as IT and cyber-security.

Compared to 2020 (when the Internal Audit plan was significantly adapted to focus on Covid-19 specific risks at the height of the pandemic) the 2021 audit plan was a more typical balance of work across the Group's inherent risks, whilst giving due attention to specific risks and issues associated with the enduring nature of the pandemic (such as the mobilisation of contracts whilst pandemic related restrictions remained in place). Internal Audit has delivered a full programme of audits during 2021 making recommendations to management for improvements to risk, governance and controls. This work has continued to focus on cyber security controls across various parts of the Group (building on Internal Audits in this space undertaken across the last 2 years), major projects and significant contract mobilisations. Reports are discussed with the parts of business they relate to and management actions agreed are then tracked for progress. Key themes and progress on management actions have been included in regular written updates to the Audit Committee.

An External Quality Assessment (EQA) of the effectiveness of Internal Audit was completed during the year, as required by the Institute of Internal Auditors' standards. Overall, the EQA noted that the function was performing well. Key strengths identified included leadership, business engagement and independence; with the EQA also commenting that good progress had been made in a number of other areas (such as audit techniques, data analytics and quality assurance) following the implementation of a plan of work across the last two years. Most of the findings from the EQA related to suggestions for continuous improvement, building on Internal Audit's established strategy and associated action plan.

The 2022 Internal Audit programme will continue to focus on the key risks across the business.

Financial controls

The Group aims to have a strong and well-monitored control environment that minimises financial risk and, as part of the Committee's responsibilities, it reviews the effectiveness of systems for internal financial control and financial reporting. Where relevant, the Committee also works with the Group Risk Committee to consider financial risk management.

Financial control risk is monitored through one of the Group's Principal Risks, 'financial control failure'. The Committee has reviewed this risk during 2021 and has focused in particular on:

- Management's review of the output and adequacy of the Group's financial assurance programme, with a focus to deliver better assurance through system controls and data analytics; and

- Management's plan to improve internal controls whilst considering the proposals contained within the consultation document issued by BEIS;
- Review of Management's Key Risk Indicators associated with the risk and the strength of mitigating controls and actions to improve their effectiveness.

Following review and challenge, the Committee believes that, to the best of its knowledge and belief, the financial control framework and the monitoring of this framework has worked effectively during the year, and that in cases of non-compliance, the Group has not been exposed to critical, severe or significant risk. The Committee was also encouraged to note that where weaknesses in the financial control framework were identified, they were being addressed.

During the year, the Financial Reporting Council ('FRC') wrote to the Company in relation to a review of the Group's annual report and accounts to 31 December 2020. As part of the review the Group made the decision to reclassify £4.9m disclosed within Other Payables on the balance sheet from non-current to current as, although settlement within one year was not considered likely, there was no legal basis to delay it, and an amount of £19.8m within Other Payables to Other Provisions since, although the liability is materially accurate, there is sufficient uncertainty associated with the timing of settlement. In the context of £1.7bn of liabilities, £0.9bn of which were current as at 31 December 2020, the adjustment was made in the current year and no prior year adjustment was necessary since it was concluded that the balance sheet reclassification would not have a material impact on users of the financial statements and therefore did not constitute a material prior period error that required restatement.

In addition it was agreed that the wording contained within the accounting policies for revenue recognition would be updated to provide clarity over the treatment for contract modifications, which does not result in a change to the results as presented. Additional disclosure would also be made in respect of the uncertainties associated with other provisions.

The FRC's review provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Significant financial judgements

Contract performance, including Onerous Contract Provisions (OCPs)

The measurement of OCPs requires significant judgement that the Audit Committee has kept under review, providing challenge to the assumptions used by management and key judgements used in assessing the performance of the Group's contracts. As at 31 December 2021, the level of OCPs remaining in respect of the 2014 review stands at an immaterial level.

Despite historic OCPs having been transformed or the underlying contracts having ended, the Audit Committee continues to focus on the potential for existing contracts to become onerous as well as assessing the risk of an onerous position materialising across a portfolio of contracts across the Group. The Committee agreed, consistent with the External Auditor, that the view formed by management regarding each individually material potential OCP, as well as the aggregate view which includes management's assessment of portfolio risk, was reasonable. The Committee was satisfied that the work undertaken by management to monitor existing contracts and identify contracts where a new OCP may be required, and associated allocation of central costs, was sufficiently robust.

Viability and Going Concern

The Group has assessed its ongoing viability and the appropriateness of using of the going concern assumption in preparing its financial results. In making these statements, management use the Group's anticipated future cash flows and undertake a range of sensitivities to identify any plausible situations which could put pressure on the Group's viability or ability to continue as a going concern. The going concern assessment is prepared twice annually.

In challenging management's assessment in respect of the viability and going concern statements, which were based on anticipated future cash flows agreed by the Board as part of the Group's budgeting process, the Committee focused on the Group's headroom within its financial covenants and the liquidity available in the Group. The Committee considered the likely severity of key risks crystallising over the period of assessment including; the potential ongoing impact of Covid-19; the commitments made under the Deferred Prosecution Agreement (DPA) entered into with the Serious Fraud Office (SFO); and management's assessment of the claim seeking damages for alleged losses following the reduction of Serco's share price in 2013.

The Committee concurred that, whilst in severe scenarios the ability of the Group to stay within its agreed headroom may be put under pressure, the Group remains viable and key assumptions supporting this assessment are disclosed within the viability statement on page 105. The Committee also agreed that the going concern basis of accounting is appropriate and this assessment is disclosed within the going concern statement on page 196.

Both the proposed viability and going concern statements were approved by the Committee for recommendation to the Board.

In respect of the shareholder claim, noted above, the Committee concurred with management's assessment that, due to the stage of the matter and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at the year-end was appropriate. See note 28 to the financial statements.

Use of Alternative Profit Measures (APMs) and Exceptional Items

The Group's performance measures continue to include some metrics which are not defined or specified under IFRS. In particular, following its introduction in 2015, management continued to use Underlying Trading Profit, as a key measure to review current performance against the prior year by removing the impact of adjustments to OCPs, material charges and releases of other items identified during the 2014 Contract & Balance Sheet Review, together with other significant non-trading items. The Group also uses the term Exceptional Items to meet the requirements of IAS1 para 97 which requires the nature and amount of material items of income and expense to be disclosed separately.

The Audit Committee continues to consider the disclosure of performance measures used by management and whether they continue to provide meaningful insights into the results of the Group. The Committee also considers the treatment of Exceptional Items and whether they are appropriate to be classified as such.

The Committee has agreed with management that Underlying Trading Profit continues to be a reasonable basis on which to compare the relative performance of the business year on year. The Committee, following challenge of each individual item, agreed with management's classification of items as Exceptional and requiring separate disclosure.

After review of the disclosure of APMs in the Half Year 2021 results and the 2021 Annual Report, the Committee concluded that the descriptions for each individual APM used were clear and meaningful, and that the relationship between them and the nearest relevant statutory IFRS measure was clearly explained and supported. The Committee was also satisfied with the controls management has put in place to identify Exceptional Items and to ensure that costs which should be recorded within Underlying Trading Profit are not inappropriately classified as Exceptional Items. As a result, the use of APMs and Exceptional Items in the Half Year 2021 results and the 2021 Annual Report was recommended to the Board for approval.

Consistent with the approach adopted during 2020, management's assessment is that the APMs should not be adjusted to exclude the impact of Covid-19 and that clear narrative should continue to be used to describe the impact of Covid-19 on the Group's results. The Committee concurred with this approach and management's view that no APMs should be adjusted to exclude the impact of Covid-19 on the Group's measures.

Goodwill Impairment

The goodwill impairment test as at 31 December 2021 used anticipated future cash flows, discount rates and terminal values which are key areas of judgement, and the Audit Committee has received key information associated with these. The Committee challenged management on the discount rates and terminal values used in the review, noting that they had been sourced by a third-party expert, and ensured that the underlying cash flows were consistent with those included in Board approved forecasts.

The Committee reviewed the resulting disclosures proposed by management and found them to be transparent, appropriate and in compliance with applicable financial reporting requirements.

Defined Benefit Pension Schemes

The Group's defined benefit pensions schemes include a number of significant estimates and judgements, principal amongst which are the identification of obligations arising from contracts with customers and calculation of the financial impact of defined benefit obligations.

The Committee has considered the process undertaken by management to finalise key assumptions underlying the valuation of defined benefit obligations, and processes associated with identifying the obligations arising. The Committee is satisfied that the assumptions used remain appropriate. In forming their opinion on the judgements applied to valuing liabilities, the Committee considered how those judgements compared to observable benchmarks in the market, and advice has been taken from independent actuaries on the ongoing appropriateness of assumptions used. The Committee is satisfied that the processes followed are appropriate and that the conclusions reached, and calculations performed are appropriately balanced.

Corporate Governance Report continued

Audit Committee Report continued

External Auditor

The Audit Committee manages the relationship with the Company's External Auditor on behalf of the Board. Following a tender process undertaken in 2016, KPMG LLP were appointed by the Board in 2017 as the Company's external auditor for the 2016 audit and have served as the Company's auditor for four years. John Luke was appointed as audit partner in 2018. In accordance with the Revised Ethical Standard 2016, the Company will continue the practice of the rotation of the audit engagement partner at least every five years. Should KPMG be re-appointed as External Auditor at the AGM in April 2022, John Luke will rotate from the audit in 2023 in line with these standards. The Group will prepare for a change in audit partner in 2022 to ensure adequate handover as a result of this.

The Committee evaluates the effectiveness of the external audit annually, using feedback obtained from the Committee and management associated with audits undertaken in Group Finance and in the Divisions, and by assessing the performance of the External Auditor against a range of criteria including calibre of the audit team, knowledge of the Group, and the quality of planning, review, testing, feedback and reporting. The feedback received was reviewed by management and reported to the Committee. After taking these reports into consideration, the Committee concluded that the auditor demonstrated appropriate qualifications and expertise and remained independent of the Company, had appropriate focus on the key issues within the Group, that the audit process demonstrated professional integrity and objectivity, that the audit was effective, and that there was adequate challenge on the key judgements adopted by management. Foremost amongst the areas which could be enhanced within the External Audit process was to review the balance of work before and after 31 December and where possible allow some contingency to be established in the period after 31 December.

In addition to the evaluation of the effectiveness of the external audit, the Audit Committee has responsibility for certain core decisions relating to the external audit process that include:

- Considering and approving the audit approach and scope of the audit undertaken by KPMG LLP as External Auditor and their fees;
- Agreeing reporting materiality thresholds;
- Reviewing reports on audit findings and assessing their impact on the Group's internal control environment;
- Considering and approving letters of representation issued to KPMG LLP;
- Considering the independence of KPMG LLP and their effectiveness, considering:
 - non-audit work undertaken by the External Auditor;
 - feedback from a survey targeted at various stakeholders; and
 - the Committee's own assessment.
- Making a recommendation to the Board on the appointment of the External Auditor.

The Committee reviewed the External Auditor's engagement letter and determined the remuneration of the External Auditor in accordance with the authority given to it by shareholders. The Committee considered the External Auditor's remuneration to be appropriate.

It is proposed that KPMG LLP be re-appointed as External Auditor of the Company at the next AGM in April 2022 and, if so appointed, that they will hold office until the conclusion of the next general meeting of the Company at which accounts are laid. Further details are set out in the Notice of Annual General Meeting which is available on the Company's website.

The Independent Auditor's Report to shareholders is set out on pages 180 to 190.

Non-audit fees

The Committee limits the non-audit work undertaken by the External Auditor and monitors the non-audit fees paid during the year. For the financial year ended 31 December 2021, the non-audit fees paid to KPMG LLP were £63k (2020: £12k) excluding the half-year review.

An analysis of fees paid in respect of audit and non-audit services provided by the external auditor for the past two years is disclosed on page 218. The Committee regularly reviews the nature of non-audit work performed by the External Auditor and the volume of that work. Focus is given to ensuring that engagement for non-audit services does not: (i) create a conflict of interest; (ii) place the auditor in a position to audit their own work; (iii) result in the auditor acting as a manager or employee; or (iv) put the auditor in the role of advocate for the Company.

Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services were provided efficiently by the External Auditor as a result of their existing knowledge of the business and did not prejudice their independence or objectivity.

Nomination Committee Report

Nomination Committee members

John Rishton (Chair)
Kirsty Bashforth
Kru Desai
Ian El-Mokadem
Tim Lodge
Dame Sue Owen
Lynne Peacock

Dear Shareholders

As reported in the 2020 Annual Report, I succeeded Sir Roy Gardner as Chair of the Company following the Annual General Meeting on 21 April 2021. At the same time Lynne Peacock became Senior Independent Director and Tim Lodge, who was appointed as a Non-Executive Director and a member of the Audit, Remuneration and Group Risk Committees on 21 February 2021, succeeded me as Chair of the Audit Committee.

Nigel Crossley's appointment as Chief Financial Officer in place of the retiring Angus Cockburn also took effect on 21 April 2021.


During the year, several changes were made to the membership of the Board's committees. The Nomination Committee was expanded to include all Non-Executive Directors. Sue Owen, who became the lead Non-Executive Director for Employee Voice, was appointed as a member of the Corporate Responsibility Committee and stood down from the Audit Committee on 21 April 2021. At the same time, Ian El-Mokadem stood down from the Corporate Responsibility Committee and was appointed as a member of the Audit Committee.

Following review of Board composition and taking account of the changes referred to above, it was concluded that the Board and its Committees continue to have the appropriate breadth of experience. However, in anticipation of potential future changes

it was decided to seek an additional Non-Executive Director and a search process, led by myself with assistance from Egon Zehnder, also took place to identify an appropriate candidate. This search resulted in the appointment of Kru Desai as a Non-Executive Director on 21 October 2021. On her appointment as a Director, she was also appointed a member of the Corporate Responsibility and Nomination Committees and she has subsequently been appointed as a member of the Audit Committee.

In September 2021, Eric Born indicated his wish to stand down as a Non-Executive Director with effect from 31 December 2021, ceasing to be a member of the Audit, Corporate Responsibility and Nomination Committees at the same time.

During the year, the Committee regularly reviewed the balance of skills on the Board to identify where additional skills would be beneficial, reviewed the annual plan of agenda items to ensure all those matters required to be addressed by the Committee were fully discussed and confirmed the renewal of appointments for further terms of three years for those Non-Executive Directors whose three-year terms of appointment were due for renewal. The Committee also oversaw the appraisal by myself of the Non-Executive Directors and the Chief Executive Officer and my own appraisal by the Senior Independent Director.



John Rishton
Chair of the Nomination Committee
23 February 2022

Committee's responsibilities

The key responsibilities of the Committee are:

- reviewing the size, structure and composition of the Board and identifying candidates for appointment to the Board;
- recommending membership of Board Committees;
- undertaking succession planning for Executive Directors and other senior executives and seeking to ensure that the leadership needs of the organisation continue to be met;
- seeking to ensure that Board composition is appropriately diverse; and
- reviewing induction and training needs of Directors.

The Committee's Terms of Reference are available on the Company's website.

Membership and attendees

The Committee is chaired by the Company's Chairman and is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. The Committee met five times during the year and details of attendance at meetings is set out on page 123. Meetings of the Committee are normally attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group General Counsel & Company Secretary and the Deputy Company Secretary. Biographical details for each member of the Committee are provided on pages 116 to 118.

Diversity

The Board values diversity and, when recruiting new Board members, the issue of diversity is addressed by the Committee. The percentage of women on the Board is currently 44%, exceeding the target of 33% set by the Hampton-Alexander review; the Company also meets the target set by the Parker Review of having at least one director from an ethnic minority background. However, the Board is aware that it would be beneficial to broaden its diversity in other respects and this will continue to be a key focus as the Company looks to broaden and refresh the Board.

Performance review

The Committee's performance was assessed as part of the Board's annual effectiveness review, further details of which are set out on page 124. Although it was felt that the Committee worked effectively, it was agreed that the roles of the Board and Committees should continue to be reviewed and closely monitored to ensure that risks of duplication of effort, excessive time spent and the burden placed on meetings management are met and that greater diversity in a wider range of attributes than those where there is already considerable focus should be reviewed.

Board balance

The regular reviews of the skills, knowledge, experience and diversity and the refreshment of the Board and its Committees ensure that the Board is collectively well placed to meet the strategic objectives of the Company and the challenges and opportunities that are likely to arise in meeting these objectives.

Corporate Governance Report continued

Nomination Committee Report continued

Activities of the Committee during 2021

During the year the Committee's key activities included:

– Appointment of Additional Non-Executive Director

Following a search process led by the Chairman assisted by Egon Zehnder, the Committee recommended the appointment of Kru Desai as a Non-Executive Director and a member of the Corporate Responsibility and Nomination Committees; she was subsequently appointed as a member of the Audit Committee on 1 January 2022.

– Changes to membership of Board Committees

As part of the ongoing process of ensuring the continuing refreshment of the Board and its Committees, the Committee recommended that:

- the Nomination Committee should be expanded to include all Non-Executive Directors;
- Dame Sue Owen, who became the lead Non-Executive Director for Employee Voice, should be appointed as a member of the Corporate Responsibility Committee and stand down from the Audit Committee; and
- Ian El-Mokadem should be appointed as a member of the Audit Committee, and stand down from the Corporate Responsibility Committee.

– Executive Succession Planning

The Committee reviews succession for key executive roles annually to ensure plans are in place for both planned and unintended vacancies, including the identification of suitable internal candidates and their development requirements, including their exposure to the Board at Board meetings.

– Developing the Board Diversity Policy

Serco strongly supports the principle of boardroom diversity and values the benefits that diversity of thought can bring to its Board and throughout Serco. We believe that a mix of expertise, experience, skills and backgrounds (including age, ethnicity, disability, gender, sexual orientation, religion, belief, culture, education and professional backgrounds) allows Serco to deliver a great service that is valued by our customers and meets the needs of those who use the services we provide. Serco will always seek to appoint Board members and senior management on merit against objective criteria, including diversity. In developing the Board Diversity Policy, the Committee considered the recommendations in the Hampton-Alexander Review and the Parker Review and recommended that the Board commit to improving gender and ethnic diversity on the Board and in the senior management roles within Serco. The Nomination Committee reviews and assesses the Board Diversity Policy annually and recommends any revisions to the Board for approval.

Further details on Diversity are provided in the Chairman's Governance Overview on pages 119 to 121, the Our People section of the Annual Report on page 37 and in the standalone ESG and People Reports.

– Review of external commitments

A review of the Non-Executive Directors' external commitments, taking account of the views of institutional investor bodies, was undertaken from which it was concluded that each of the Company's Non-Executive Directors was able to dedicate sufficient time to undertake their duties on behalf of the Company.

– Non-Executive Director training

The Company strongly believes that visits by Non-Executive Directors to the Company's contracts, leadership conferences and management meetings are important in increasing Non-Executive Directors' awareness of the Company's operations and their accessibility to the Group's employees. Although the number of such contract visits increased during 2019, as detailed in the Governance overview, in response to the impact of Covid-19, the number of physical visits it was possible to undertake was considerably reduced in both 2020 and 2021. However, a number of 'virtual site visits' were made by Non-Executive Directors and a programme of such visits has been prepared for 2022, taking account of the increased pressures placed on some of our contracts as a consequence of Covid-19. Training is made available to and undertaken by Directors throughout the year and a record is maintained of the training undertaken by each Director. Although training has been made available throughout 2021, the possibilities for face-to-face training have continued to be restricted by the impact of Covid-19. However, alternatives, including access to online seminars and director training have been made available. This will be a continued focus in 2022.

2022 priorities and focus

During 2022, the Committee will continue to focus on developing its approach to succession planning for the Board, its Committees and the wider management team, as well as a greater focus on diversity, training and consideration of ESG matters.

Corporate Governance Report continued

Corporate Responsibility Committee Report

Corporate Responsibility Committee members

Kirsty Bashforth (Chair)
Kru Desai
Dame Sue Owen
Rupert Soames

Dear Shareholders

The culture, processes and systems in which Serco's Values and its management of ESG commitments come alive continue to mature at a healthy pace. So too, therefore, does the agenda of the Corporate Responsibility Committee. Against the ongoing disruptive backdrop of Covid-19 and the rapidly matured ESG agenda for all organisations, the Committee's work sits centre stage.

The focus of the Committee in 2021

1. Testing the resilience of Serco's maturing internal system of responsibility, drilling down into specific areas of risk and opportunity such as overseeing the refresh of the Code of Conduct, and understanding the emerging impact of Covid-19 on Company culture.
2. Oversight of the deeper development of that system with external stakeholders – customers, partners, service users and communities – including a deepened focus on published environmental goals and a new Sustainable Procurement Charter.
3. Helping to drive Company progress on ESG as both a conscience and catalyst, and ensuring that Serco's position and approach is coherent, consistent and impactful. For example, requiring deeper examination of certain ESG risks in potential business opportunities, and engaging closely in how the Group continues to develop and deliver its environment strategy, and in particular its approach to managing and reporting climate-related risks and opportunities, per Task Force on Climate-related Financial Disclosures ("TCFD") guidance.

Changes to Committee membership

A cornerstone of the Corporate Responsibility Committee for three years, with his natural acuity for health and safety risk and employee engagement, Ian El-Mokadem left in April 2021 to join the Audit Committee.

With Ian's departure, we welcomed Dame Sue Owen to the Committee, and Kru Desai joined us in October. Together, they

bring a tremendous depth and breadth of experience and expertise across the public and private sectors. This, combined with their prior and continued work on key social issues, stands us in excellent stead for our future agenda.

I would like to thank Eric Born for his work in the Committee in the last three years, where his customer focus and European business insight has been invaluable. We will miss him as he departs.

The Committee's role in 2022 and beyond

Two key themes continue to underpin the mindset of the Committee.

The first is its assurance of the Company's delivery against its Values with its stakeholders, both inside and outside of Serco, no matter how government demand for services may fluctuate, such as during the Covid-19 pandemic.

The second is its role in supporting Serco in its ambition to be the best managed company in its sector through clarity and coherence of its strong ESG credentials. Serco's role in helping to deliver government policies for the safe, secure functioning of society means that it sometimes works in hard-edged but vital services. As a result, it may never convince the hardest critics to hold its ESG credentials at the highest levels. The Committee works hard to guide and challenge the Company in ensuring that its ESG credentials are coherently expressed and fairly understood.

The CR Committee observes the spirit of public service held deeply across Serco at every level, with a maturing ESG landscape as pertains to its purpose and strategy. The work to ensure consistency is never done, however, and the Committee is here to help guard against complacency, always testing for vulnerability, always elevating improvement and better practice.

It remains a privilege to chair the Committee and I look forward to the continued agenda in 2022.



Kirsty Bashforth
Chair of the Corporate Responsibility Committee
23 February 2022

Committee responsibilities

The Corporate Responsibility Committee is responsible for assisting the Board in providing independent oversight and guidance of the Company's ESG Framework and, based on this agreed framework, considering related strategies, policies and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its Values of Trust, Care, Innovation and Pride.

The Committee's Terms of Reference are available on the Company's website.

Membership and attendees

The Committee comprises both Executive and Non-Executive Directors. Biographical details for each member of the Committee are provided on pages 116 to 118. The Committee met four times during the year. Details of attendance at meetings are set out on page 123.

Sue Owen, who became the lead Non-Executive Director for Employee Voice in January 2021, was appointed as a member of the Corporate Responsibility Committee and stood down from the Audit Committee on 21 April 2021. At the same time, Ian El-Mokadem stood down from the Corporate Responsibility Committee and was appointed as a member of the Audit Committee. Sir Roy Gardner and Eric Born resigned as Non-Executive Directors on 21 April 2021 and 31 December 2021 respectively, and ceased to be members of the Committee on the dates of their resignation. Kru Desai, who was appointed as a Non-Executive Director on 21 October 2021, became a member of the Corporate Responsibility Committee on that date.

Corporate Governance Report continued

Corporate Responsibility Committee Report continued

Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are normally attended by the Group General Counsel and Company Secretary, the Assistant Company Secretary, the Group Chief Operating Officer and the Group Director, Business Compliance and Ethics.

Standard annual activities of the Committee

Each year the Committee:

- reviews the Committee Terms of Reference to ensure they remain appropriately aligned to the purpose of the Committee;
- reviews the Committee's position, focus and approach regarding ESG to ensure it remains appropriate, embedded in the business and conducive to the ongoing delivery of the Group strategy;
- supports embedding the Serco ESG Framework whilst ensuring it remains integral to the Group's purpose, strategy and material responsibilities;
- reviews the Group approach to ESG reporting, reviews ESG Key Performance Indicators ("KPIs") to track ESG maturity across Serco, and oversees preparation of the Group's annual ESG Report and Modern Slavery and Human Trafficking ("MSHT") Statement;
- undertakes deep dives into key areas within its remit to ensure appropriate focus, control and rigour throughout the Group;
- engages on new business opportunities to ensure consistency in addressing ESG factors; and
- oversees effective delivery – including monitoring and reviewing progress and performance across the Group – of the:
 - **Group Ethics & Compliance strategy and Speak Up process**, including in-depth review of specific Speak Up cases; in-depth review of the Group principal risk, 'Failure to act with integrity', Human Rights and Modern Slavery; and meeting privately with a Divisional Head of Ethics & Compliance at each Committee meeting;
 - **Group Health & Safety strategy**, including in-depth review of specific incidents; and in-depth review of the Group principal risk, 'Health, Safety and Wellbeing';
 - **Group Environmental strategy**, including delivery of the Company approach to fulfilling TCFD recommendations;
 - **Group People strategy, including Wellbeing**, including input into the annual employee engagement survey and in-depth analysis of survey results, with specific focus on Company culture; and in-depth review of Employee Wellbeing and Diversity and Inclusion ("D&I");
 - **Employee Voice approach**, including ongoing implementation of the Colleague ConneXions programme;
 - **Sustainable procurement** – sustainability strategies within the supply chain; and
 - **Community impact** through employee activity and contract footprint.

Additional activity undertaken in 2021

- **Values and culture**: monitoring the ongoing impact of Covid-19 on Company culture.
- **Group Ethics & Compliance strategy and Speak Up process**: monitoring ongoing fulfilment of the Company's DPA obligations; in-depth review of the Company approach and progress in conducting due diligence for agents and strategic partners globally; review of the Company Ethics & Compliance maturity; consideration of the outputs of a 'Trust Summit' delivered at the Serco Annual Leadership Conferences and concluded through a global exercise generating rich and wide-ranging feedback from an estimated 550+ conference delegates; overseeing a major refresh of the Serco Code of Conduct, following a review with the organisation to heighten everyday relevance for frontline colleagues; review and approval of new business guidance on the assessment of human rights

risks for new and existing operations in each sector; Committee members completed training, as delivered in every Division during 2021, on MSHT risk and our new MSHT response and remediation process;

- **Group Health & Safety strategy**: review of the aggregated HSE risk profile for all Company operations involving road transport, leading to the establishment of a new global Road Transport Oversight Group and the adoption of 'road risk' as a Group imperative in the Group Health and Safety Strategy; ongoing review of Coronavirus risks and monitoring the management of Coronavirus across the Group; review of progress in embedding a mature safety culture; ratification of revisions to the Company's three-year safety targets;
- **Group Environmental strategy**: overseeing delivery of the Company approach to fulfilling the recommendations of the TCFD; Chair and Group General Counsel and Company Secretary joining Chapter Zero, the UK community of non-executive directors focused on climate change;
- **Group People strategy, including Wellbeing**: approval of the transfer of Covid-19 risks into the Group principal risk, 'Health, Safety and Wellbeing'; and in-depth review of D&I and Wellbeing progress and performance across the Group, to the point of applying for ISO certification regarding the latter;
- **Employee Voice approach**: working directly with the Group Colleague ConneXions Lead to support delivery and direct the evolution of the Colleague ConneXions programme in 2021, including direct engagement between all Non-Executive Directors and the worldwide Company workforce through active involvement in diversity and inclusion events and learning programmes as well as 19 virtual/actual visits to Serco sites, covering every region;
- **Sustainable procurement**: review of the Company sustainable procurement approach and endorsement of the new Serco Sustainable Procurement Charter; and
- **Community impact**: review of the Company's emerging strategy through both employee activity and Contract footprint.

Additional activity planned for 2022

- **ESG oversight**: strengthening ESG performance monitoring across the Group, including cross-Committee indicator connectivity where appropriate and development of further ESG metrics and scorecard;
- **Values and culture**: monitoring the ongoing impact of Covid-19 on Company culture;
- **Group Ethics & Compliance strategy and Speak Up process**: review of ongoing fulfilment of the Company's DPA obligations; review of the Company progress in conducting due diligence for agents and strategic partners globally; review of Ethics & Compliance maturity; review of the new Code of Conduct implementation; further assessment of MSHT and human rights impact;
- **Group Health & Safety strategy**: review of progress in embedding a mature safety culture; further maturity of Company-wide road risk strategies and tracking;
- **Group Environmental strategy**: specific review of carbon offsetting strategy and progress; review of progress in embedding and maturing the management and reporting of climate-related risks and opportunities, per TCFD guidance;
- **Group People strategy, including Wellbeing**: review of Wellbeing and D&I progress and performance across the Group;
- **Employee Voice approach**: working directly with the Group Colleague ConneXions Lead to support delivery and direct the evolution of the Colleague ConneXions programme in 2022;
- **Procurement and supply chain**: ongoing review of progress in delivering the Serco Sustainable Procurement Charter; and
- **Community impact**: approval of community impact strategy.

Compliance with the UK Corporate Governance Code

This section of the Corporate Governance Report describes how the Company has complied with the principles and provisions of the UK Corporate Governance Code (“the Code”) published by the Financial Reporting Council in July 2018 and which is available at www.frc.org.uk. It should be read in conjunction with the Corporate Governance Report as a whole, set out on pages 119 to 138 in which further details of how the Provisions of the Code have been applied can be found.

The Company has applied all the principles and complied with all the Provisions of the Code during 2021, except for Provisions 38 and 41, explanations for which are provided below and on pages 119, 138 to 142 and 156.

1. Board leadership and Company purpose

The Board is collectively responsible to the Company’s shareholders for promoting the long-term sustainable success of the Company, generating value for shareholders as a valued and trusted partner of governments, and delivering public services that transform outcomes and make a positive difference for our fellow citizens. It oversees and agrees the Group’s purpose, values and strategy at its annual strategy review and at each Board meeting, and ensures that necessary resources are available, and that the appropriate risk management controls and processes are in place by regular review of such matters at Board and Committee meetings.

The Board is mindful of the need to create value whilst taking account of the wider interests of other stakeholders and, when taking decisions, balances the impact on suppliers, communities, the environment, employees and customers with the objective of securing long-term sustainable growth for shareholders. New business and the renewal of existing contracts above an agreed level are considered at divisional level and then by the Investment Committee, prior to review by the Board which is undertaken having regard to the Company’s four principal values of Trust, Care, Innovation and Pride, and the impact on its workforce. The ways in which the interests of the Company’s stakeholders and the matters set out in section 172 of the Companies Act 2006 have been considered are set out on pages 107 to 114, including details of the manner in which engagement with the workforce is achieved. The Board is conscious of the benefits of aligning its culture with its strategy and is further embedding this through its ESG Framework.

Regular engagement is sought with major shareholders, primarily through executive management, following the announcement of the full and half year results, and also through the Chairman, who is available to major shareholders, and the Chair of the Remuneration Committee who consults with shareholders when appropriate to do so regarding remuneration matters. The Chairman meets shareholders during the annual governance roadshow and Non-Executive Directors have the opportunity to meet investors and other stakeholders at the Capital Markets Day. The outcome of such engagement is shared to ensure the Board as a whole has a clear understanding of the views of shareholders. The Company has established “Employee Voice” to ensure employee engagement and employees can raise concerns through the Company’s ethics hot line, Speak Up.

Potential and actual conflicts of interest are considered at Board meetings and, where appropriate, at Committee meetings.

2. Division of responsibilities

The roles and responsibilities of the Chairman, Chief Executive, Senior Independent Director, the Board and its Committees are clearly defined, documented, approved by the Board and are available on the Company’s website.

The Chairman, who was independent on his appointment, leads and is responsible for the operation of the Board. The Chief Executive is responsible for the leadership and management of the business within the authorities delegated by the Board. Their respective responsibilities are documented and regularly reviewed.

There are five separate committees of the Board, each of which is chaired by a different Non-Executive Director as follows:

- Audit Committee: Tim Lodge
- Corporate Responsibility Committee: Kirsty Bashforth
- Group Risk Committee: Ian El-Mokadem
- Nomination Committee: John Rishton
- Remuneration Committee: Lynne Peacock

Details of the activities of each of these committees are set out in their reports elsewhere within this Annual Report.

The Board regularly reviews the overall balance of skills, experience, diversity, independence and knowledge of Board and Committee members and undertakes an annual review of the independence of its Non-Executive Directors.

As at the date of this report, with six Non-Executive Directors, in addition to the Chairman, and two Executive Directors on the Board, over half of the Board, excluding the Chairman, are independent Non-Executive Directors.

The Non-Executive Directors approve the objectives of the Executive Directors annually and assess their performance against these objectives.

The Chairman meets formally with the Non-Executive Directors without the Executive Directors present and maintains regular formal and informal contact with Non-Executive Directors. In addition, there are opportunities for the Non-Executive Directors to meet in the absence of the Executive Directors at Committee meetings. The Non-Executive Directors, led by the Senior Independent Director, meet, without the Chairman present, to appraise his performance.

The time commitment of Non-Executive Directors is defined on appointment and regularly evaluated. All Non-Executive Directors are able to devote the time required to undertake their roles, including the Chairman who chairs two listed companies. No director holds more than four directorships of public companies.

Corporate Governance Report continued

Compliance with the UK Corporate Governance Code continued

The Directors have access to independent professional advice at the Company's expense as well as to the advice and services of the Company Secretary who advises the Board on corporate governance matters.

3. Composition, succession and evaluation

The Nomination Committee is chaired by the Company's Chairman and comprises solely Non-Executive Directors. It reviews succession plans for both Board and senior management positions to ensure appropriate refreshment and, with the assistance of an external search company, leads the process for Board appointments and makes recommendations to the Board. All appointments are made on merit against objective criteria including the skills, experience and knowledge required for the Board as a whole and the promotion of diversity of gender and ethnic and social background.

When seeking to appoint Non-Executive Directors, the services of a search consultant with appropriate experience within the sector in which the Company operates are utilised to ensure a strong and diverse selection of potential candidates meeting the candidate specification drawn up by the Committee.

All Directors submit themselves for re-election at each Annual General Meeting.

Following the annual evaluation of the Board and its Committees, which is externally facilitated every three years, the recommendations are considered by the Board and implemented by the Chairman with the assistance of the Company Secretary. Annual appraisals of Non-Executive Directors, including the identification of training needs, are undertaken by the Chairman to ensure continued effective contributions.

4. Audit, risk and internal control

The Annual Report and Accounts includes a statement of the Directors' responsibilities regarding the financial statements, including the status of the Company as a going concern, with an explanation of the Group's strategy and business model together with the relevant risks and performance metrics.

A further statement confirms that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Audit Committee report sets out the details of the Committee's responsibility for ensuring the integrity of the financial reporting process and the key matters considered during the year in respect of its oversight of financial and business reporting.

The Board, through the Group Risk and Audit Committees, has carried out a robust assessment of the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity. Further details about these risks and how they are managed and mitigated are included in this Annual Report and Accounts together with the Viability Statement which explains how the Directors have assessed the prospects of the Company and concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

The Board determines the Company's risk appetite and has established risk management and internal control systems. At least annually, the Board undertakes a review of their effectiveness.

The Audit Committee annually reviews the external auditor's independence, the effectiveness of the external audit, including consideration of the level of challenge made by the external auditor, and the provision of non-audit services. It also reviews and monitors the effectiveness of the Company's internal audit arrangements.

5. Remuneration

The Remuneration Committee has delegated responsibility for determining the policy on Executive Director remuneration, which it does taking account of workforce remuneration and the alignment of incentives and rewards with culture.

The Company's share incentive schemes are designed to promote long term shareholdings for Executive Directors to provide alignment with shareholders' interests.

Although currently not fully compliant with Provision 38 of the Code in respect of the alignment of Executive Directors' pension contributions with those of the wider workforce in respect of the Chief Executive Officer, following reductions made during the period from 2020 to 2023, his pension will be fully aligned with the wider workforce by 1 January 2023 in accordance with the requirements of the Code.

Decisions made regarding executive pay are appropriate in the context of the wider workforce. Whilst there is no specific engagement with employees when determining the executive remuneration policy, as required under Provision 41 of the Code, there are a number of colleague 'Touchpoints' to both give information and gain feedback on a wider range of subjects, including pay.

Full details of how the Company has complied with the principles and provisions of the Code as they relate to remuneration are contained in the Directors' Remuneration Report on pages 139 to 170.

Remuneration Report

Report on Directors' remuneration

Remuneration Committee members

Lynne Peacock (Chair)
Kirsty Bashforth
Tim Lodge
John Rishton

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 2021. A summary of our revised Remuneration Policy (the "Policy") is included at the end of the Report for reference. The Policy became binding on 21 April 2021 with some 95% of shareholders voting their approval at the Annual General Meeting ("AGM"). In this Report, we set out how the Policy has been implemented for 2021 and how the Policy will be implemented for 2022.

Leading up to the Policy review, the Remuneration Committee (the 'Committee') considered Serco's strategic priorities, the need to attract and retain executives of the right calibre to successfully deliver long-term stakeholder value as well as evolving investor expectations. During the review we also recognised the need to ensure fairness and equity in our pay practices throughout our organisation. For annual bonus, financial performance measures were simplified to focus on profitable growth and cash flow and an ESG scorecard added at 15% weighting to support our ambition of being the 'best managed company in our sector' alongside individual objectives for our executives and senior leadership. An ESG scorecard (15% weighting) was also introduced into the Long-Term Incentive Plan ("LTIP") with components aligned to our long-term sustainability strategy.

Angus Cockburn stepped down from the Board at the AGM on 21 April 2021 and Nigel Crossley was appointed to the Board from that date. In line with established good practice, on his appointment, Nigel Crossley's pension opportunity was set at the wider workforce rate of 8% of salary. The CEO's pension provision was further reduced in 2021 and will be aligned with the wider workforce by 1 January 2023. The in-employment shareholding guideline for the CFO was increased to 200% of salary, aligned to the CEO's guideline. Post-employment shareholding requirements were implemented for the Executive Directors equal to 100% of the in-employment guideline (or actual holding if lower) for the first year post-employment, followed by 50% of the in-employment guideline (or actual holding if lower) for the second year. Malus and clawback provisions within the Policy were also strengthened.

There are no changes proposed to the Policy in 2022, as set out on page 143 of this Report.

Another challenging year but one of strong business performance

The Covid-19 pandemic and its challenges have continued to shape our business and how we deliver our services through our people. Our focus has remained firmly on the delivery of essential public services as well as the wellbeing of our colleagues and the support and guidance they need to deliver to our service users whilst looking after themselves and each other. As the Chairman's statement on page 14 and the Chief Executive's Review on page 16 set out, 2021 saw another strong year of growth in revenue and profits with revenue growth at 14% and Underlying Trading Profit ("UTP") up by 40% on 2020. 10% of this revenue growth was organic. Free Cash Flow ("FCF") also increased by £55m on 2020, an uplift of 40%. An increase in margin was achieved from 4.2% to 5.2%. Underlying Earnings Per Share ("EPS") increased by 49% year on year. This represents another

successive year of strong growth after 2020 which allowed a full year dividend to be approved and paid in 2021 with a further dividend planned to be paid in 2022.

Covid considerations – protecting and rewarding our colleagues

We have continued to provide stability to all our colleagues by safeguarding jobs (we have made no one redundant because of Covid-19) and did not make use of the UK government's furlough scheme in 2021. Serco created, directly and with our sub-contractors, over 12,000 new jobs worldwide, including supporting governments' responses to Covid-19 in the territories in which we operate.

We protected our front-line colleagues financially, implementing pay reviews below the leadership level as normal during the year, with average increases across the Group of around 2%. The executives and global leadership did not receive a pay increase at the normal review date in April, except for a very small number of colleagues who would otherwise fall substantially behind a competitive market rate or were the subject of retention concerns. Reflecting a strong performance, all 2020 bonus payments were made in March 2021 and the 2018 Performance Share Plan ("PSP") vested close to maximum (99.4%) on 25 June 2021.

We have also continued to strengthen our global benefits offerings. At the 2021 AGM, shareholders approved the Rules for the new, all employee, global share plan (International Save As You Earn Plan ("I-SAYE") 2021) which will further support the Company's commitment to colleagues' financial wellbeing and enable all colleagues to benefit from Serco's success. This new I-SAYE plan will be launched in 2022. Its initial launch will be in the UK, US, Canada, Australia and the UAE which covers 94% of our headcount with the intention to expand to other smaller headcount jurisdictions, including our European business, in subsequent years. It is proposed to offer our employees an annual opportunity to contribute to the I-SAYE plan over a three-year term and begin to build affordable savings out of which they can acquire shares at the expiry of each savings contract.

In recognition of the extraordinary efforts of our people throughout another pandemic year, for a second year in a row, we distributed an ex-gratia recognition award of £100 (or equivalent in local currency) in February 2022 totalling nearly £6m to around 50,000 employees. In addition, we have made a significant one-off commitment to our recently established Serco People Fund. The fund provides support to current and retired colleagues or their families who need additional help. Together, these initiatives involve Company funding of some £10m. Further details of our actions to support our people, and wider society, during 2021 can be found on pages 35 to 38, in our full Corporate Responsibility report (www.serco.com/about/corporate-responsibility) and in our 2021 People Report (www.serco.com/about/people-report).

Corporate changes

The Company continued to make acquisitions throughout 2021 including the acquisition of Facilities First which completed in January 2021. Announced in February 2021, the Group also completed the acquisition of Whitney, Bradley & Brown Inc. ("WBB") from an affiliate of H.I.G Capital for \$295m (£212m) on 27 April 2021. This was a material acquisition for the Group and was funded through available cash and £75m of new debt. The acquisition has increased the scale, breadth and capability of our North American defence business and gives Serco a strong platform from which to address all major segments of the US defence services market. For the eight months of ownership in 2021, WBB contributed approximately \$15m (£11m) of UTP.

Remuneration Report continued

Report on Directors' remuneration continued

Adjusting in-flight LTIP awards targets for WBB acquisition

Our in-flight 2019, 2020 and 2021 LTIP awards are, in part, assessed on EPS and ROIC performance. The targets for the 2021 LTIP award were agreed in March 2021 after the WBB acquisition had been announced and been included in the forecast and analyst consensus used to calculate EPS and ROIC targets. The targets were set out in the RNS accompanying the 2021 LTIP award grant made on 6 April 2021. In June 2021, the Committee agreed a similar adjustment should be made to the 2019 and 2020 LTIP EPS and ROIC measures. Analysis of the WBB acquisition showed this would result in a small increase in EPS (making the targets slightly easier to achieve) and a dilutive effect on ROIC (making these targets slightly harder). To accurately reflect the performance of the Group and maintain the performance stretch required for vesting as originally intended, the Committee approved the following adjustments in line with the discretion available under the Policy.

Award	Performance measures and weightings	Original EPS and ROIC target range	Adjusted EPS and ROIC target range	Variance
2019 LTIP	28.33% EPS	EPS 19.69p – 23.89p	EPS 20.19p – 24.39p	EPS +0.5p
	28.33% ROIC	ROIC 15.2% – 18.6%	ROIC 15.0% – 18.4%	ROIC -0.2%
	28.33% TSR			
	7.5% Order Book			
	7.5% Employee Engagement			
2020 LTIP	28.33% EPS	EPS 20.62p – 25.2p	EPS 21.87p – 26.45p	EPS +1.25p
	28.33% ROIC	ROIC 16.4% – 20%	ROIC 15.6% – 19.3%	ROIC -0.75%
	28.33% TSR			
	7.5% Order Book			
	7.5% Employee Engagement			
2021 LTIP	25% EPS		EPS 25.17p – 30.76p	
	25% ROIC		ROIC 16.5% – 20.2%	
	25% TSR			
	10% Order Book			
	15% ESG			

No changes were made to the TSR, Employee Engagement, Order Book or ESG targets.

2021 variable pay outcomes linked to the delivery of the strategic plan

In determining the variable pay outcomes for 2020, the Committee looked at the Company's performance as a whole when deciding on levels of payout for the annual bonus and LTIP. The Committee also considered the impact of Covid-19 and whether management should be rewarded for the impact of what was an unexpected and unbudgeted event. The performance outcomes for the 2020 annual incentive were, therefore, adjusted to remove the impact of Covid-19.

The situation in 2021 was very different: Covid-19 work around the world was budgeted and the benefits to profit included in targets. Contracts have been re-competed and won against stiff competition. The fact that some of the contracts have gone on for longer than anticipated at the time that budgets and performance targets were set should not, in the Committee's view, be used as a reason to discount the very considerable skill and effort management deployed to ensure that they continue to be engaged and re-engaged by governments around the world in supporting them.

The revenue budget for 2021, including WBB, was set at £4,216m (up from the reported result of £3,885m in 2020); Trading Profit maximum target was set at £205.2m (up against reported results of £175.7m in 2020) and the FCF maximum target was set at £134.7m (level with the £134.9m reported in 2020).

2021 Annual Bonus

In line with the Policy, the 2021 target and maximum bonus potential for Rupert Soames (CEO) is 87.5% and 175% of salary respectively. For Nigel Crossley (CFO), the respective target and maximum bonus potential is 70% and 140% of salary. Angus Cockburn (who stepped down as CFO and from the Board on 21 April 2021 at the AGM) was not eligible to participate in the 2021 annual bonus plan. Bonus amounts in excess of 100% of salary for Executive Directors will be deferred into shares with a holding period of three years in line with the Policy.

The Executive Directors' annual bonus awards are based on a combination of 70% financial measures, 15% ESG measures and 15% individual objectives. In 2021, the financial targets were rebalanced to remove Revenue as a measure to allow for greater weighting for profitable growth (from 28% to 40%) with the FCF weighting increasing from 28% to 30%. For the first time in 2021, the Committee also implemented an ESG scorecard of measures into the annual bonus framework (15%) intended to support the Company's ambition of being the 'best managed company in our sector'. The focus of the ESG scorecard is on robust governance processes, health and safety within operations as measured by the Lost Time Injury Frequency Rate ("LTIFR") and high levels of employee engagement measured through the annual Group Viewpoint survey carried out in September 2021.

As noted above, the Committee also determined that adjustments be made to the 2021 Group financial targets to reflect the contribution from the WBB acquisition completed on 27 April 2021. This is in line with the Policy if there is a 'significant event' such as a major transaction and ensures that the conditions achieve their original purpose and are not materially less easy or difficult to satisfy. The UTP target figure was increased from £176.5m to £193m and the maximum increased from £187.7m to £205.2m. FCF figures were similarly uplifted from £105.2m to £113.7m at target and from £125.7m to £134.7m at maximum. A 2021 bonus award of 163.2% of salary (93.3% of maximum) has been made for Rupert Soames and 129.5% of salary (92.5% of maximum) for Nigel Crossley. The bonus amount for Nigel Crossley shown in the single figure table on page 145 is a pro-rated figure to reflect the period he was an Executive Director (21 April 2021 to 31 December 2021 inclusive). The Committee believes that these levels of award are a true and fair reflection of the underlying performance of the Company and the Executive Directors throughout another challenging year. Full details of how these awards were determined are included on pages 146 to 151 of this Report.

LTIP Vesting

Targets for the 2019 LTIP were set when the Company began to move into its growth phase and, despite the challenges over the last two years of the performance period ending 31 December 2021 due to Covid-19, performance has continued to be strong resulting in a payout of 89% of maximum opportunity. The award was granted on 6 June 2019 and will vest on 6 June 2022. As set out above, the Committee agreed adjustments to the 2019 and 2020 EPS and ROIC performance targets to include the impact of the WBB acquisition. Careful consideration was given to the overall performance period and the extent to which Covid-19 may have affected the performance assessed. The Committee is satisfied that the overall vesting outcome is an appropriate reflection of the overall performance of the Group over the performance period, during which management continued to successfully drive the growth phase of our corporate strategy. Full details of actual performance against the framework of performance conditions are included in the Report on page 151.

2021 LTIP Awards

In 2021, the LTIP award level for Rupert Soames was 200% of salary and 150% of salary for Nigel Crossley. Angus Cockburn was not eligible to participate in the 2021 LTIP. The main award grant date was 6 April 2021 and awards will vest on 6 April 2024. Following his appointment as CFO at the AGM, on 28 April 2021, Nigel received a 'top up' grant to the award made to him on 6 April 2021 to bring his award up to 150% of salary with the same vesting date of 6 April 2024. Given the importance of ESG matters to both the operational performance and long-term sustainability of Serco, an ESG scorecard of measures was also implemented for the first time into the LTIP framework at a 15% weighting. The 2021 LTIP ESG scorecard contains measures based on employee engagement, colleague diversity and improvements in environmental performance and management of environmental risks. The performance framework attached to the 2021 LTIP award grant is set out on page 158 of this Report.

The Committee also undertook a review of the percentage range of the LTIP financial performance conditions, particularly in respect of the EPS and ROIC targets, to satisfy itself that they were appropriately challenging and were aligned with market practice. Following detailed consideration, the Committee was satisfied that maintaining the current +/-10% spread around target represents a more challenging target to achieve compared to previous years as absolute profit levels have more than doubled since 2016. The Committee determined that the 2021 LTIP framework of performance conditions and weightings be retained for 2022.

Executive Director shareholding and post-employment shareholding requirements

Executive Directors are now expected to build up and hold a shareholding of 200% of salary. Rupert Soames more than comfortably meets this requirement. Nigel Crossley has only recently been appointed as CFO and will build up to this level over time. The Policy also implemented a post-employment shareholding guideline for the first time for Executive Directors equal to 100% of the in-employment guideline (or actual holding if lower) for the first year post employment, followed by 50% of the in-employment guideline (or actual holding if lower) for the second year.

Implementation of the Policy in 2022 Base Salaries

The current base salary for the CEO of £850,000 was set on his appointment to the Company on 8 May 2014. Benchmarking of both Executive Director roles and all Executive Committee roles was carried out by Willis Towers Watson towards the end of 2021 and considered by the Committee at its December 2021 meeting. With effect from 1 April 2022, the Committee awarded a base salary increase of 2% to Nigel Crossley in line with the average increase of 2% proposed for the wider UK workforce in 2022. The Committee agreed with Rupert Soames that his base salary would not be increased for the eighth successive year. This, together with him withdrawing from the Deferred Bonus Scheme and agreeing to a reduction in his pension contributions, have resulted in a significant reduction in both fixed and variable pay opportunity since he joined the company in 2014.

2022 Annual Bonus

The annual bonus opportunity for the CEO and CFO will be 175% and 140% of salary respectively, in line with the Policy. The Committee determined that the same framework of performance targets and weightings be retained for the 2022 annual bonus award. The financial measures will, therefore, remain as Trading Profit (40% weighting) and FCF (30% weighting). The non-financial measures will continue to be split between the ESG scorecard (15% weighting) and individual objectives (15% weighting). Any bonus earned over 100% of salary will continue to be subject to compulsory deferral into shares for three years. Careful consideration was given to the setting of the 2022 bonus targets and the Committee has agreed full year targets against all these measures.

Remuneration Report continued

Report on Directors' remuneration continued

2022 LTIP

Following consultation with major shareholders as part of the Policy review, it was agreed that aggregate EPS, average Return on Invested Capital ("ROIC") and relative Total Shareholder Return ("TSR") remained the most appropriate financial measures of the long-term successful delivery of our strategy. These together with the Order Book and the ESG measures introduced in 2021 will remain in 2022. For 2022, the Committee was also keen to disclose the financial performance targets prospectively in the Report, in keeping with market practice, rather than separately before the AGM as in previous years. The framework of performance measures and targets for the 2022 LTIP award are, therefore, set out in detail on page 160.

The LTIP awards will be granted at 200% and 150% of salary to the CEO and CFO respectively during 2022. The Committee retains the ability to apply discretion when determining remuneration outcomes to ensure that the value at vesting is fully reflective of the performance delivered and that the Executive Directors do not receive unjustified gains.

Changes to the Board

There have been a number of changes to the Board to report this year. As mentioned above, Angus Cockburn retired from the Board and stepped down from his role as CFO at the 2021 AGM with Nigel Crossley appointed as his replacement. Details of Angus Cockburn's remuneration at cessation are provided on page 154 and are in line with established good practice and our Policy. Nigel Crossley's remuneration arrangements are as described in our report last year. As Nigel was an internal successor, there were no buy out awards made. His base salary on appointment of £430,000 was positioned significantly below that of his predecessor (£522,750) and below the lower quartile of our peer group. The Committee intends to review Nigel's salary over time with a view to moving him to a more competitive position versus market pay levels as he establishes himself in role.

In other changes to the Board, Sir Roy Gardner retired from the Board and his role as Chairman and Non-Executive Director at the AGM on 21 April 2021. John Rishton took up the role of Chairman at the AGM on the same date. I was also appointed as Senior Independent Director ("SID") from 21 April 2021. Tim Lodge was appointed as a Non-Executive Director of the Company on 21 February 2021 and joined the Committee on his appointment. Kru Desai took up her Non-Executive Director's appointment on 21 October 2021 and joined the Corporate Responsibility Committee on that date. Eric Born resigned as a Non-Executive Director on 31 December 2021.

Our people and culture

We are committed to ensuring any decisions made on executive pay are appropriate in the context of the approach for the wider workforce. Whilst we do not engage specifically with employees when determining the executive remuneration policy, there are a number of colleague 'Touchpoints' to both give information and gain feedback on a wide range of subjects, including pay. Those employees who are shareholders have the opportunity to vote on our Policy and Report. Information on workforce demographics and on pay policies and practices is presented to the Committee for review at each meeting in a detailed dashboard summary. Unlike many other companies, Serco has a specifically dedicated front line colleague to represent the Colleague Voice at Board level. This position is on a two-year rotation and meets with the Corporate Responsibility Committee ("CRC") on a quarterly basis as well as with the Director with specific responsibility for workforce engagement, Dame Sue Owen. There is also a dedicated 'colleague connexions' email account that is monitored for feedback.

The Chairman and all Directors undertake a schedule of contract visits either virtually (because of Covid restrictions), or in person throughout the year. In the Viewpoint engagement survey held in September of each year, there is a specific question dedicated to 'Tell the Board' anything colleagues wish to let them know. These results are played back to the Board with deeper dive reviews by the Committee as well as the CRC.

Diversity and Inclusion ("D&I") events and surveys are also run throughout the year in which Non-Executive Directors actively participate. These events are conducted virtually with the option to post comments and questions at any time. Our D&I networks also have a number of different channels for colleagues to interact and provide their thoughts such as via Yammer groups, Safe Space Session and Lived Experience Surveys which are summarised and presented to the CRC. There is also an 'Inclusion Hub' which can be used to express views. As well as all the information provided in our Annual Report, Directors' Remuneration Report, Annual People Report, CRC Report etc., pulse and lifecycle surveys are carried out throughout the year where colleagues (when joining and leaving in particular) are given the opportunity through a variety of platforms to provide feedback to the Company.

As reported in our 2021 Gender Pay Gap Report (www.serco.com/about/corporate-responsibility/gender-pay-gap-report), our 2021 consolidated UK median gender pay gap continued its downward trend from 10.9% in 2020 to 6.96% in 2021 (10.2% in 2019, 11.9% in 2018 and 12.9% in 2017). Our gender pay gap is a reflection of our wider talent gap with fewer women than men in senior leadership roles and fewer women in specialist and traditionally male dominated roles such as prison custody officers and engineers. We continue to make good progress in our priority areas with a focus on improving diversity in its broadest sense across our whole organisation, of which gender diversity is just one part.

Stakeholder engagement

We have continued our programme of shareholder dialogue particularly in connection with the design of the Policy and its implementation and we thank all those who took the time to consider and respond with their feedback. We also wish to thank shareholders for their overall support with a nearly 95% vote of approval for the Policy. We wish this to continue as we welcome your input and are always prepared to listen and take on board suggestions that help the Company continue to grow and develop its services. In addition to direct engagement with shareholders, 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, I wish to thank all our shareholders for their ongoing support. The Committee believes that the Policy decisions implemented in 2021 and our proposals for 2022 will continue to ensure the executive management are fairly rewarded to deliver against the strategic goals of the Company and that all our colleagues continue to deliver the critical services needed to governments and citizens around the world. I hope you will all support the resolution to vote for this Report at the forthcoming AGM.



Lynne Peacock
Chair of the Remuneration Committee
23 February 2022

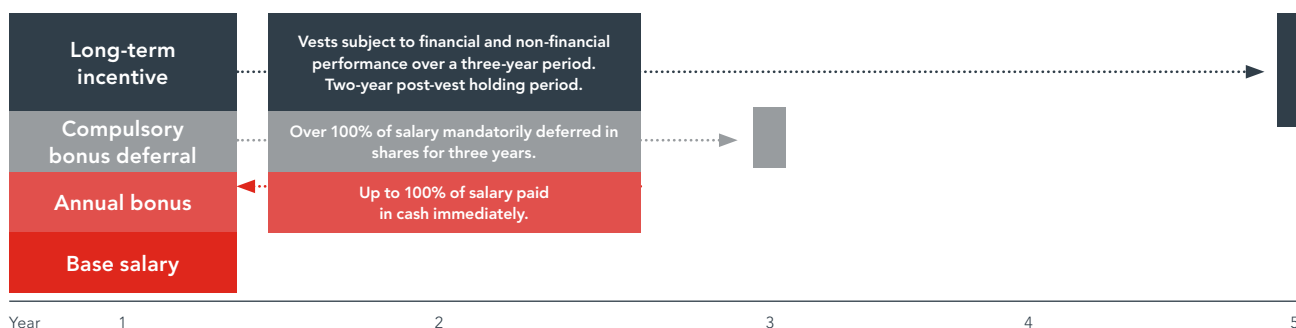
This Report has been prepared in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The Report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code relating to remuneration matters.

The Policy was approved for three years at the 2021 AGM held on 21 April 2021 with a 'for' vote of 94.55%. A summary of the approved Policy is available at the end of this Report on pages 163 to 170 for ease of reference. The full Policy can be found in our 2020 Directors' Remuneration Report which is available on the Company's website.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion within the approved Policy. This ability to apply discretion is highlighted where relevant in the Policy and the use of discretion will always be in the spirit of the Policy.

Implementation of the Policy for 2022 – Executive Directors

The pay structure which will apply in 2022 is summarised as follows:



Note: Chart is illustrative and is not to scale. Details of Executive Director remuneration for 2022 may be found on page 159. A summary of the Policy for Executive Directors is set out for reference on pages 163 to 165.

This pay structure will be applied to the Executive Directors in 2022 as follows.

Element	CEO	CFO						
	Rupert Soames	Nigel Crossley						
Base salary from 1 April 2022	£850,000	£438,600 (2% increase in line with the wider workforce)						
Pension¹	20% of salary (alignment with wider workforce average from 1 January 2023)	8% 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 140% of salary On-target 70% of salary						
Annual bonus measures^{2,3}	<table border="1"> <tr> <td>40% Trading Profit</td> <td>30% Free Cash Flow</td> <td>15% Personal objectives</td> <td>15% ESG scorecard</td> </tr> </table>			40% Trading Profit	30% Free Cash Flow	15% Personal objectives	15% ESG scorecard	
40% Trading Profit	30% Free Cash Flow	15% Personal objectives	15% ESG scorecard					
Long-term incentive (granted under the LTIP)	Maximum 200% of salary	Maximum 150% of salary						
LTI measures^{3,4} assessed over the three-year performance period	For 2022, 75% of the award will be based on financial measures (EPS, Relative TSR and ROIC) and 25% of the award will be based on non-financial measures: <table border="1"> <tr> <td>25% EPS</td> <td>25% ROIC</td> <td>25% Relative TSR</td> <td>10% Order Book</td> <td>15% ESG scorecard</td> </tr> </table>			25% EPS	25% ROIC	25% Relative TSR	10% Order Book	15% ESG scorecard
25% EPS	25% ROIC	25% Relative TSR	10% Order Book	15% ESG scorecard				
Holding requirement	Vested LTI shares must be held post-vest until the fifth anniversary of grant (after payment of tax).							

Remuneration Report continued

Element	CEO Rupert Soames	CFO Nigel Crossley
Shareholding guideline⁵		
In-employment	200% of salary	200% of salary
Post-employment	100% of the in-employment shareholding guideline (or actual shareholding if lower) for the first year post employment, and 50% of the in-employment shareholding guideline (or actual shareholding if lower) for the second year post employment.	
Malus and clawback	<ul style="list-style-type: none"> - Malus provisions and clawback provisions apply to LTIP and deferred bonus share awards during the three-year period prior to vesting and within five years of grant respectively. - Clawback provisions apply to the annual bonus plan. 	

Notes:

1. In line with the previously disclosed phased approach being applied to reduce the pension opportunity for the incumbent Executive Directors to align with that of the wider workforce by 1 January 2023. Nigel Crossley's pension opportunity was aligned to that of the workforce from his appointment as CFO on 21 April 2021. Rupert Soames' pension will be aligned by 1 January 2023.
2. 70% of the bonus will be measured by financial targets. The Committee deems the specific details of the performance 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.
3. In light of the absolute importance of ESG measures to the short and long-term sustainable success of Serco, the Committee has continued to incorporate an ESG scorecard into both the 2022 annual bonus plan and LTIP. The use of scorecards recognises that ESG is not about a single action being taken, albeit specific measurable targets will be set for each measure. The measures used in the annual bonus plan are intended to support our ambition of being the "best managed company in the sector", whilst for the LTIP, the ESG scorecard contains measures important to the long-term sustainability of Serco. Further details of the composition of the 2022 ESG scorecards are set out on pages 159 and 160.
4. The performance targets to apply to the 2022 LTIP awards are set out on page 160.
5. Shareholding guidelines applied from the Policy approved at the AGM held on 21 April 2021.

Annual Report on Remuneration

The Remuneration Committee

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

Chair: Lynne Peacock

Committee Members: Kirsty Bashforth, Tim Lodge, John Rishton

Sir Roy Gardner resigned as a Non-Executive Director on 21 April 2021 and ceased to be a member of the Committee on that date. Tim Lodge joined the Committee on 21 February 2021 on being appointed as a Non-Executive Director of the Company.

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 the Executive Directors and other senior executives 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, the Listing Rules and the Companies Act 2006. The Terms of Reference for the Committee are available on the Company's website.

The Committee met five times during the year. Details of attendance at meetings are set out on page 123. Meetings of the Committee are normally attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group Reward Director, the Group General Counsel & Company Secretary, the Deputy Company Secretary and representatives of Willis Towers Watson (WTW), the Committee's independent external advisers. No person is present during any discussion relating to their own remuneration arrangements.

Summary of the Committee's activities during 2021

The Remuneration Committee met five times during the year. The principal agenda items were as follows:

Meeting	Agenda item
January	2020 bonus calculation adjustments for net Covid-19 impact; Review of Directors' Remuneration Report ('DRR') commentary and disclosure.
February	Shareholder consultation update; Employee Dashboard review on policy and workforce demographics; 2020 Remuneration Policy and 2020 DRR; 2020 annual bonus achievement and 2021 bonus performance framework; 2018 Performance Share Plan and 2018 Deferred Bonus Plan vesting; Executive Director and Executive Committee 2021 annual incentive awards; ESG scorecards for 2021 annual bonus and 2021 LTIP framework; share award policy and update; I-SAYE for shareholder vote at the April AGM.
June	AGM voting results for the Policy and DRR; corporate governance and market practice update; financial performance conditions for 2021 LTIP awards and update to Executive Committee on financial performance targets for 2021 annual bonus; Employee Dashboard and workforce remuneration update; Employee Voice update; share awards update; adjustments to 2019 and 2020 LTIP financial targets for Whitney Bradley Brown (WBB) acquisition.
September	Corporate governance and market practice update; Employee Dashboard and workforce remuneration update; Employee Voice update; adjustment of 2021 Group and Americas financial performance targets for annual bonus for WBB acquisition; 2021 Gender Pay Gap analysis report; draft outline of the 2021 DRR; shares award update; executive shareholding status; LTIP performance conditions review and range of financial targets; review of progress against 2021 bonus targets and delivery against individual objectives for Executive Directors; executive annual remuneration review and approach to benchmarking for 2022.
December	Base pay proposals for Executive Directors and Executive Committee members for 2022; update on 2021 bonus projections for Executive Directors and Executive Committee members; 2022 annual bonus performance framework; shares award update; share grant policy and LTIP framework for 2022; I-SAYE update for launch of new plan in September 2022; Employee Dashboard and Employee Voice update including feedback on executive remuneration in relation to provision 41 of the Corporate Governance Code; 2021 Gender Pay Gap report; 2021 DRR; car allowance benchmarking for executives; annual Committee programme of work for 2022.

External Advisers

Willis Towers Watson ("WTW") provided advice to the Committee throughout the year. WTW is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Remuneration Consultants' Group Code of Conduct. The Committee is satisfied that WTW are providing robust and professional advice.

The fees in respect of 2021 paid to WTW (excluding VAT) are set out in the table:

Adviser	Appointed by	Services provided to the Committee	Fees for services provided to the Committee ¹	Other services provided to the Company
WTW	Remuneration Committee in 2020	Advice on market practice; governance; reward consultancy	£78,359	Reward and benefits consultancy; provision of benchmark data; DRR review

1. Fees are determined on a time spent basis.

The implementation of the Policy for year ended 31 December 2021

The Policy applied for the year ended 31 December 2021 was consistent with the 2021 Policy approved by shareholders at the AGM on 21 April 2021. The Committee has not deviated from the approved Policy in respect of any payments made during 2021.

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 in 2021 for each Executive Director, together with comparative figures for 2020. Details of NEDs' fees are set out in the next section.

All figures in £	Rupert Soames		Angus Cockburn ¹		Nigel Crossley ²	
	2021	2020	2021	2020	2021	2020
Salary	850,000	850,000	161,182	519,563	296,144	–
Taxable benefits ³	49,195	53,255	15,960	67,712	17,022	–
Pension ⁴	170,000	191,250	32,236	116,663	23,803	–
Total Fixed Remuneration	1,069,195	1,094,505	209,378	703,937	336,969	–
Bonus ⁵	1,387,094	1,190,000	–	642,133	387,507	–
Long-Term Incentives ^{6,7}	1,555,004	2,934,730	627,000	1,166,455	31,936	–
Total Variable Remuneration	2,942,098	4,124,730	627,000	1,808,588	419,442	–
Total	4,011,292	5,219,235	836,377	2,512,524	756,411	–

Remuneration Report continued

Notes:

1. Angus Cockburn stepped down from the Board as Chief Financial Officer at the AGM held on 21 April 2021. His salary and benefits for 2021 are pro-rated to reflect his qualifying service as an Executive Director from 1 January 2021 to 21 April 2021. He did not participate in the 2021 annual bonus plan and was not eligible to receive any bonus for the year ended 31 December 2021. His 2019 LTIP is for the months of qualifying service in the three-year performance period ending 31 December 2021.
2. Nigel Crossley was appointed to the Board as Chief Financial Officer following the AGM held on 21 April 2021 and hence his single total figure of remuneration for 2020 is nil. His salary, bonus and benefits for 2021 are pro-rated to reflect his qualifying service as an Executive Director from 21 April 2021 to 31 December 2021 inclusive. His 2019 LTIP is for the months of qualifying service in the three-year performance period ending 31 December 2021.
3. 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), healthcare 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. The taxable benefits for 2021 include an individual benefit value of £25,744 in respect of Rupert Soames' company car in the year. In connection with their roles, Rupert and Angus were on the Board of our US company, which requires them to make tax declarations in the US. They do not receive any additional compensation for these directorships, but the Company provides US tax support. The benefit for Rupert for the year was £7,855. Angus stepped down from the US Board on 21 April 2021. His benefit for the period was £8,000. Nigel joined the US Board on his appointment to CFO on 21 April 2021 and his total benefit for the period ending 31 December 2021 was £2,086. These figures are all on a grossed-up basis.
4. The pension amount includes payments made in lieu of pension, calculated as a percentage of base salary, from which the Executive Directors make their own pension arrangements. The pension opportunity for the incumbent Executive Directors was significantly reduced from 30% to 20% of salary from 1 April 2020 and was applied to Rupert and Angus for 2021. On his appointment to CFO, the pension opportunity applied to Nigel was 8% of salary, in line with the level available to most of the wider workforce.
5. Performance bonuses earned in the period under review and paid in the following financial year. For 2021, this figure includes £537,094 (39%) of Rupert Soames' and £126,850 (23%) of Nigel Crossley's 2021 bonuses which will be subject to mandatory deferral into Serco shares for a three-year period at the point the bonuses are paid in 2022. Angus Cockburn was not eligible to participate in the 2021 annual bonus plan.
6. This is the estimated or actual value of Long-Term Incentives for which the performance period ended in the year including dividend equivalents. For 2020, this includes sums in connection with the legacy Deferred Bonus Plan ("DBP") in which the Executive Directors could no longer participate in 2021. The 2020 DBP amount in the 2020 LTI value total is £668,476. The quantum of the 2021 LTI values for Rupert and Nigel attributable to share price appreciation is £18,392 and £378 respectively. Further details are provided on page 152.
7. The Long-Term Incentive values reported for 2020 have been restated to reflect the actual share price at the relevant vest dates for the awards (in respect of the 2018 PSP Awards which vested on 25 June 2021: £1.3073, and in respect of the legacy 2018 DBP Awards which vested on 23 August 2021: £1.3547).

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2021, 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 Trading Profit (40%) and Free Cash Flow (30%). For the first time in 2021, the Committee implemented an ESG scorecard (weighted at 15%) to support the Company's ambition of being the 'best managed company in our sector'. The remaining 15% weighting was attached to individual objectives aligned to the delivery of the Group's corporate strategy.

As set out in the Chair's letter and the business context for 2021, in determining the appropriate awards under the annual 2021 bonus plan, the Committee took into account the wider impact of what has been another extraordinary year for both the Company and its employees. Adjustments were made to Group financial targets (and for the Americas) to reflect the contribution from the WBB acquisition completed on 27 April 2021.

The Committee has also been concerned to ensure fair outcomes for all other employees in the annual bonus plan, with bonus payments taking into account overall Group and Divisional performance to ensure payments are reflective of the overall contribution and that no colleague is penalised for factors beyond their control.

Trading Profit of £233.4m was 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 2015 to 2020 reflected these principles. The purpose of the principles is to ensure that management are measured against their in-year performance and are not given credit for gains which they have not materially influenced. The Committee has applied these established principles to 2021 in a consistent manner.

The first adjustment made was to put Trading Profit into constant currency so that it was consistent with the targets set at the beginning of the year. This resulted in a +£6.9m increase. The Committee then considered items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of +£1.9m should be added to Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes in 2021. This compares with -£3.3m which was deducted from Trading Profit in 2020.

All awards under the 2021 annual bonus plan were subject to a UTP affordability test (after adjustment for in-year Onerous Contract Provisions ("OCP") items) of £186.5m at constant currency rates.

After full consideration, the Committee determined that the annual bonus achievement for Executive Directors should not be adjusted for 2021. The tables below show the achievement determined by the Committee against the financial and non-financial measures, together with the overall bonus outcome for 2021.

Financial performance

Performance measure	Weighting for 2021 (% maximum bonus opportunity)	Threshold target (£m)	Target (£m)	Maximum target (£m)	Actual performance ¹ (£m)	Achievement against measure (% maximum opportunity for this measure)
Trading Profit	40%	£186.5	£193.0	£205.2	£242.2	100%
Free Cash Flow	30%	£92.6	£113.7	£134.7	£189.5	100%

Note:

1. At constant currency.

£m	2021	2020	2019	2018	2017	2016
Trading Profit	233.4	175.7	133.4	116.7	54.0	100.3
Constant currency adjustment	6.9	1.4	(4.1)	4.4	(6.8)	(5.7)
Trading Profit at constant currency	240.3	177.0	129.3	121.1	47.2	94.6
Adjustment for bonus purposes	1.9	(3.3)	(12.6)	(15.2)	23.6	(20.9)
Trading Profit for bonus purposes	242.2	173.7	116.7	105.9	70.8	73.7
Underlying Trading Profit at constant currency	235.8	164.5	116.5	97.1	63.4	73.4

Non-financial performance

ESG Scorecard

An ESG scorecard was introduced for the first time in the 2021 annual bonus plan (weighting 15%). For 2021, the scorecard focused on three key areas:

- maintain and continue to improve robust governance processes including ensuring active and ongoing engagement with stakeholders (to include shareholders, governments and customers, and colleagues) setting out the progress in achieving strategic objectives including ESG strategy and approach, as well as operating/financial performance;
- ensure a focus on health and safety within our operations through improvements in the Lost Time Injury Frequency Rate (“LTIFR”); and
- maintain a high level of colleague engagement as measured through our annual Group employee engagement score.

In its consideration of the governance component, the Committee looked at a number of factors including:

- active management of stakeholder concerns from shareholder meetings, Cabinet Office reports and other government reports;
- Board and Executive Committee updates including reactions to regional specific issues such as Social Value in line with UK government expectations;
- continued transparency to the market and customers measured through feedback to the Company; and
- continued enhancement in assurance, internal controls and compliance (including regulatory compliance).

Remuneration Report continued

As part of its assessment of governance, the Committee also included specific actions agreed for Rupert and Nigel relating to the effective governance in operation and stakeholder relationships. Achievement against the ESG scorecard for the Executive Directors is shown in the table below:

Performance measure	Weighting for 2021 (% maximum bonus opportunity)	Threshold target	Target	Maximum target	Actual performance	Achievement against measure (% maximum opportunity for this measure)
Lost Time Injury Frequency Rate		–	4.5		4.1	
Colleague Engagement Score ¹		68	70	72	70	
Governance Processes ²		Continued to improve robust governance processes including ensuring an active and ongoing engagement with stakeholders (to include shareholders, governments, customers and colleagues) setting out the progress in achieving strategic objectives including ESG strategy and approach, as well as regular updates on operational/financial performance. Hosting a Capital Markets Day, as an example, and other events such as meetings for analysts and investors to engage with the wider operational management team of the business, or to hear broader perspectives on our sectors and markets, such as through the work of the Serco Institute.				
Specific governance actions ²		Specific governance actions have been delivered to an exceptional standard and underpinned the smooth and highly effective transition in critical Board roles and the Board's successful operation during another challenging year for the Company.				
For Rupert Soames: Support the effective and smooth running of the Board, ensuring an efficient transition of Chairman, whilst managing a successful handover from Angus to Nigel in respect of the CFO role.	15%					11.25%
For Nigel Crossley: Deliver the Company's obligations under the Deferred Prosecution Agreement ("DPA"). Support the effective and smooth transition of the Chair of the Audit Committee.						

Notes:

1. Group employee engagement score from Employee Voice survey run from 7 – 24 September 2021.
2. Committee decision reached on overview of activity for the year.

Individual Objectives

Weighting for 2021 (% maximum opportunity) 15%

	Rupert Soames	Nigel Crossley
Achievement against measure (% maximum opportunity for this measure)	80%	75%

Rupert Soames – consideration of personal performance in the year

Target	Achievements in year
<p>Winning good business</p> <p>1. Improve Business Development performance to deliver:</p> <p>a) A reported total pipeline of a minimum of £5,528m, target of £7,215m and a maximum achievement of £7,817m or more.</p> <p>b) New business wins of a minimum of £1,021m, target of £1,361m and maximum achievement of £1,429m or more.</p> <p>c) Total wins, including recompetes and extensions of a minimum of £2,937m target of £3,916m and maximum achievement of £4,112m or more.</p> <p>2. Maintain and improve the relationship with major Government customers.</p>	<p>a. Total reported pipeline for 2021 was £11,907m well above the maximum target of £7,817m.</p> <p>b. New business wins amounted to £2,941m so exceeded maximum target of £1,429m.</p> <p>c. Total wins delivery was also exceptional amounting to £5,398m against a maximum target of achievement of £4,112m.</p> <p>– Strength of relationships built up and maintained as demonstrated by the trust and confidence displayed in Serco during another challenging year due to Covid-19. Contracts have been re-competed and won against stiff competition. Company continued to be engaged and re-engaged by governments around the world to support them.</p>
<p>Executing brilliantly</p> <p>3. Continue to build and where necessary invest in Serco's cyber resilience and security.</p>	<p>– Successful programme of continuing to build Serco's cyber resilience and security which allowed >10,000 employees to work from home without compromising data and operational security.</p>
<p>A place people are proud to work</p> <p>4. Work with the Board to support the development of succession plans, and in particular the identification and development of successors for the role of Chief Executive and other Executive Committee positions.</p>	<p>– Successful internal appointment of Nigel Crossley as CFO in April 2021 to replace Angus Cockburn.</p> <p>– Regular talent and succession planning review of senior leadership to build pipeline for critical Executive Committee roles to reduce reliance on external appointments to these roles.</p> <p>– Calibration and review sessions held on senior leaders to ensure fair and proper recognition is given to performance to develop and retain their contribution to the Company.</p>
<p>Profitable and sustainable</p> <p>5. Where appropriate develop plans for new market entry or adjacencies to ensure sustainable growth opportunities (including M&A).</p> <p>6. Support the effective integration of the FFA and WBB acquisitions.</p> <p>7. Deliver against Financial Targets and City expectations whilst maintaining the reputation of Serco in the investment community.</p>	<p>– Engagement with more than 100 different investment funds – holding meetings with institutional investors and attending investor conferences as part of a programme of post-results roadshows and corporate access activity.</p> <p>– FFA and WBB integration actively supported and monitored to gain the benefit anticipated from the acquisitions. Different challenges encountered. WBB acquisition, in particular, has significantly increased the scale, breadth and capability of the North American defence business and given Serco a strong platform from which to address major segments of the US defence services market.</p> <p>– Financial targets' delivery was exceptional in 2021. Substantial investment in maintaining and developing relationships in the investor community with issuing of regular trading updates in addition to the requirement to report half and full year results.</p> <p>– Issuing 116 announcements throughout the year regarding contract awards, contract losses, changes to the Board, material shareholdings, refinancing and corporate transactions and share buy-back programme.</p> <p>– Regular engagement with analysts actively covering Serco and hosting other events. Inclusion of analyst consensus on the Serco website with the website regularly updated.</p>

The Committee considered Rupert's performance against his stated objectives and deemed his overall performance in 2021 to be very strong, awarding him a personal performance outcome of 80%. Rupert has continued to show highly effective and visible leadership throughout 2021, and over the course of the year has delivered another strong year of performance in the face of the substantial challenges brought on by the tailwinds of Covid-19. This was achieved whilst maintaining the trust built up with our customers, based on the strong foundations of good governance, and whilst ensuring the engagement and wellbeing of all colleagues at Serco, all of which are critical to our longer-term success.

Remuneration Report continued

Nigel Crossley – consideration of personal performance in the year

Target	Achievements in year
<p>Winning good business</p> <p>1. Improve Business Development performance to deliver:</p> <p>a) A reported total pipeline of a minimum of £5,528m, target of £7,215m and a maximum achievement of £7,817m or more.</p> <p>b) New business wins of a minimum of £1,021m, target of £1,361m and maximum achievement of £1,429m or more.</p> <p>c) Total wins, including recompetes and extensions of a minimum of £2,937m target of £3,916m and maximum achievement of £4,112m or more.</p>	<p>a. Total reported pipeline for 2021 was £11,907m well above the maximum target of £7,817m.</p> <p>b. New business wins amounted to £2,941m so exceeded maximum target of £1,429m.</p> <p>c. Total wins delivery was also exceptional amounting to £5,398m against a maximum target of achievement of £4,112m.</p>
<p>Executing brilliantly</p> <p>2. Continue to improve the Finance function by focusing on data integrity, controls (preparing for Brydon implementation) and working with Accenture to improve services delivered to contracts.</p>	<ul style="list-style-type: none"> - Continued enhancement in assurance, internal controls and compliance (including regulatory compliance). - Improvements in governance and compliance with DPA internal updates to the Board and reporting to Serious Fraud Office. - Effective compliance assurance with reviews completed to plan with timely recommendations and action. - Sound risk management process in place with evidence of review and change. - No material regulatory failures resulting in formal reporting to regulators, fines or legal action.
<p>A place people are proud to work</p> <p>3. Lead the Finance function through the transition of CFOs and ensure succession planning for Divisional CFOs and Senior Finance teams are robust and regularly reviewed to improve and enhance capability.</p>	<ul style="list-style-type: none"> - Highly effective transition with Nigel's appointment as CFO. - Strong leadership provided to Finance function at time of change with excellent continuity of functional performance throughout 2021. - Regular talent and succession planning review of senior leadership in Finance to build pipeline for critical Divisional CFO and other senior roles and to provide the best means to retain and develop an excellent level of capability in the function.
<p>Profitable and sustainable</p> <p>4. Continue to work with financial institutions to ensure we have sufficient headroom for future potential acquisitions and working towards the re-financing of the Revolving Credit Facility ("RCF") (due in 2022).</p> <p>5. Support the effective integration of FFA and WBB acquisitions.</p> <p>6. Deliver against Financial Targets and City expectations whilst maintaining the reputation of yourself and Serco in the investment community.</p>	<ul style="list-style-type: none"> - Financial targets' delivery was exceptional in 2021. Substantial investment in maintaining and developing relationships in the investor community with issuing of regular trading updates in addition to the requirement to report half and full year results. - Clear strategy on potential future acquisitions and how these might best be accomplished. - Full support to annual Chairman's Governance investor roadshow and to full year and half year results presentations and investor events. - Attendance at investor conferences. - FFA and WBB integration actively supported and monitored to gain the benefit anticipated from the acquisitions. In 2021, WBB contributed approximately \$15m (£11m) of UTP.

The Committee considered Nigel's performance against his stated objectives and deemed his overall performance in 2021 since his appointment to the Board to be very strong, awarding him a personal performance outcome of 75%. Nigel has shown highly effective and visible leadership since he took on the CFO role. Since April 2021, Nigel has delivered a strong period of performance, maintained good levels of liquidity and maintained a strong balance sheet despite the substantial ongoing challenges due to Covid-19. This was achieved whilst maintaining the trust built up with our customers and the investment community and ensuring the engagement and wellbeing of all colleagues at Serco, all of which are critical to our longer-term success.

Overall 2021 bonus outcome

	Rupert Soames	Nigel Crossley ¹
Total bonus payable as % of maximum	93.25%	92.5%
Bonus opportunity as % of salary	175%	140%
Bonus amount achieved as % of salary	163.2%	129.5%
Bonus amount earned ²	£1,387,094	£556,850

Note:

- Bonus amount disclosed is for the full 2021 performance year. Disclosure in the single total figure of remuneration table is pro-rated for the qualifying service as Executive Director for the period 21 April 2021 to 31 December 2021.
- Bonuses earned over 100% of salary are subject to mandatory deferral into Serco shares for three years.

Long-term incentives**LTIP**

The 2021 single figure is comprised of the 2019 LTIP awards granted on 6 June 2019, which are due to vest on 6 June 2022 subject to TSR, EPS, ROIC, Order Book (measured as the book-to-bill ratio) and Employee Engagement performance in the period to 31 December 2021. In determining the overall vesting for the 2019 LTIP, the Committee was mindful that the last two years of the performance period were subject to the impact of Covid-19. Careful consideration was given to the overall performance of the Group over the whole performance period. The Committee is satisfied that the overall vesting outcome is an appropriate reflection of the overall performance of the Group over the performance period, during which management successfully continued the journey of growth in Serco's corporate strategy.

The 2019 EPS and ROIC target ranges were retrospectively adjusted in 2021 for the WBB acquisition completed on 27 April 2021. The acquisition resulted in a small increase in EPS with a 0.50p adjustment for 2021 and a very small dilution in the Group's ROIC. This is because the acquisition price of c.£210m largely consisted of goodwill and working capital which are treated as invested capital. The net impact of the acquisition was to reduce the Group's average ROIC over the three-year period to 2021 by -0.2%. The adjustment made to the EPS and ROIC target range for the 2019 LTIP is shown in the table below:

Target	Previous target range	Adjusted target range	Adjustment variance
EPS	19.69p – 23.89p	20.19p – 24.39p	+ 0.50p
ROIC	15.2% – 18.6%	15.0% – 18.4%	- 0.2%

The performance and formulaic vesting outcome for each tranche of the 2019 LTIP is as follows:

Performance condition and relative weighting	Threshold ³ – 25% vesting	Maximum – 100%	Performance measured	Vesting (% of maximum)
Relative TSR ¹ (28.33%)	Median ranking	Upper quartile ranking	Rank 62/161 Between median and upper quartile	61%
Aggregate EPS ^{2,3} (28.33%)	20.19p	24.39p	27.5p	100%
Average pre-tax ROIC ^{2,3} (28.33%)	15.0%	18.4%	19.4%	100%
Order Book ³ (7.5%)	N/A	105%	124%	100%
Employee Engagement in 2021 ^{3,4} (7.5%)	N/A	70	70	100%
Overall vesting outcome				88.94%

Notes

- For the 2019 LTIP, the Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the three-year period ending 31 December 2021. The Company's TSR 45.6% ranked between median (at which TSR was 22%) and upper quartile (at which TSR was 68.6%) giving a vesting outcome of 61%.
- The 2019 EPS and ROIC performance targets are the adjusted targets following the WBB acquisition (as set out in this Report) to ensure that the targets accurately reflect the true performance of the Group, and that they maintain the performance 'difficulty' required for vesting as originally intended. The original 2019 target ranges for EPS were 19.69p (threshold) to 23.89p (max); and for ROIC, 15.2% (threshold) to 18.6% (max) as shown under the separate table on the EPS and ROIC adjustment above.
- Only the financial performance targets vest at 25% for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Order Book and Employee Engagement targets to be strategically critical to the longer-term success of the Company, and that there should be no vesting below target performance. The vesting level for on-target performance (being a book-to-bill ratio of 100%, or an Employee Engagement score of 67) is 50% of this element, rising on a straight-line basis to 100% for maximum performance.
- The Company changed provider for its annual Viewpoint survey via which employee engagement is assessed each year (from Aon to Glint). On transition, an assessment was undertaken to convert the targets set (determined as a % engaged under the Aon tool) to an engagement score per the Glint tool. The Committee is satisfied that the 2021 engagement score of 70 meets the maximum engagement score required for full vesting of this element.

Remuneration Report continued

Executive Director	2019 LTIP Tranche	No. of shares awarded	No. of shares vesting	Dividend equivalent shares	Value of Vesting ³	Value attributable to share price appreciation ⁴
Rupert Soames	Relative TSR	371,943	226,885	3,670	302,142	3,574
	EPS	371,943	371,943	6,018	495,318	5,858
	ROIC	371,943	371,943	6,018	495,318	5,858
	Order Book	98,456	98,456	1,592	131,113	1,551
	Employee Engagement	98,456	98,456	1,592	131,113	1,551
Angus Cockburn ¹	Relative TSR	149,975	91,484	1,479	121,828	1,441
	EPS	149,974	149,974	2,426	199,720	2,362
	ROIC	149,974	149,974	2,426	199,720	2,362
	Order Book	39,699	39,699	641	52,866	625
	Employee Engagement	39,699	39,699	641	52,866	625
Nigel Crossley ²	Relative TSR	7,641	4,660	75	6,205	73
	EPS	7,641	7,640	123	10,173	120
	ROIC	7,641	7,640	123	10,173	120
	Order Book	2,022	2,022	32	2,692	32
	Employee Engagement	2,022	2,022	32	2,692	32

Notes:

1. Angus Cockburn stepped down from the Board at the AGM on 21 April 2021. His 2019 LTIP is for the months of qualifying service in the three-year performance period ending 31 December 2021.
2. Nigel Crossley was not a Director at the date of the 2019 LTIP award on 6 June 2019 but was appointed to the Board as CFO on 21 April 2021. The award grant level of 60% of salary reflects his terms before he became a Director. His 2019 LTIP award is for the months of qualifying service in the three-year performance period ending 31 December 2021.
3. As these awards are still to vest at the time of reporting, the share price used to determine the value of vesting for the 2021 single figure is the Q4 average closing share price to 31 December 2021 (£1.3105).
4. The value included in the single figure reflects an increase in the share price from that at grant (£1.295) to the estimate of the share price at vest (based on the 2021 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and, therefore, did not make any discretionary adjustments to the vesting of these awards on this basis.

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, 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 Company but are not subject to a shareholding requirement.

	Fee bearing Committee roles held in the year	Board fee (including Chairmanship fees) (£)		Taxable benefits ⁹ (£)		Total ¹⁰ (£)	
		2021	2020	2021	2020	2021	2020
John Rishton ¹ (Chairman)	R	222,576	90,500	1,994	874	224,569	91,374
Sir Roy Gardner ²		76,705	250,000	284	7,066	76,988	257,066
Kirsty Bashforth	C R GR	75,500	75,500	1,363	637	76,863	76,137
Eric Born ³	A C	63,000	63,000	–	4,383	63,000	67,383
Kru Desai ⁴	A C	11,278	–	–	–	11,278	–
Tim Lodge ⁵	A R GR	62,525	–	–	–	62,525	–
Ian El-Mokadem ⁶	A GR	70,500	65,530	–	–	70,500	65,530
Dame Sue Owen ⁷	C GR	63,000	26,250	–	–	63,000	26,250
Lynne Peacock ⁸ (SID)	A R	80,955	70,500	446	–	81,400	70,500
Total		726,037	641,280	4,086	12,960	730,123	654,240

Notes:

A = Audit Committee, C = Corporate Responsibility Committee, R = Remuneration Committee, GR = Group Risk Committee. Red denotes Chair. No additional fees were payable for other Board Committee roles in the year.

- John Rishton was appointed as Chairman of the Board on 21 April 2021. He receives no additional fees for Committee membership.
- Sir Roy Gardner stepped down from the role of Chairman on his retirement from the Board on 21 April 2021.
- Eric Born stepped down from the Board on 31 December 2021.
- Kru Desai joined the Board on 21 October 2021 and became a member of the Corporate Responsibility Committee. She became a member of the Audit Committee from 1 January 2022.
- Tim Lodge joined the Board on 21 February 2021. He chairs the Group Audit Committee (from 21 April 2021) and is a member of the Group Risk and Remuneration Committees.
- Ian El-Mokadem moved from the Corporate Responsibility Committee to sit on the Audit Committee on 21 April 2021.
- Dame Sue Owen joined the Board on 3 August 2020. She moved from the Audit Committee to the Corporate Responsibility Committee on 21 April 2021.
- Lynne Peacock was appointed Senior Independent Director (SID) on 21 April 2021.
- Taxable benefits in 2020 and 2021 relate to reimbursed taxable travel and subsistence business expenses.
- Non-Executive Directors do not receive any variable pay so "Total" is total fixed remuneration.

Pensions (audited information)

As at 31 December 2021, there were no Executive Directors actively participating, or accruing additional entitlement, in the Serco Pension and Life Assurance Scheme which is a defined benefits scheme.

Remuneration Report continued

Payments for loss of office and to past Directors (audited information)

Angus Cockburn stepped down as Group Chief Financial Officer and as an Executive Director of Serco Group plc at the AGM held on 21 April 2021. He also stepped down from the role he held on the Board of Serco Inc. From the AGM date, Angus moved into the role of Advisor to the Investment Committee, also ensuring a smooth transitional period for Nigel Crossley as the incoming Group Chief Financial Officer. He continued in this role until the expiry of his notice period on 31 December 2021.

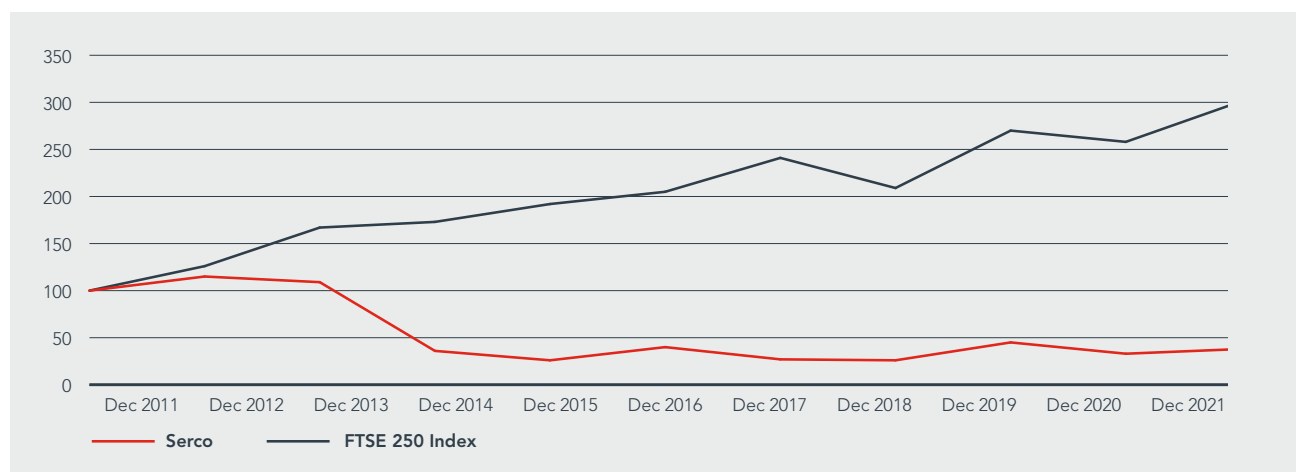
Description	Details of payment
Salary and benefits	<ul style="list-style-type: none"> - Base salary of £522,750 until 31 December 2021. - Contractual benefits e.g. company car, life assurance, independent financial advice etc. (£28,977) until 31 December 2021. - Pension cash alternative payment of 20% of salary (£104,550) until 31 December 2021.
Discretionary 2021 annual bonus award	No participation in the 2021 annual bonus plan. No eligibility to receive any bonus for year ending 31 December 2021.
Equity Settled Bonus Plan ("ESBP") for bonus earned above 100% of salary deferred into shares and vesting after three years. These awards are not subject to further performance conditions or pro-rated.	<p>Treated as 'good leaver' in respect of outstanding unvested ESBP awards. These will all vest in full on the normal vesting dates for these awards:</p> <ul style="list-style-type: none"> - 2019 ESBP award – 69,162 shares vesting on 26 April 2022 - 2020 ESBP award – 175,724 shares vesting on 28 April 2023 - 2021 ESBP award – 85,566 shares vesting on 26 March 2024 - To the extent that a dividend is paid prior to the vest of these awards, the total number of shares linked to the award may increase for dividend equivalents. - Awards subject to malus and clawback provisions.
Holiday entitlement	All outstanding holiday entitlement was taken by the end of 31 December 2021.
Share awards	<ul style="list-style-type: none"> - No award made under the Company's LTIP in 2021. - Treatment as 'good leaver' for outstanding awards made under 2019 LTIP and 2020 LTIP. Outstanding unvested LTIP share awards will vest on the normal vesting dates subject to the satisfaction of the relevant performance conditions and on a time pro-rated basis. A post vesting holding period of two years applies post vesting date. - 2019 LTIP – 574,323 shares retained – vesting date 6 June 2022 – holding period expires 6 June 2024. - 2020 LTIP – 333,159 shares retained – vesting date 6 April 2023 – holding period expires 6 October 2025.
Medical insurance	Private medical insurance continued on existing terms until 31 December 2021.

There were no other payments made to past Directors in 2021.

Performance graph and table

This graph shows the value as at 31 December 2021, of a £100 investment in Serco on 31 December 2011 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 performance for the long-term incentives applies over a different period and details of the Company's performance versus the FTSE 250 relevant to the 2021 single figure can be found on page 151.

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.



CEO's pay in last ten financial years

Year ended 31 December	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Christopher Hyman		Ed Casey							
Group CEO	Christopher Hyman	Ed Casey	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames
CEO single figure remuneration (£000)	2,581	893 295	1,605 748	2,255	2,217	3,681	5,176	5,201	4,943	4,011
Annual bonus outcome (as % of maximum opportunity)	72%	N/A 74%	71% 0%	87%	82%	75%	77%	94%	80%	93%
LTI vesting outcome (as % of maximum opportunity)	64%	0%	0%	100%	24%	91%	73%	71%	99%	89%

Remuneration Report continued

Percentage change in Directors' remuneration

The table below shows the percentage change in remuneration for all Directors who served during 2021 compared to that for the average UK employee. The UK employee sub-set of the Company's global workforce has been chosen as the group which provides the most appropriate comparator. There are no employees in the Group's parent company. The UK employee population comprises some 23,000 of the approximately 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 Directors' pay is set against the UK market (with the Executive Directors based in the UK), we have chosen employees within the same country. Information will need to be shown for each Director in the relevant year on a rolling five-year basis. 2021 is the second year of disclosure.

	Executive Directors ⁴							Non-Executive Directors					
	UK employees	Rupert Soames	Angus Cockburn	Nigel Crossley	Sir Roy Gardner	John Rishton	Kirsty Bashforth	Eric Born	Kru Desai	Tim Lodge	Ian El-Mokadem	Dame Sue Owen	Lynne Peacock
2021													
Salary/fees ¹	1.12%	0%	-69%	-43%	-69%	146%	0%	0%	N/A	N/A	8%	140%	15%
Benefits ²	2%	-8%	-76%	-75%	-96%	128%	114%	-100%	N/A	N/A	0%	0%	0%
Bonus ³	21%	17%	-100%	-67%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2020													
Salary/fees ¹	1.9%	0%	2%	N/A	0%	0%	2%	0%	N/A	N/A	4%	N/A	0%
Benefits ²	-3%	20%	36%	N/A	-50%	-51%	-81%	53%	N/A	N/A	0%	N/A	0%
Bonus ³	20%	-15%	-10%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- The average salary change for UK employees represents the average pay increase applied in the 2021 annual pay review. Changes in NED fees reflect changes in each individual's role on the Board and its Committees. There was a change in the Chairman's fee from £250,000 to £280,000 in 2021 but no other changes to underlying fees.
- The nature of taxable benefits provided to all Directors and employees in 2021 compared to 2020 remains the same.
- 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 2021 compared to the 2020 bonuses paid in March 2021. The Executive Directors' 2021 bonuses over 100% of salary are subject to compulsory deferral for three years into shares. NEDs do not receive bonus pay.
- Disclosure in the above table is pro-rated for the qualifying service as Executive and Non-Executive Director in the relevant year.

CEO Pay Ratio

The table below shows how pay for the CEO compares to our UK colleagues at the 25th, median and 75th percentiles.

Year	Percentile	Salary ¹	Total pay and benefits ²	Pay Ratio
2021 (Option B)	25th	£22,351	£23,816	1:168
	Median	£26,785	£28,801	1:139
	75th	£28,675	£32,992	1:122
2020 (Option B)	25th	£24,964	£26,611	1:186
	Median	£30,597	£33,127	1:149
	75th	£32,486	£34,709	1:142
2019 (Option B)	25th	£24,859	£26,066	1:219
	Median	£27,026	£30,072	1:190
	75th	£32,429	£34,420	1:166

Notes:

- Includes salary enhancements such as shift allowances, unsociable hours payments and overtime.
- Includes the value of employer pension contributions made to a defined contribution pension arrangement. Each of these representative colleagues participated in a salary sacrifice pension arrangement.

The Committee believes that the median ratio is consistent with the Company's pay, reward and progression policies for our UK colleagues. As a business, Serco employs a very wide range of people with different skills, experiences and capabilities, and our reward aims to reflect these differences and be responsive to the needs of our employees. We apply the same reward principles for all our colleagues, in that reward should be competitive and aligned to the sectors and markets from which we draw our talent. Our remuneration philosophy throughout the organisation is to compensate employees fairly for their contribution to the business while ensuring that we are appropriately managing the cost of our workforce which, as a people business, is our biggest operating cost.

The remuneration of Serco's CEO has a significant weighting towards variable pay to align his remuneration with Company performance. In contrast, due to our workforce profile, all three of our pay ratio reference points represent front-line operational or administrative staff who are critical to the delivery of the commitments we make under our contracts every day. In line with market practice for such roles, these colleagues are in receipt of fixed pay only (including pension contributions). The reduction in the Pay Ratio from 2020 to 2021 is, therefore, primarily a result of the reduction in the CEO's single figure in 2021 compared to 2020, driven by a reduction in his variable pay as the legacy DBP awards have fallen out of the 2021 reporting. The final award was granted in 2018 with performance assessed to 31 December 2020 and included in the 2020 assessment. However, the remuneration for the reference points has been maintained reflecting the commitment made by the Company to ensure front-line colleagues continue to receive fair pay for their contributions to the success of Serco, particularly in the context of the ongoing impact of Covid-19 in 2021 and beyond.

Consistent with our approach in 2020, we have used our 2021 Gender Pay Gap data to identify employee representatives at each pay quartile of our UK employee population. Employees were ranked by hourly pay and, where possible, full-time colleagues at the quartile points fulfilling common roles within the UK employee population were selected as the representatives for comparison. Given our diverse workforce and large number of UK employees across many contracts and payrolls, this is considered to be the most appropriate method of identifying employees who are representative of our workforce. The single figures for each representative employee (all of whom were full-time) were calculated in respect of the financial year to 31 December 2021. The single figures have been calculated taking into consideration regular salary and allowances (e.g. shift allowances), employer pension contributions, taxable benefits and bonuses (which for 2021 included the ex gratia awards made to around 50,000 of our global colleagues to recognise their extraordinary efforts during the pandemic) following the same approach taken in determining the CEO's single figure. Significant salary enhancements, such as acting up allowances, which were not received at the date the pay was calculated for Gender Pay Gap purposes are disregarded from the single figure calculation for the representative employees to avoid over-inflating the representative pay at the quartile levels. The pay and benefits figures for the employee representatives do not include any amounts in respect of long-term incentives as these are only available to the most senior members of the Group.

The 2021 Gender Pay Gap pay quartiles reflect an increased size of workforce compared to prior years, impacting the roles captured as representative at lower quartile, median and upper quartile for our UK workforce.

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.

	2021 vs 2020	2021	2020
Dividend per share	100%	2.4	Nil
Overall expenditure on wages and salaries	14%	£1,984.7m	£1,742.7m

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

Awards made in 2021

Equity settled bonus plan (ESBP) (audited information)

In line with the approved Policy, in connection with the compulsory deferral of the 2020 bonus in excess of 100% of salary, Rupert Soames and Angus Cockburn were granted the following ESBP awards on 26 March 2021 in the form of conditional share awards. ESBP awards granted in 2021 vest on the third anniversary of grant on 26 March 2024. Nigel Crossley did not take up his Board appointment as Group CFO until after the 2020 bonus pay-out so no deferral of any bonus into shares was made.

Directors	Face value (£) ¹	Grant date	Market price at award (£) ²	Number of shares ³
Rupert Soames	340,000	26 March 2021	1.3952	243,692
Angus Cockburn	119,383	26 March 2021	1.3952	85,566

Notes:

1. Calculated as the value of the Executive Directors' 2020 bonus in excess of 100% of salary.
2. Average closing share price on the five trading days immediately prior to the date of grant.
3. Calculated using the average share price used to determine the number of shares awarded.

Pre-vesting malus and post-vesting clawback are applicable to these awards, but no further performance conditions apply.

Remuneration Report continued

Long term incentive plan (LTIP) (audited information)

In line with the approved Policy, in 2021, the CEO received LTIP awards equivalent to 200% of salary, and the CFO received awards equivalent to 150% of salary. All awards were in the form of conditional share awards.

For the first time in 2021, the Committee implemented an ESG scorecard of measures as one of its performance conditions for the LTIP awards.

The LTIP awards will normally vest on 6 April 2024, following 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 2023.

Performance measure	Weighting of measure	Performance target
Aggregate EPS	25%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 25.17p (threshold, 25% vesting) to 30.76p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.
Relative TSR	25%	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	25%	Pre-tax Return on Invested Capital (ROIC) of 16.5% (threshold, 25% vesting) to 20.2% (maximum, 100% vesting), measured as an average over the three-year performance period.
Order Book	10%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as an average over the three-year performance period.
ESG scorecard	15%	Scorecard made up of three components: <ul style="list-style-type: none"> – Employee engagement score of 69 for target and 71+ for maximum performance measured via the Serco Employee Engagement Survey as an average across the three-year performance period; – Colleague diversity improvement with women in senior global leadership in 2023 at 33% target and 35% or above for maximum. Progress in ethnic diversity to be noted; and – Improvement in environmental risks assessment measured by externally issued environment /climate rate changes.

The structure for vesting of the EPS, TSR and ROIC conditions is straight-line vesting between threshold and target, and target and maximum, and no shares vest where performance is below threshold. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance of these elements, therefore, delivers a 0% vesting outcome. The vesting level for on-target performance is 50%, with straight-line vesting between target and maximum. This is a more stringent approach than required under the approved Policy.

In determining the extent to which these LTIP 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 LTIP award is subject to a post-vesting holding requirement that takes the total term of the LTIP award (i.e. performance period plus holding period) to a minimum of five years. Pre-vesting malus and post-vesting clawback are also applicable to these LTIP awards. Following his appointment as CFO on 28 April 2021, Nigel received a 'top up' grant to the LTIP award made to him on 6 April 2021 to bring the total aggregate value of his LTIP awards for 2021 up to 150% of salary (£645,000) with the same vesting date of 6 April 2024.

Directors	Basis of award (% salary)	Face value (£)	Grant date	Market price at award (£) ¹	Number of shares ²	Percentage vesting at threshold performance ³	Performance period end date
Rupert Soames	200%	1,700,000	6 April 2021	1.3822	1,229,923	18.75%	31 December 2023
Nigel Crossley	150%	210,000 435,000	6 April 2021 28 April 2021	1.3822 1.4174	151,931 306,899	18.75%	31 December 2023

Notes:

1. Average closing share price on the five trading days immediately prior to the date of grant.
2. Calculated using the average share price used to determine the number of shares awarded.
3. 75% of the awards that are subject to financial performance conditions vest at 25% for threshold performance. 25% of the awards that relate to Order Book and ESG performance conditions vest at 0% for threshold performance and only begin to vest when at least target performance is achieved.

Implementation of the Policy in 2022

Executive Directors

Salary increases for the year ending 31 December 2022

The Committee reviewed base salaries for the current Executive Directors and determined that no increase will apply to the CEO's salary but that a 2% increase will be made to the CFO's salary rate from £430,000 to £438,600 from 1 April 2022 in line with the average increase to our wider workforce of 2%. His £430,000 base salary on appointment was positioned significantly below that of his predecessor (£522,750) and below the lower quartile of our peer group. The Committee intends to review Nigel's salary over time with a view to moving him to a more competitive position versus market pay levels as he establishes himself in role. This approach may require moderate increases over and above the average of the wider workforce over time.

Pension

As summarised on page 143, and in line with our commitment to align the Executive Directors' pension opportunity with that of the wider workforce, Nigel Crossley's pension opportunity was aligned to the wider workforce (8% of salary) from the date of his CFO appointment on 21 April 2021. Rupert Soames will continue to have a pension opportunity in 2022 of 20% of salary. This will be reduced to align to the wider workforce by 1 January 2023.

Annual bonus and LTIP

Details of structure and opportunity under the 2022 annual bonus and LTIP for each Executive Director are set out on page 143. Further details of the performance framework to apply in 2022 are provided below.

Details of the performance measures to apply to the 2022 annual bonus and long-term incentive awards

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 2022 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. The Committee takes a robust approach to target setting, informed by internal budget and long-term plans, analyst forecasts and strategic objectives.

Recognising the importance of our ESG commitments to both the short and long-term success of Serco, an ESG scorecard for both our annual bonus and LTIP will continue to be incorporated into each incentive. The ESG scorecard components have been chosen taking into consideration our current maturity across this space, our ability to set and measure performance that is relevant and meaningful to Serco, and the current strategic priorities as articulated in our Corporate Responsibility and People Reports. As our ESG strategy continues to evolve over time, and the priorities for Serco change, we would expect the scorecard components to also change. For 2022, the Committee decided to retain the same framework of ESG scorecard measures as they continue to be the most appropriate for our strategic direction for 2022.

Determination of the amount payable under the 2022 annual bonus plan will also take into consideration the wider performance of the Group as well as the affordability of the bonuses so determined. In determining the vesting of the 2022 LTIP awards, the Committee will also take into consideration the wider performance of the Group. The final vesting will be adjusted where appropriate to ensure the outcomes are a fair and reasonable reflection of the performance of the Group.

2022 bonus performance measures

The performance measures to apply to the 2022 annual bonus plan continue the focus on profit growth and cash, as well as to incorporate a strategically aligned ESG scorecard to support our ambition of being the best managed company in our sector. The 2022 performance measures will be aligned to core KPIs as follows:

Core KPIs			
Financial (70%)		Non-financial (30%)	
40%	Trading Profit	15%	Personal objectives aligned to the delivery of the Group's corporate strategy
30%	Free Cash Flow	15%	ESG scorecard aligned to being the "best managed company in our sector"

Components of the 2022 annual bonus ESG scorecard (15% weighting)

The 2022 annual bonus ESG scorecard will continue to focus on three key areas:

- Maintain and continue to improve robust governance processes including ensuring active and ongoing engagement with stakeholders (to include shareholders, governments and customers, and colleagues) setting out the progress in achieving strategic objectives (including ESG strategy and approach), as well as operating/financial performance;
- Ensure a focus on health and safety within our operations through improvements in LTIFR; and
- Maintain a high level of colleague engagement as measured through our annual Group employee engagement score.

The specific targets for the 2022 annual bonus plan are deemed to be commercially sensitive. Full disclosure of the targets set will be made in the 2022 Report following the end of the current financial year to the extent these are no longer considered commercially sensitive.

Remuneration Report continued

2022 LTIP performance measures

The table below provides details of the performance measures and targets to apply to the 2022 LTIP awards. Targets have been set taking into account our longer-term business forecasts and strategy as outlined at the Capital Markets Day held in December 2021 as well as analyst consensus.

Performance measure		Weighting of measure	Performance target	Threshold 25% vesting ¹	Maximum 100% vesting
Financial performance	Relative TSR	25%	Total Shareholder Return (TSR) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.	Median ranking	Upper quartile ranking
	Average ROIC	25%	Pre-tax Return on Invested Capital (ROIC) measured as an average over the three-year performance period.	17.3%	21.2%
	Aggregate EPS	25%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) measured as an aggregate over the three-year performance period.	28.41p	34.72p
Non-financial strategic performance	Order Book ¹	10%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as the cumulative average over the three-year performance period.	N/A	105% or above
	ESG scorecard	15%	The components of the 2022 LTIP ESG scorecard (set out below) have been selected as being important to the long-term sustainability of Serco.	N/A	See ESG table below

Note:

1. Only the financial performance targets vest at 25% for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. The vesting level for on-target performance (being a book-to-bill ratio of between 100% to 105% or an average Employee Engagement score of 70) is 50% of this element, rising on a straight-line basis to 100% for maximum performance.

Components of the 2022 LTIP ESG scorecard (15% weighting)

Performance measure	Performance target
Employee engagement	Average annual Group employee engagement score over the three-year performance period at or above 70 for on-target performance, and at or above 72 for maximum performance.
Improvement in colleague diversity	Performance will be assessed against a scorecard of factors relating to the improvement in colleague diversity. This will include reviewing progress on activities which support diversity, such as: <ul style="list-style-type: none"> - commitment to diversity charters, where appropriate, such as the UK Race at Work charter, and progress shown against the commitments made; - the continued implementation of policies to promote diversity in recruitment and candidate pools; - wider and better targeted participation in learning and career development, and - active management of a talent pipeline and progression within the organisation which will, in time, result in a more diverse leadership cadre. To track progress, the Committee will also review quantitative metrics such as the percentage of women and colleagues of diverse ethnic backgrounds, holding senior global leadership roles.
Improvement in our understanding, management and disclosure of Serco's environmental risks	Demonstrate improvements in environmental performance and management of environmental risks, through actions taken in line with our environmental strategy and improvements in externally issued environment/climate change ratings such as CPD Climate Change Scores.

In each case, the performance will be assessed over the three-year period ending 31 December 2024. The structure for vesting of the EPS, TSR, ROIC and ESG conditions will be straight-line vesting between threshold and target, and between target and maximum, and no shares will vest where performance is below threshold. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance will, therefore, deliver a 0% vesting outcome. The vesting level for on-target performance will be 50%, with straight-line vesting between target and maximum. This is a more stringent approach than that required under the Policy. In determining the final vesting of these awards, the Committee will also give consideration to 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. The Company announced its intention to implement a share buyback programme during 2022. The 2022 LTIP EPS targets exclude the impact of this share buyback, however, the Committee will exercise its discretion and make target adjustments at the end of the performance period to account for the impact of any share buyback on the average number of shares over the performance period ending 31 December 2024. Any adjustment made will be fully disclosed in the 2024 DRR.

Non-Executive Directors

Following a review by the Board of Non-Executive Director's fees, it was agreed that the basic Board fee would be increased by 2.5% from 1 April 2022 in line with the average percentage increase awarded to the wider UK workforce. Fees in respect of Committee membership will remain unchanged for 2022. A benchmarking review will be undertaken in late 2022 and any further fees' adjustment implemented in 2023. In 2021, it was agreed that the Chairman's fee would increase to £280,000 to incorporate a separate expense allowance that was made available to the previous Chairman. John Rishton is not eligible for a separate expense allowance although he may still claim reimbursement for certain expenses incurred in line with the Policy. In line with the approved Policy, the fees to apply in 2022 will be as follows:

Element – Annual Board and Committee fees	Base fee to apply from 1 April 2022 ² £	Base fee 1 January 2021 £	Change £
Chairman ¹	280,000	250,000	30,000
Senior Independent Director	15,000	15,000	No change
Board fees ²	54,325	53,000	1,325
Chairmanship of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	12,500	12,500	No change
Membership of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	5,000	5,000	No change

Notes:

- Chairman's fee increased from £250,000 to £280,000 on John Rishton's appointment to the role at the AGM on 21 April 2021. There is no further increase to the Chairman's fee in 2022.
- Basic Board fee to increase from £53,000 to £54,325 with effect from 1 April 2022.

No additional fee is payable for the Chair or Membership of the Nomination Committee, or for responsibilities in connection with our Employee Voice initiatives. The Chairman does not receive any additional fees for his committee memberships nor do the Executive Directors where they sit on Board committees.

Voting outcomes

At the previous AGMs, votes on remuneration matters were cast as follows:

	Year of AGM	For %	Against %	Number withheld ¹
2020 Annual Report on Remuneration	2021	97.33%	2.67%	29,472
2020 Remuneration Policy	2021	94.55%	5.45%	1,633,113

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.

Rupert Soames served as Senior Independent Director and a Member of the Audit, Nomination and Remuneration Committees of DS Smith Plc throughout the year in respect of which he received a fee of £71,125 per annum (comprising a Director's fee of £60,500 per annum from 1 January 2021 increasing to £62,000 from 1 August 2021 and an additional fee of £10,000 per annum for acting as Senior Independent Director). As announced on 20 January 2022, Rupert will cease to be Senior Independent Director as from 28 February 2022 and will retire from the board of DS Smith Plc at its AGM on 6 September 2022. Angus Cockburn retired as a Director at the AGM on 21 April 2021. During the period from 1 January 2021 to 21 April 2021, he was Senior Independent Director, Chair of the Audit Committee and a Member of the Nomination and Remuneration Committees of Ashtead Group plc in respect of which he received a fee of £27,370 (comprising a Director's fee of £18,247 for the period and additional fees of £9,123 for acting as Senior Independent Director and for chairing the Audit Committee). He was also a Non-Executive Director of The Edrington Group Limited in respect of which he received a fee of £19,767 for the period to 21 April 2021 which he donated to the Robertson Trust, the charity which is a majority shareholder of The Edrington Group Limited. Nigel Crossley did not hold any non-executive directorships during 2021.

Remuneration Report continued

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 £1.3460 per share at 31 December 2021 (being the last trading day of the financial year).

Executive Directors

Name	Share ownership requirements (% of salary) ¹	Number of shares owned outright at 31 December 2021 ²	Value invested ³ (£)	Share Awards		Share options ⁶		Total share interests at 31 December 2021 ²
				Subject to performance conditions ⁴	Not subject to performance conditions ⁵	Subject to performance conditions	Exercised during the year ⁷	
Rupert Soames	200%	5,777,821	7,623,543	3,931,932	921,528	0	2,253,913	10,631,281
Angus Cockburn ⁸	200%	1,901,118	675,412	N/A	N/A	N/A	N/A	N/A
Nigel Crossley	200%	222,941	302,531	841,306	0	0	428,314	1,064,247

Notes:

- Nigel Crossley was appointed to the Board as Group CFO on 21 April 2021. It is anticipated that it will take him up to five years from appointment to meet his shareholding commitment.
- Includes shares owned by connected persons. There were no changes in Executive Directors' interests in the period between 1 January 2022 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 2021 by the Executive Director and/or their connected persons.
- Includes awards made to Rupert Soames and Nigel Crossley under the Long-Term Incentive Plan, and previously made under the Deferred Bonus Plan which have not yet vested. All awards are in the form of conditional share awards.
- These are awards made under the Equity-Settled Bonus Plan in connection with the compulsory deferral of bonus into shares. Awards are in the form of conditional share awards and have not yet vested.
- 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.
- Rupert Soames and Nigel Crossley exercised vested options in respect of their 2018 PSP awards that were subject to EPS, TSR, ROIC, Order Book and employee engagement performance conditions.
- Figures show Angus Cockburn's shares owned outright as at 21 April 2021 when he stepped down from the Board at the AGM. He left the Company on 31 December 2021.

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 2021 ^{5,6}
Sir Roy Gardner ¹	225,000
Kirsty Bashforth	10,000
Eric Born ²	30,000
Kru Desai ³	–
Tim Lodge ⁴	40,000
Ian El-Mokadem	50,000
Dame Sue Owen	10,000
Lynne Peacock	15,000
John Rishton	43,086

Notes:

- Showing Sir Roy Gardner's share interests at 21 April 2021 when he retired as Chairman and stepped down from the Board.
- Eric Born stepped down from the Board on 31 December 2021.
- Kru Desai joined the Board on 21 October 2021.
- Tim Lodge joined the Board on 21 February 2021.
- Includes shares owned by connected persons. There were no changes in Directors' interests in the period between 1 January 2022 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.

Dilution against these 5% and 10% limits is regularly reviewed. Based on the Company's issued share capital as at 31 December 2021, the Company had headroom of 1.7% and 6.63% respectively so 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 7,036,349 and 11,605,185 ordinary shares at 1 January 2021 and 31 December 2021 respectively.

Summary of the approved Remuneration Policy

The 2021 Directors' Remuneration Policy (the "Policy") took effect following shareholder approval at the 2021 Annual General Meeting (held on 21 April 2021). A summary of the Policy is provided below. This summary does not replace or override the full approved Policy which is available on our website within the 2020 Annual Report and Accounts.

Remuneration principles

Serco's 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;
- be based on a clear rationale which participants, shareholders and other stakeholders are able to understand and support.

In considering the structure and framework for the Policy, the Committee carefully considered the linkage of remuneration to the Company's strategy to ensure that the arrangements support the strategy and promote the long-term sustainable success of Serco. 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, long term incentive plan and pension) in this context. This ensures that in applying the Policy, executive pay is sufficient to achieve the goals of the 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.

The Policy table for Executive Directors below sets out how each element of the 2021 Policy aligns with, and supports, our strategic objectives.

Base salary

Purpose	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.
Operation	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. Salary levels are set by reference to the: <ul style="list-style-type: none"> – role, performance and experience of the individual; – wider economic environment; – compensation of similar roles at companies in an appropriate peer group; and – salary increases across the Group. In some circumstances an Executive Director 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.
Opportunity	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 salary increases made to the general workforce in the jurisdiction in which the Executive Director is based. 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. Full disclosure of the rationale would be included in the relevant Report.
Performance framework	Review takes account of individual performance and contribution to the Company during the year.

Remuneration Report continued

Benefits

Purpose	To provide a competitive level of benefits.
Operation	<p>A range of benefits may be provided to Executive Directors. These typically include company car or car allowance, private medical insurance, permanent healthcare insurance, life cover, annual allowance for independent financial advice, and voluntary health checks.</p> <p>Where appropriate other benefits may be offered including, but not limited to, relocation benefits.</p> <p>Directors may also be eligible to participate in any all-employee share plan, such as an SAYE, which may be launched subject to shareholder approval. Participation will be on the same basis as other employees, up to HMRC approved limits where relevant.</p> <p>Benefits are reviewed annually against market practice and are designed to be competitive.</p>
Opportunity	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.
Performance framework	None

Pension

Purpose	To provide pension-related benefits to encourage Executive Directors to build savings for retirement.
Operation	<p>Executive Directors may participate in the Group defined contribution pension plan (or overseas Serco pension plan as appropriate).</p> <p>Executive Directors may choose to receive some or all their employer pension contribution as a cash allowance to invest as they see fit.</p>
Opportunity	<p>The maximum contribution or cash allowance (or mix of both) for current Executive Directors will be aligned with the contribution available to the wider workforce over a two-step approach as follows:</p> <ul style="list-style-type: none"> - From 1 April 2020, 20% of salary; and - From 1 January 2023, aligned to the workforce rate. <p>The maximum Company contribution (or cash payment in lieu) for a newly appointed UK based Executive Director will be aligned with the maximum employer contribution available to the wider UK workforce (currently 8% of salary). For a newly appointed Executive Director based outside the UK, their maximum pension opportunity will align with that available to the wider workforce for the jurisdiction in which they are based.</p>
Performance framework	None

Annual bonus

Purpose	<p>To incentivise executives to achieve specific, strategically aligned annual targets and objectives, and to reward ongoing stewardship and contribution to core values.</p> <p>Bonus deferral provides alignment with shareholder interests.</p>
Operation	<p>Bonus awards are based on the achievement of specific targets over the year. The Committee sets objectives against key financial measures and strategic objectives aligned to the Group's overall strategy, annual business plan and priorities for the year, and the weighting for each measure, at the start of each performance year.</p> <p>Annual bonuses are paid after the end of the financial year to which they relate. There is compulsory deferral into shares, typically vesting after three years, of any bonus earned over 100% of salary.</p> <p>The Committee may decide to pay the entire bonus in cash where the amount to be deferred into shares would, in the opinion of the Committee, be so small that it is administratively burdensome to apply deferral. Dividend equivalents may accrue during the vesting period on the shares under the bonus deferral award. These may be delivered in the form of additional shares or cash to the extent that the award vests.</p> <p>Malus and clawback provisions apply.</p>
Opportunity	Maximum bonus opportunity is 175% of salary for CEO and 155% of salary for other Executive Directors. This represents the maximum bonus payable for exceptional/'stretch' performance.
Performance framework	<p>Performance is measured over each financial year relative to financial, strategic and individual objectives in the year aligned with the Company's strategic plan.</p> <p>Performance measures and weightings are reviewed each year to ensure that they remain appropriate and reinforce the business strategy. At least 70% of the total bonus will be based on the achievement against financial measures. Up to 30% of the total bonus will be based on strategic and personal objectives which will include ESG objectives.</p> <p>Bonus awards are at the Committee's discretion and the Committee will consider the Company's performance and the affordability of the bonuses in the round. The Committee may override the formulaic bonus outcome within the limits of the plan where it believes that the outcome is not reflective of wider performance, or affordability of the bonus, to ensure fairness to both shareholders and participants.</p> <p>Awards are on a straight-line basis from 0% for threshold performance to 50% at target, and to 100% at maximum performance.</p>

Long-term incentive – Serco Group Long Term Incentive Plan (LTIP)

Purpose	To recognise delivery of the Group's longer-term strategy and value creation and align the long-term interests of the Executive Directors with the Group's shareholders.
Operation	<p>LTIP awards consist of share awards subject to performance conditions which are normally granted annually.</p> <p>Awards normally vest three years from their grant date although in exceptional circumstances, such as but not limited to where a delay to the grant date is required, the Committee may set a vesting period of less than three years, although awards will continue to be subject to a performance period of at least three years.</p> <p>At the discretion of the Committee, 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>Post-tax shares are subject to a post vesting holding period usually ending on the fifth anniversary of grant. 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>
Opportunity	Maximum annual award of up to 200% of base salary for the CEO and 175% for other Executive Directors.
Performance framework	<p>At least 75% of the vesting of LTIP awards will be dependent on financial performance, with up to 25% of the vesting based on the achievement of strategic measures aligned with the Company's strategic plan, which will include ESG objectives. The Committee has discretion to restrict the vesting against the non-financial measures 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>The maximum vesting for threshold performance is 25% of the total award, and 100% 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 LTIP awards.</p>

Shareholding guidelines

Purpose	To support long-term commitment to the Company and the alignment of Executive interests with those of shareholders.
Operation	<p>The Committee reviews the shareholding guidelines with the Policy review to ensure the guidelines remain in line with market and best practice.</p> <p>Invested awards that are subject to performance conditions are not considered in determining an Executive Director's shareholding for these purposes. Share price is measured as at end of the relevant financial year, or at the date of cessation as applicable.</p> <p>Executive Directors 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>
Opportunity	<p>In-employment guideline The in-employment shareholding guideline is 200% of salary.</p> <p>Post-employment guideline The post-employment guideline is equal to 100% of the in-employment guideline (or actual shareholding on cessation if lower) for the first 12 months, and 50% of the in-employment guideline (or actual shareholding on cessation if lower) for the second 12 months.</p> <p>This guideline applies to shares vesting from the date of the approval of this Policy, to Executive Directors not under notice at this date.</p> <p>The Committee has the discretion to increase the shareholding guidelines of the Executive Directors.</p>
Performance framework	None

Remuneration Policy for the Chairman and non-Executive Directors

Base fees

Purpose	To attract Non-Executive Directors with the necessary experience and ability to make a substantial contribution to the Group's affairs.
Operation	<p>The fees of the Chairman are determined and approved by the Remuneration Committee (excluding the Chair of the Company) and fees of the Non-Executive Directors are determined and approved by the Board as a whole.</p> <p>The Chairman and other Non-Executive Directors receive a base fee. Other Non-Executive Directors may also receive additional fees in respect of additional responsibilities such as membership of or chair a Board Committee.</p> <p>Fees are typically reviewed on an annual basis against a relevant peer group and taking into consideration market practice.</p>

Remuneration Report continued

Opportunity	<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 anticipated responsibility and time commitment involved.</p> <p>Current fee levels are shown on page 161.</p>
Performance framework	Non-Executive Directors fees are not performance related.

Benefits and expenses

Purpose	To cover the cost of reasonable expenses in connection with carrying out the duties of the role.
Operation	<p>An allowance may be paid to Non-Executive 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>
Opportunity	The maximum travel allowance is £5,000 per occasion requiring inter-continental travel.
Performance framework	None

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.

Malus and clawback

Malus and clawback provisions apply to awards under the annual bonus and long-term incentive. Under the Policy, the Committee, at its discretion, may reduce, cancel or recover some or all of the awards granted to Executive Directors in certain circumstances. Under the malus and clawback provisions, the Company may reduce or prevent vesting of unvested share awards, or clawback against vested or paid awards, in circumstances including but not limited to material misstatement of the Group's audited financial results; material or misleading results announcement prior to vesting; a clear and material contravention of Serco's Codes of Practice or Values; a serious failure of risk management; or an event that leads to serious reputational damage or corporate failure. Clawback may be invoked in the most serious of these circumstances and must be implemented within five years of the grant of the relevant long-term incentive or deferred bonus share award, and within two years in respect of the bonus awards paid in cash.

Use of discretion

The Committee will operate the annual bonus plan and LTIP according to their respective rules, as approved by shareholders, and in accordance with the Listing Rules, where applicable. The Committee retains discretion, consistent with market practice, in a number of areas with regard to the operation and administration of these plans. These include, but are not limited to:

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

In relation to the long-term incentive and bonus, 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. 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. Any use of the above discretions would, where relevant, be explained in the Remuneration Report.

Consideration of employment conditions elsewhere in the Group

When setting remuneration for Executive Directors, the Committee considers contextual information about pay and conditions within the Group, including salary increases and bonus awards for the wider workforce. The Committee sign off all reward decisions applicable to the Executive Committee Members. More broadly, the Committee receives regular updates from Management in relation to employee feedback, and on pay and employment conditions elsewhere in the Group. Further details of how this and the colleague voice is considered are provided in the Chair's letter. The Committee believes that the structure of management reward at Serco should be linked to Serco's strategy and performance, and that reward throughout the whole organisation should follow the same philosophy and underlying principles. The table below provides an overview of how the Policy cascades throughout the organisation.

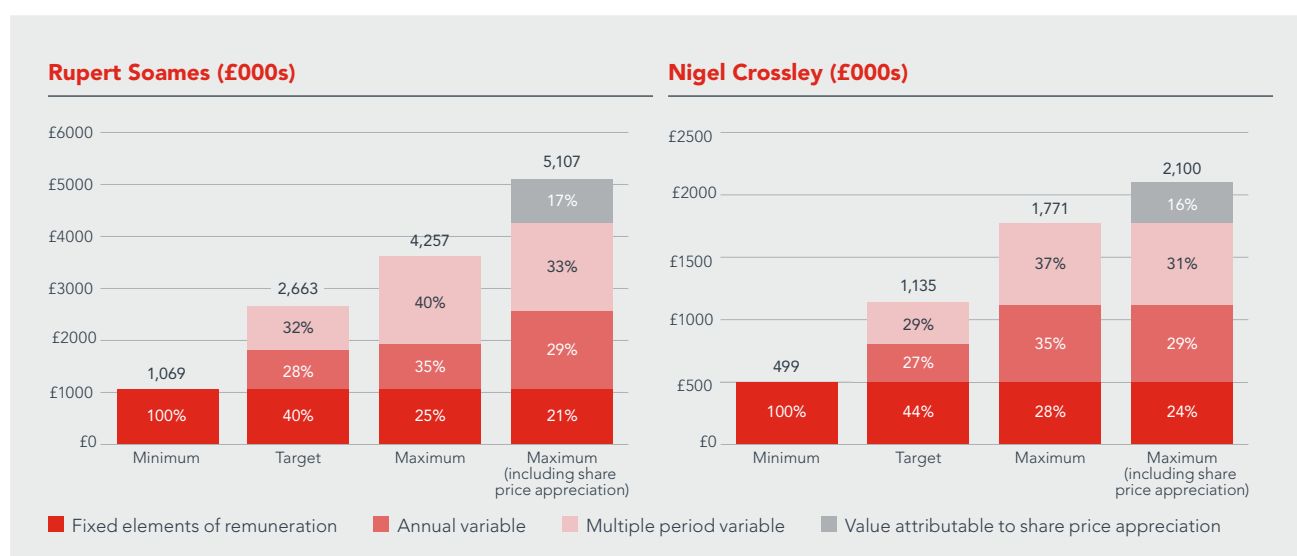
Element	Cascade of the Executive Director Remuneration Policy
Base salary	Salary levels throughout the Group, as far as possible, are set using the same principles applicable to the Executive Directors. Salary increases for Executive Directors will not normally exceed the average increase of the wider workforce.
Benefits	Market-aligned benefits are provided for all employees.
Pension	The Group operates a large number of different pension/retirement benefit arrangements globally, in line with local market practice. Cash allowance alternatives are offered where applicable, e.g. where pension tax allowances would otherwise be exceeded.
Annual bonus	Approximately 1,300 colleagues, including members of the Global Leadership Team, are annually invited to participate in the Serco Bonus Plan.
Long-term incentive	Annual long-term incentive awards are granted to approximately 250 colleagues in the Global Leadership Team.
All employee share plan	The Group are preparing to launch an all employee share plan enabling all colleagues to share in Serco's longer-term success.

Consideration of shareholder views

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.

Illustration of remuneration opportunity for 2022

The following charts illustrate the value that may be delivered to Executive Directors in 2022 under the Policy.



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration:
 - Base salary as applicable from 1 April 2022.
 - Estimated value of benefits to be provided in 2022 in line with the Policy.
 - Pension contribution/cash supplement equal to 20% for Rupert Soames and 8% for Nigel Crossley in line with the Policy.
- Annual bonus and LTIP participation as set out in the Policy table. In all cases, target performance results in delivery of 50% of maximum opportunity. The LTIP values reflect the 'face value' at grant of shares that could be received for target and maximum performance. The LTIP value under the maximum scenario is also shown assuming 50% share price appreciation over the performance period.

Approach to recruitment remuneration

Our approach to recruitment remuneration follows our overarching remuneration principles – 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 complex global business, Serco operates in diverse markets and geographies and many of its competitors for talent are outside the UK.

Remuneration Report continued

The remuneration package for a new Executive Director is aligned to the elements set out in the summary Policy table on pages 163 to 165. Base salary is set by the Committee taking into account all factors it considers relevant, including the Executive Director'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 promotees 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 wider 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 UK based Executive Director would be offered either a pension contribution and/or a pension allowance aligned to the maximum opportunity available to the wider UK workforce (currently 8% of salary). For a newly appointed Executive Director based outside the UK, their maximum pension opportunity will align with that available to the wider workforce for the jurisdiction in which they are based.

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

Element of remuneration	Maximum percentage of salary
Maximum variable pay: Normally comprising:	375%
– Annual bonus	175%
– Long-term incentive	200%

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

Where a new Executive Director is an internal promotion, the Committee has discretion to allow the new Executive Director to continue to benefit from existing awards granted, or benefit entitlements 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 Remuneration Reports 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 170.

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 Executive Director's contractual payment schedule, subject to an obligation on the part of the Director to mitigate their loss. Payments will either reduce or cease completely, in the event that the Executive 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 Executive Director in connection with such agreements and reasonable payments in respect of restrictive undertakings. - The Committee may agree that if an Executive 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 12 months based on their rate of salary and benefits while a Director, payable in instalments and subject to mitigation. - The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee.
Treatment of annual bonus on termination ¹	<ul style="list-style-type: none"> - No payment unless employed on date of payment of bonus except for 'good leavers'. - '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 may determine 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'. For good leavers, the shares will usually be released on the normal vesting date, however the Committee has discretion to determine early vesting of the deferred share awards in exceptional circumstances (e.g. in the case of death of the Executive Director). '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. - Malus and clawback provisions continue to apply.
Treatment of unvested awards granted under the LTIP ¹	<ul style="list-style-type: none"> - All awards lapse except for 'good leavers' for whom vesting is pro-rated on a time basis, unless the Committee determines otherwise, and is dependent on the achieved performance over the performance period. Awards typically vest on the normal vesting date although the Committee retains discretion to accelerate the vesting in exceptional circumstances. - 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. - On cessation, the holding period (from vest to the fifth anniversary of grant) will typically apply unless the Committee determines otherwise. - Malus and clawback provisions continue to apply.
Post-employment shareholding requirement	<ul style="list-style-type: none"> - As set out in the Policy table on page 165, post-employment shareholding requirements apply for two years following the cessation of employment of an Executive Director.
Change of control	<ul style="list-style-type: none"> - Where the Executive 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 will typically be paid on a pro-rata basis measured on performance up to the date of change of control. - Unvested LTIP awards and unvested share awards in respect of deferred annual bonus are to vest pro-rata for time and performance up to the date of change of control with Committee discretion to treat otherwise. 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.

Note:

1. Good leavers are defined as leavers due to ill-health, injury or disability, death, redundancy, retirement, change of control (as defined in the relevant plan rules) and other circumstances at the Committee's discretion (to the extent that they allow 'good leaver' treatment for particular awards).

Remuneration Report 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.

Dates of Directors' service contracts/letters of appointment

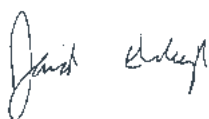
Directors who served on the Board during the financial year ended 31 December 2021:

Director	Date of appointment to the Board
Sir Roy Gardner ¹	1 June 2015
John Rishton ²	13 September 2016
Rupert Soames	8 May 2014
Angus Cockburn ³	27 October 2014
Nigel Crossley ⁴	21 April 2021
Kirsty Bashforth	15 September 2017
Eric Born ⁵	1 January 2019
Kru Desai ⁶	21 October 2021
Tim Lodge ⁷	21 February 2021
Ian El-Mokadem	1 July 2017
Dame Sue Owen	3 August 2020
Lynne Peacock	1 July 2017

1. Sir Roy Gardner retired from the Board as Chairman on 21 April 2021.
2. John Rishton was appointed as Chairman of the Board on 21 April 2021.
3. Angus Cockburn stepped down from the Board as Chief Financial Officer on 21 April 2021.
4. Nigel Crossley was appointed to the Board as Chief Financial Officer on 21 April 2021.
5. Eric Born stepped down from the Board on 31 December 2021.
6. Kru Desai was appointed to the Board on 21 October 2021.
7. Tim Lodge was appointed to the Board on 21 February 2021.

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

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



David Eveleigh
Group General Counsel and Company Secretary
23 February 2022

Directors' Report

Annual Report and Accounts

The Directors present the Annual Report and Accounts of the Group for the year ended 31 December 2021. Comparative figures used in this report are for the year ended 31 December 2020 unless otherwise stated. The Corporate Governance Report, set out on pages 118 to 138, forms part of the Directors' Report.

The Chairman's Statement on pages 14 and 15 and the Chief Executive's Review and Divisional Reviews on pages 16 to 31 report on the activities during the year and likely future developments. The information in these reports, which is required to fulfil the requirements of the Business Review, is incorporated in this Directors' Report by reference.

2021 Trading update

On 15 November 2021, the Company released a trading update, the content of which is set out in full below:

"Serco today provides an update to 2021 guidance, following stronger than expected recent trading.

Recent trading

Trading has been stronger than we expected in recent months, and we now expect revenue to be around £4.4bn, and Underlying Trading Profit to be not less than £225m. Several factors have driven this improved performance, most of which are unlikely to repeat. First, in the UK and Australia, volumes of work related to Covid-19 support to governments have been higher, and have continued for longer, than we anticipated. Second, a number of contracts across the business have performed better than we expected, notably immigration-related contracts in the UK and Australia, and our healthcare insurance eligibility services contract (CMS) in the United States, where the decision of the Biden administration to extend the open enrolment period has resulted in additional volumes. Finally, a number of commercial discussions that we had expected to complete in 2022 are now anticipated to be finalised in the current financial year. Cash generation has also remained strong.

Recognising the extraordinary efforts of our colleagues around the world and the difficulties experienced by many as a consequence of the pandemic, we will be making an ex-gratia payment to around 52,000 employees, as we did in 2020, and in addition we will be making a significant one-off commitment to our recently established Serco People Fund. The fund provides cash and other support to colleagues who would benefit from a little extra help at this difficult time. Together, these initiatives will cost the company around £10m in the current year.

Our revised guidance for 2021 is set out below:

	2020 Actual	2021 Prior guidance	2021 Latest guidance
Revenue	£3.9bn	~£4.3bn	~£4.4bn
Organic sales growth	16%	~6%	~10%
Underlying Trading Profit	£163m	~£200m	≥£225m
Net Finance Costs	£26m	~£28m	~£26m
Underlying effective tax rate	23%	~25%	~25%
Free Cash Flow	£135m	~£120m	~£150m
Adjusted Net Debt	£58m	~£250m	~£220m

Notes: The guidance uses an average GBP:USD exchange rate of 1.38 in 2021 and GBP:AUD of 1.83.

Outlook for 2022

We are yet to complete our budget process for 2022, and we will be working over the coming weeks to finalise individual budgets and gain Board approval. We expect to be ready to give our usual detailed guidance for the year ahead in conjunction with our Capital Markets Day on 2 December. At this point, we do not expect the guidance for revenue and trading profit for 2022 to be materially different to current analysts' consensus (Serco-compiled consensus is £4.2bn of revenue and £196m of Underlying Trading Profit. Bloomberg consensus is £4.2bn of revenue and £192m of Underlying Trading Profit as at 12 November 2021). We expect 2022 to see much lower demand for Covid-19 related services, partially offset by the impact of new work secured in 2021 and growth in our core non-Covid-19 related business."

Articles of Association

The rules relating to the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

Share capital

The issued share capital of the Company, together with the details of shares issued during the year, is shown in note 31 to the Consolidated Financial Statements.

The powers of the Directors to issue or buy back shares are restricted to those approved at the Company's Annual General Meeting.

At the Annual General Meeting in April 2021, pursuant to Section 570 of the Companies Act 2006, shareholders approved the issue of shares for cash up to 5% of the existing issued share capital and an additional 5% (only to be used in connection with an acquisition or specified capital investment) in each case without the application of pre-emption rights. The authority will expire at the conclusion of the 2022 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2022.

Rights attaching to shares

Each ordinary share of the Company carries one vote at general meetings of the Company. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law.

The Company is not aware of any agreement between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Authority for the purchase of shares

At the Annual General Meeting in April 2021, the Company was granted authority by shareholders to purchase up to 121,662,712 ordinary shares (10% of the Company's issued ordinary share capital as at 10 March 2021). This authority will expire at the conclusion of the 2022 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2022.

As announced on 17 December 2020, the Company undertook a programme to purchase its own shares with a value of up to £40 million. During the year the Company purchased a total of 30,721,849 shares with a nominal value of £614,437 (representing 2.49% of the Company's issued share capital (including those repurchased and held in treasury) on 11 June 2021, the date the repurchase programme was completed) at a total cost of £40 million.

Directors' Report continued

The shares purchased were held in treasury and, on 25 June 2021, following completion of the repurchase programme, 15,371,849 shares, valued at approximately £20 million, roughly equivalent to the sum of the final dividend for 2019 (which was withdrawn) and the interim dividend for 2020 (which it had been intended would be declared), were cancelled. The remainder, 15,350,000 shares, valued at approximately £20 million, were transferred on the same date to the Company's Employee Share Ownership Trust to be used to satisfy awards under existing employee share schemes.

The Board has agreed a further share repurchase of up to £90 million shares which it is intended will be completed within 12 months.

Dividends

The Directors recommend that a final dividend of 1.61p be paid in respect of the year ended 31 December 2021 (2020: 1.4p). An interim dividend 0.8p per share was paid during the year (2020: nil).

Subject to approval by shareholders at the Annual General Meeting to be held on 28 April 2022, the final dividend will be paid on 7 June 2022 to shareholders on the register at the close of business on 13 May 2022.

Directors

Details of the current members of the Board, all of whom served throughout the year with the exception of Tim Lodge, who was appointed on 21 February 2021, Nigel Crossley, who was appointed on 21 April 2021, and Kru Desai, who was appointed on 21 October 2021, are set out on pages 116 to 118.

Sir Roy Gardner and Angus Cockburn resigned as Directors on 21 April 2021 and Eric Born resigned as a Director on 31 December 2021.

Nigel Crossley and Kru Desai, having been appointed as Directors since the previous Annual General Meeting, will resign and offer themselves for election at the Annual General Meeting on 28 April 2022 in accordance with the Articles of Association.

In accordance with the UK Corporate Governance Code, all Directors will stand for re-election at the Annual General Meeting.

Directors' interests

With the exception of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment, there are no contracts in which any Director has an interest.

Details of the Directors' interests in the ordinary shares and options over the ordinary shares of the Company as at 31 December 2021 are set out in the Directors' Remuneration Report on page 162.

Between 1 January 2022 and the date of this report there were no changes in the Directors' interests in ordinary shares and options over ordinary shares.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles of Association and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary of the Company in respect of their positions as officers of the Company as a supplement to this insurance cover. The indemnities, which constitute a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary of the Company.

Branch offices

The Group operates through branches of subsidiary companies in the following jurisdictions: Abu Dhabi, Afghanistan, Bahrain, Belgium, Dubai, France, Iraq, Italy, Luxembourg, Netherlands, Qatar, Ras Al Khaimah, Saudi Arabia, Sharjah and Singapore.

Significant agreements that take effect, alter or terminate upon a change of control

Given the business-to-government nature of many of the services provided by the Company and its subsidiaries, many agreements contain provisions entitling the other parties to terminate them in the event of a change of control, including a takeover of the Company. The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate if the Company is subject to a change of control:

Material contracts

- **Clarence Correctional Centre:** On 14 June 2017, NorthernPathways Project Trust (of which Serco Australia Pty Limited was a member at the time) entered into a project deed with the Australian State of New South Wales to design, construct and operate a new build prison named the New Grafton Correctional Centre, the name of which has subsequently been changed to Clarence Correctional Centre. Also, on 14 June 2017, Serco Australia Pty Limited entered into an operator sub-contract with NorthernPathways, pursuant to which Serco was awarded the rights to operate the prison. The prison entered operations on 1 July 2020, following acceptance of the completed Clarence Correctional Centre by the State ("Commencement Date"). The operator sub-contract will run for 20 years from the Commencement Date. Both the project deed and the operator sub-contract contain change of control provisions that provide that any change of control to an unrelated third-party that has not been approved by the State of New South Wales would be a major default. A major default under either the project deed or operator sub-contract, if not cured, could result in a termination of that contract.
- **Australian Immigration Services:** On 11 December 2014, Serco Australia Pty Limited entered into a contract with the Commonwealth of Australia (acting through the Department of Immigration and Border Protection) for the provision of detention services at all onshore immigration facilities in Australia. The contract has an initial five-year term, with two two-year extension options. The first option was exercised by the client in late 2019 and the second option was exercised in 2021, so the current term will run until December 2023. In the event of a change in control or ownership of Serco Australia Pty Limited, which in the reasonable opinion of the Commonwealth adversely affects the Company's ability to perform the services, the contract may be terminated by the Commonwealth.

Material contracts continued

- **Subcontract relating to the provision of ADF Health Services by Bupa Health Services Pty (Bupa) to the Commonwealth of Australia, Department of Defence (NGHS Contract):** On 4 February 2019 Serco Australia Pty Limited entered into a Subcontract with Bupa for the provision of national garrison health services to the Commonwealth of Australia, Department of Defence. The contract had a services commencement date of 1 July 2019, with an initial six-year term. The NGHS Contract includes a change of control provision that provides that a change of control of the ultimate holding company, Serco Group plc, requires Bupa's prior written consent. If the change is as a result of market transactions, then Bupa is to be notified as soon as possible and consent sought after the event. On request, details of the change and its impact on Serco Australia Pty Limited's obligations under the NGHS Contract are to be provided to Bupa. Bupa may provide consent to the change subject to conditions. If Bupa does not consent to the change of control, Bupa may terminate the NGHS Contract for default.
- **Special Security Agreement:** In order to bid and perform on certain classified contracts involving US national security, Serco Inc. was required to mitigate its foreign ownership through a Special Security Agreement (SSA) between the US Government, Serco Inc. and Serco Group plc. The effective date of the SSA is 7 October 2019. The U.S. Department of Defense may terminate Serco's SSA in the event of the sale of the Corporation to a company or person not under Foreign Ownership, Control or Influence (FOCI).
- **CMS Eligibility Support Services:** In June 2018, Serco Inc. was awarded a follow-on contract with the United States of America (acting through the Centers for Medicare and Medicaid Services (CMS)) for the provision of support for the Exchanges implemented to provide affordable health insurance and insurance affordability programmes. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.
- **Anti-Terrorism/Force Protection (AT/FP) Ashore Program Global Sustainment Contract:** In February 2021, Serco Inc. was awarded a contract with the United States of America (acting through the Naval Facilities Engineering Systems Command) to provide sustainment services for electronic anti-terrorism and force protection systems at U.S. Navy installations around the world. The contract has an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.
- **Federal Emergency Management Agency (FEMA) Recovery Directorate, Public Assistance Division Technical Assistance Contracts IV ("PA TAC IV"):** In December 2017, Serco Inc. was awarded an indefinite-delivery/indefinite-quantity (IDIQ) contract with the United States of America (acting through the Federal Emergency Management Agency) to provide professional and non-professional services, in an advisory and assistance capacity, in support of FEMA responses to major disasters and emergencies. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.
- **Asylum Accommodation and Support Services Contract ("AASC"):** On 8 January 2019 Serco Limited entered into contracts with the Secretary of State for the Home Department (acting through its UK Home Office Visas and Immigration department) for two AASC regions, being the North West of England and the Midlands & East of England. Under AASC, Serco is responsible for the provision of properties for initial and dispersed accommodation requirements, for transportation to and from properties, and for a range of other services to support the welfare of asylum seekers. Across the two regions for which Serco was selected, there are currently approximately 29,000 asylum seekers living in more than 6,000 properties. The AASC contracts became operational on 1 September 2019. The contracts are for a ten year term. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which in the reasonable opinion of the Authority adversely affects Serco's ability to perform the services, the contracts may be terminated by the Authority.
- **Agreement relating to the provision of Prisoner Escort and Custodial Services (Generation 4) ("PECS IV"):** On 30 October 2019 Serco Limited entered into a ten year contract with the Secretary of State for Justice to provide prisoner escort services to the South of England. Under the PECS IV contract Serco is responsible for provision of prisoner escort and custody services, including the escort and custody of young people in the criminal justice system. The PECS IV contract became operational on 28 August 2020. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which the Authority reasonably believes will negatively affect either Serco's ability to perform the services or the Authority's reputation, the contract may be terminated by the Authority.
- **Skynet 5 Agreement relating to the Provision of Military Satellite Communications:** On 24 October 2003, Serco Limited entered into a contract with Paradigm Secure Communications Limited which was subsequently novated to Airbus Defence and Space (ADS) for the provision of services in support of the PFI contract between the Secretary of State for Defence and ADS for the Skynet 5 programme which delivers secure global military satellite infrastructure. Serco is responsible for provision of a range of services in support of the Skynet 5 programme. The current contract term will expire on 31 August 2022. In the event of a change of control or ownership of Serco Limited without the prior written consent of ADS and the Secretary of State for Defence, the contract may be terminated by ADS. Our expectation is that any successor contract awarded to Serco will have the same or similar terms in respect of change of ownership of Serco Limited.

Material contracts continued

- **Covid-19 Track & Trace Contract:** On 18 May 2020, Serco Limited entered into a contract with the Secretary of State for Health & Social Care ("the Authority") for the provision of Track & Trace Contact Centre Services as part of the UK Government's pandemic response. A number of extensions to the original contract term have been made and the current contract term will expire on 31 March 2022. In the event of a change of control of Serco Limited which does not have the prior approval of the Authority, the contract may be terminated by the Authority. The current contract will be succeeded by a new contract with the UK Health Security Agency (an executive agency of the Department of Health & Social Care) (the "UKHSA") which has been awarded to Serco and will commence on 1 April 2022 for a minimum term of 2 years (with the possibility of extension for a further period of up to 2 years)(the "Single Service Centre Contract"). Under the terms of the Single Service Centre Contract, it may also be terminated in the event of a change of control of Serco Limited which does not have the prior approval of the UKHSA.
- **Future Defence Infrastructure Services (FDIS) programme:** Serco Holdings Limited is a 50% shareholder in VIVO Defence Services Limited ("the VIVO JV"). Serco Holdings Limited's joint venture partner and the other shareholder in the VIVO JV is a UK subsidiary company of Engie (Engie Services Holdings UK Limited). The VIVO JV performs facilities management services pursuant to call-off contracts procured by the UK Defence Infrastructure Organisation ("DIO") part of the UK Ministry of Defence ("MoD") under a Crown Commercial Services Framework Agreement for the provision of Workplace Services (RM6089) (the "CCS Framework") as part of the Future Defence Infrastructure Services (FDIS) programme. On 14 June 2021 VIVO entered into two call-off contracts (one for the Central Region and one for the South West Region) for Lot 3 contracts under the CCS Framework for a 7 year term (with the possibility of extension for further periods of up to 3 years) (the "Lot 3 Contracts"). The Lot 3 Contracts became operational on 1 February 2022. On 24 June 2021, VIVO entered into two further call-off contracts (one for the South East and one for the South West Region) for Regional Accommodation Maintenance Services ("RAMS") under Lot 2b for an initial 7 year term (with the possibility of extension for further periods of up to 3 years) (the "Lot 2b Contracts"). The Lot 2b Contracts become operational on 1st March 2022. Under the terms of the CCS Framework, in the event of a change of control of VIVO without the prior approval of the MoD, the Lot 2b Contracts and Lot 3 Contracts may be terminated by the MoD. In the event that there is a change of control of Serco Holdings Limited, it is required to transfer its entire shareholding in the VIVO JV to Serco Group plc or another wholly owned subsidiary of Serco Group plc prior to such change of control. In the event that there is a change of control of Serco Holdings Limited without its entire shareholding in the VIVO JV first being transferred to another member of the Serco Group or if there is a change of control of Serco Group plc then, unless the prior approval of the other shareholder in the VIVO JV is given, the other shareholder in the VIVO JV is entitled to purchase the VIVO JV shares and loans held by Serco Holdings Limited and any other member of Serco Group plc at fair market value determined by an expert.

Financing facilities

- **Revolving credit facility:** the Company has a £250,000,000 revolving credit facility dated 3 December 2018 with a syndicate of banks. The facility provides funds for general corporate and working capital purposes and bonds to support the Group's business needs. The facility agreement provides that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it and cancel its commitments under the facility.
- **US notes:** the Company has notes outstanding under three US Private Placement Note Purchase Agreements (the 'USPP Agreements') dated 20 October 2011, 13 May 2013 and 8 October 2020 respectively. The total amount of the notes outstanding under the three USPP Agreements was \$349,165,785 at 31 December 2021, and their maturity is between May 2022 and October 2032. Under the terms of the USPP Agreements, if a change of control of the Company occurs, it is required to offer to prepay the entire principal amount of the notes together with interest to the prepayment date but without payment of any make-whole amount.
- **Term loan facilities:** the Company has a £45,000,000 term loan dated 23 May 2019 and a £75,000,000 term loan dated 24 February 2021. The facility agreements provide that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it.

Share plans

- The Company's plans contain provisions in relation to a change of control. Outstanding options and awards may vest and become exercisable on a change of control of the Company, in accordance with the rules of the plans.

Annual General Meeting 2021

In compliance with the restrictions in place at the time, the 2021 Annual General Meeting took place as a closed meeting, attended by the Company Secretary and employee shareholders to meet the quorum requirements, and was held at Discovery House, 18 Bartley Way, Bartley Wood Business Park, Hook, Hampshire RG27 9XA.

Annual General Meeting 2022

The 2022 Annual General Meeting of the Company will be held at the Company's offices at Enterprise House, 11 Bartley Way, Bartley Wood Business Park, Hook, Hampshire RG27 9XB on Thursday 28 April 2022 at 11.00 am.

Financial risk policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out in note 29 on pages 233 to 238.

Employment policies

The Board is committed to maintaining a working environment where staff are individually valued and recognised. Group companies and Divisions operate within a framework of human resources policies, practices and regulations appropriate to their own market sector and country of operation, whilst subject to Group-wide policies and principles.

Diversity

The Group is committed to ensuring equal opportunity, honouring the rights of the individual, and fostering partnership and trust in every working relationship. Policies and procedures for recruitment, training and career development promote diversity, respect for human rights and equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

The Group promotes diversity and inclusion so that every employee is able to be successful. The Group gives full consideration to applications for employment, career development and promotion from persons of disability, and offers employment when suitable opportunities arise. Wherever practicable adjustments will be made for persons of disability to continue with employment and training.

Human rights

We strive to live and manage our business by our Values, behave with integrity and treat people with respect – within the bounds of expected individual and corporate behaviour, with regard for relevant laws and regulatory requirements, with sensitivity to local cultures and with respect for human rights.

We have zero tolerance for any activities that break any law relating to human rights, either directly or indirectly, anywhere in the world. Recognising all applicable modern slavery legislation, we will not engage in any form of human trafficking or use forced, bonded, illegal or child labour, nor knowingly work with anyone who does. We consider international human rights standards as a framework to assess, monitor, mitigate and remedy any actual or potential adverse human rights impacts that may affect our business. We provide guidance and support to our employees to help them identify, manage and respond to any risk or issue, and maintain confidential reporting resources for anyone concerned about violations of our Values, policies or Code of Conduct, whilst ensuring there is no need for them to fear the consequences of doing so.

Our commitment to human rights is defined within our Business Conduct and Ethics Policy Statement, supporting standards (including our Group Standard for Human Rights) and related operating procedures (including our Human Rights Decision Tree). Our human rights policies are guided by international human rights principles encompassed in the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights.

Further information is available in our human rights supplement on our website.

Employee engagement

The Group is proud of its record of managing employee relations and believes that the structure of individual and collective consultation and negotiation is best developed at a local level. Over the years, the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as in employment terms and conditions. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

The Group has been proactive in providing employees with information on matters of concern to them as employees and in taking their views on board. Effective leadership and line management are our principal means of engagement and employee feedback is invited through Viewpoint, our employee engagement survey; Speak Up, our global ethics helpline and investigation process; Yammer, our internal social media platform; and Colleague ConneXions, our approach to amplifying employee voice and strengthening dialogue between the Board and employees.

These mechanisms ensure employees' views are considered in decision-making and that they have a common awareness of Group strategy, matters of concern to them and the financial and economic factors affecting the performance of the Company.

Participation by staff in the success of the Group is encouraged by the availability of long-term incentive arrangements for senior management, which effectively aligns their interests with those of shareholders by requiring that Company-level financial performance criteria are achieved as a condition of vesting.

We have also continued to strengthen our global benefits offerings and plan to create further opportunities for colleagues to share in the success of the Company. Shareholders have approved the Rules for the new, all employee, global share plan which will be launched in 2022. It is proposed to offer our employees an annual opportunity to contribute to the plan over a three-year term to build affordable savings out of which they can acquire shares in the Company at the expiry of each savings contract.

Further information is contained in the People Report which is available on the Company's website

Corporate responsibility

We have been committed to delivering and communicating our position and performance across environmental, social and governance (ESG) criteria for many years. We recognise the deep strategic relevance of all that we do in those areas and ESG factors are embedded in how we deliver our strategy, defined and driven through our ESG Framework. Our framework brings all our strategic ESG priorities together in one model, structured around our key stakeholder groups. It is considered in strategy development and firmly embedded in how we manage our business, driven through the Serco Management System with appropriate Board and Executive oversight and dedicated leadership at both Group and Divisional levels.

Board oversight and scrutiny of environmental, social and certain governance matters (including anti-corruption and anti-bribery, human rights, environmental approach, health and safety and other employee matters) is embedded in our corporate governance through the Board's standing committee, the Corporate Responsibility Committee. Oversight and scrutiny of other governance matters is distributed between all standing committees of the Board, with certain matters reserved for the Board itself.

Further information can be found in the Strategic Report on pages 39 to 76.

Directors' Report continued

Political donations

During the year neither the Company nor the Group made political donations and they intend to continue with this policy. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, a resolution will therefore be proposed that the authority granted at the Annual General Meeting in April 2021 regarding political donations be renewed in order to avoid inadvertent contravention of UK legislation. Details will be included in the Notice of Annual General Meeting.

Within the US business there exists a Political Action Committee (PAC), which is funded entirely by employees. The Serco PAC and its contributions are administered in strict accordance with regulatory requirements. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Financial statements

At the date of this report, as far as each Director is aware, there is no relevant audit information of which the Group's Auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Auditor

Following a tender process undertaken in 2016, KPMG LLP were appointed by the Board in 2017 as the Company's external auditor for the 2016 audit and have served as the Company's auditor for four years.

The Audit Committee has considered the reappointment of KPMG LLP as auditor and recommended it to the Board. The Board recommends the reappointment of KPMG LLP to shareholders at the Annual General Meeting to be held on Thursday 28 April 2022.

Going concern and Viability Statement

The Company's Going Concern and Viability Statement can be found on pages 105 and 106.

Interests in voting rights

At 31 December 2021, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('Rule 5') of the following interests in voting rights over the issued share capital of the Company:

Notifying person	Number of voting rights attached to shares or held through financial instruments	% held at date of notification	Nature of holding
BlackRock Inc	100,070,594	8.21	Indirect
	14,625,142	1.20	Contract for difference
	114,695,736	9.41	Total
FIL Limited	73,169,712	6.66	Indirect
	156,204	0.01	Stock Loan
	73,325,916	6.67	Total
Marathon Asset Management LLP	58,353,594	5.31	Indirect
Majedie Asset Management Limited	55,965,452	5.09	Direct
Magallanes Value Investors SA SGIIC	37,294,171	3.04	Indirect

Notes:

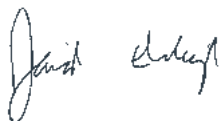
1. The above interests may have changed since the date of notification to an interest not requiring further notification under Rule 5.
2. On 25 January 2022, BlackRock Inc notified the Company that its interest in voting rights had increased to 9.91% (120,873,916 shares).
3. On 9 February 2022, Slater Investments Limited notified the Company that its interest in voting rights had increased to 5.0% (60,908,863 shares).
4. On 11 February 2022, Magallanes Value Investors SA SGIIC notified the Company that it no longer had a notifiable interest in voting rights.

Index of Directors' Report disclosures

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below. Pursuant to Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk (*).

Amendment of the Articles	Page 171	Greenhouse gas emissions	Pages 58 to 76
Appointment and replacement of Directors	Page 172	Independent Auditor's Report	Pages 180 to 190
Board of Directors	Pages 116 to 118	Long-term incentive plans*	Pages 139 to 170
Change of control	Pages 172 to 174	Political donations	Page 176
Community	Pages 107 to 114	Powers for the Company to issue or buy back its shares	Page 171
Corporate responsibility	Pages 39 to 76	Powers of the Directors	Page 137
Directors' insurance and indemnities	Page 172	Restrictions on transfer of securities	Page 171
Directors' inductions and training	Page 124	Rights attaching to shares	Page 171
Directors' responsibilities statement	Page 178	Risk management and internal control	Pages 92 to 104 and 125 to 127
Disclosure of information to Auditor	Page 189	Share capital	Page 171
Diversity	Pages 121 and 133 to 134	Significant agreements	Pages 172 to 174
Dividends	Pages 14, 21, 86 and 172	Significant related party agreements*	Pages 250 and 251
Employee involvement	Pages 53, 54, 120, 174 and 195	Significant shareholders	Page 176
Employees with disabilities	Page 175	Statement of corporate governance	Pages 137 and 138
Financial risk management	Pages 233 to 238	Strategic Report	Pages 1 to 114
Future developments of the business	Pages 4 to 13	Viability Statement	Pages 105 and 106
Going concern	Pages 105 to 106 and 176	Voting rights	Page 171

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



David Eveleigh
Group General Counsel and Company Secretary
23 February 2022

Directors' Report

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

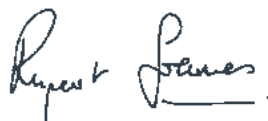
Responsibility statement of the directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the board



Rupert Soames
Group Chief Executive
23 February 2022



Nigel Crossley
Group Chief Financial Officer
23 February 2022

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Independent Auditor's Report

to the members of Serco Group plc

1. Our opinion is unmodified

We have audited the financial statements of Serco Group plc ("the Company") for the year ended 31 December 2021 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and parent company Statement of Changes in Equity, the Consolidated and parent Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 27 May 2016. The period of total uninterrupted engagement is for the six financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Revenue and margin recognition

Revenue £4,424.6m (2020: £3,884.8m), Onerous Contract Provisions of £14.2m (2020: £14.5m) and Contract Assets £319.0m (2020: £296.1m)

Assessment of risk vs. prior year: Unchanged

Refer to page 130 (Audit Committee Report), pages 198 to 200 and 205 (accounting policy), pages 206 to 207 (key judgements), pages 227 to 228 (contract assets, trade and other receivables note in the financial statements) and page 232 (provisions note in the financial statements)

The risk	Our response
<p>Accounting application</p> <p>The many and sometimes unique contractual arrangements that underpin the measurement and recognition of revenue by the group can be complex, particularly in relation to variable revenue, with significant judgement involved in the assessment of current and future financial performance. The key judgements impacting the recognition of revenue and resulting operating profit include:</p> <ul style="list-style-type: none"> – Interpretations of terms and conditions in relation to the required service obligations in accordance with contractual arrangements; – The allocation of revenue and costs to performance obligations where multiple deliverables exist; – Assessment of stage of completion and cost to complete, where percentage completion accounting is used; – Consideration of the Group's performance against contractual obligations and the impact on revenue and costs of delivery; – The recognition and recoverability assessments of contract related assets, including those recognised as direct incremental costs prior to service commencement. 	<p>We performed the tests below rather than seeking to rely on group's controls because the contractual arrangements that underpin the measurement and recognition of revenue by the group can be complex, with significant judgement involved in the assessment of current and future financial performance. This meant that detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our audit procedures included:</p> <p>Contracts were selected for substantive audit procedures based on qualitative factors, such as commercial complexity, and quantitative factors, such as financial significance and profitability that we considered to be indicative of risk. Our audit testing for the contracts selected included the following:</p> <p>Assessing policy application</p> <p>We inspected customer contracts to assess the method of revenue recognition to determine that it was in accordance with the Group's accounting policy and relevant accounting standards, including the appropriate recognition of revenue as the performance obligation is satisfied on service contracts.</p> <p>Accounting analysis</p> <p>We inspected and challenged accounting papers prepared by the Group to explain the positions taken in respect of key contract judgements including contract modifications (such as those arising due to COVID-19). We also challenged whether it is highly probable that the variable revenue recognised will not be reversed in future periods as required by the application of the revenue constraint in accordance with the Group's accounting policy and relevant accounting standards.</p> <p>Tests of details</p> <p>To assess whether the revenue constraint was appropriately applied in accordance with the Group's accounting policy and relevant accounting standards;</p> <ul style="list-style-type: none"> – we vouched a sample of revenue to documents such as invoices or purchase orders, or customer agreements for the work performed; – we inspected a sample of customer contracts to identify any KPI obligations and assessed the contract's operational performance against those obligations; and – we inspected a sample of customer contracts to identify contractual variations and claims and where these arose, obtained evidence of correspondence with customers and third parties.
<p>Subjective estimate</p> <p>Judgement is required to determine whether a contract is onerous, based upon the estimated future performance of the contract. Where a contract is determined to be loss-making, an onerous contract provision is required, which requires further judgement in assessing the level of provision, based on estimated variable income and cost to complete, taking into account contractual obligations to the end of the contract, extension periods and customer negotiations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the onerous contract provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>Site visits</p> <p>For contracts selected for testing;</p> <ul style="list-style-type: none"> – we attended a selection of monthly Divisional and Business Unit Performance Reviews used to assess business performance in order to inform our assessment of operational and financial performance of the contracts; and – we performed a selection of physical and virtual site visits and enquired with contract and Business Unit management teams as to matters related to operational and financial performance in order to assess whether indicators of an onerous contract exist. <p>For selected contract related assets, representing capitalised bid and phase in costs, our procedures included:</p> <ul style="list-style-type: none"> – Assessing application: We assessed whether contract related assets have been recognised in accordance with the Group's accounting policy and relevant accounting standards. – Historical comparisons: We compared forecast contract cash flows and profits with historical actuals and assessed whether the forecasts supported the carrying value of the assets. – Independent reperformance: We compared the amortisation period with the duration of the contract and checked that the amortisation had been calculated correctly.

Independent Auditor's Report continued

to the members of Serco Group plc

The risk

Accounting application continued

Our response

For onerous and potentially onerous contracts identified through application of quantitative selection criteria, our procedures to address the subjective estimate risk included:

Benchmarking assumptions

We compared contract level forecast revenues and costs to the Group's annual budgets and longer-term forecasts approved by the directors. We challenged key assumptions made by the Group in preparing these forecasts, including those in relation to revenue growth and cost reductions, by comparing them to external evidence (for example customer correspondence) where possible, and assessing against business plans.

Our sector experience

We assessed the contractual terms and conditions to identify the key obligations of the contract and compared these with common industry risk factors to inform our challenge of completeness of forecast costs.

Historical comparisons

We compared the contract forecasts to historic and in year performance to assess the historical accuracy of the forecasts.

Tests of details

We compared the allocation of central functional costs to the group's policy and challenged the underlying assumptions using our understanding of the contract operations.

Assessing transparency

We also assessed whether the Group's disclosures about the estimates and judgements applied reflected the risks related to the estimation of onerous contracts.

Our findings

We found no material errors in the group's application of its revenue accounting policy (2020: no material errors). We found the resulting estimate of onerous contract provision to be balanced (2020: balanced).

Recoverability of group goodwill and of parent's investment in subsidiary

Group: £852.7m (2020: £669.6m); parent Company: £2,041.7m (2020: £2,032.7m)

Assessment of risk vs. prior year: Unchanged

Refer to page 131 (Audit Committee Report), page 201 (accounting policy), page 207 (key judgements) and pages 223 to 224 (Goodwill note in the financial statements)

The risk	Our response
<p>Goodwill in the group and the carrying amount of the parent Company's investment in subsidiary are significant and at risk of irrecoverability due to estimation uncertainty in valuing the recoverable amounts of the Group's cash generating units. The estimated recoverable amount of these balances through value in use calculations is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The CGUs which were most sensitive to a deterioration in the division's cash flow projections or an increase in discount rate were the AsPac CGU and Middle East CGU. As at year end 31 December 2021, the AsPac CGU was estimated to have headroom of £380.6m and Middle East has headroom of £103.6m.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of CGUs and value in use of investment in subsidiary have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 17) disclose the sensitivity for goodwill estimated by the Group.</p>	<p>We performed the tests below rather than seeking to rely on any of the group's controls because the contractual arrangements that underpin the measurement and recognition of revenue by the group can be complex, with significant judgement involved in the assessment of current and future financial performance. This meant that detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our audit procedures included:</p> <p>Benchmarking assumptions: With the assistance of our valuation specialists, we challenged the growth rate and discount rate used in the value in use calculation by comparing the Group's assumptions to external data. We challenged the implied cumulative annual growth rate within the five year forecasts and assessed this against past performance and the terminal growth rate. We challenged forecast assumptions around new contract wins or extensions, contract attrition, cost reductions as well as cost reductions on existing contracts.</p> <p>Historical comparisons</p> <p>We compared current year actual cash flows to historic forecasts to assess the historical accuracy of the forecasts used in the impairment model.</p> <p>Sensitivity analysis</p> <p>We tested the sensitivity of impairment calculations to changes in key underlying assumptions, which were the short term cash-flow projections, the discount rate and terminal growth rates. We assessed the impact on headroom with the inclusion of an alpha factor in the discount rate in order to reflect any country specific and forecasting risks we considered might be present in each division. We challenged the projected win probabilities (including contract extensions) on key contracts and sensitised the five year cash flow forecasts by reducing new wins and extensions within the pipeline. We specifically considered the impact of COVID-19 on trading and compared the forecasts against the company's experience to date during the pandemic.</p> <p>Comparing valuations</p> <p>We considered whether the forecast cash flow assumptions used in the value in use calculation were consistent with the assumptions used to calculate the expected loss on onerous contract provisions, the recognition of deferred tax assets and the Directors' assessment of going concern and viability. We compared the results of discounted cash flows against the Group's market capitalisation, after adjusting for its net debt to assess the reasonableness of the value in use calculations.</p> <p>Assessing transparency</p> <p>We also assessed whether the Group's disclosure about the sensitivity of outcomes reflects the risks inherent in the valuation of goodwill.</p> <p>Substantive audit procedures over testing of recoverability of the investment in subsidiary included:</p> <ul style="list-style-type: none"> – Comparing the carrying amount of investment with the subsidiary's financial statements or draft balance sheet to identify whether its net assets, being an approximation of their minimum recoverable amount, are in excess of their carrying amount and assessing whether the subsidiary has historically been profit-making. – We compared the carrying amount of the investment to the market capitalisation for the Group (after adjusting for net debt). <p>Our findings:</p> <p>We found the Group's assessment that there is no impairment of the carrying amount of Group's goodwill and of parent's investment in subsidiary to be balanced (2020: balanced) and the related sensitivity disclosures to be proportionate (2020: proportionate).</p>

Independent Auditor's Report continued

to the members of Serco Group plc

Recognition of Deferred Tax Assets £214.3m (2020: £83.2m)

Assessment of risk vs. prior year: Unchanged

Refer to page 129 (Audit Committee Report), page 204 (accounting policy), page 208 (key judgements) and pages 221 to 222 (Deferred Tax note in the financial statements)

The risk	Our response
<p>Forecast based assessment The Group has significant deferred tax assets in respect of tax losses. There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets are or are not recognised.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our audit procedures included:</p> <p>Assessing forecasts The work on the Group's forecasts as described in the goodwill impairment risk above.</p> <p>Our tax expertise Use of our own tax specialists to assist us in assessing the recoverability of the tax losses against the forecast future taxable profits, taking into account the Group's tax position, the timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation.</p> <p>Assessing transparency Assessing the adequacy of the Group's disclosures about the sensitivity of the recognition of deferred tax assets to changes in key assumptions reflected in the inherent risk.</p> <p>Our results As a result of our work we found the level of deferred tax assets recognised to be acceptable (2020 result: acceptable).</p>

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £7m (2020: £6.2m), determined with reference to a benchmark of group profit before tax, of which it represents 3.6% (2020: 4.0%).

Materiality for the parent company financial statements as a whole was set at £6.3m (2020: £5.4m), determined with reference to a benchmark of company total assets, of which it represents 0.2% (2020: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 65% group, 75% parent company) of materiality for the financial statements as a whole, which equates to £5.3m (2020: £4.0m) for the group and £4.7m (2020: £4.0m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk for the current year.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m (2020: £0.31m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit

Of the Group's 6 (2020: 6) reporting components, we subjected all to full scope audits for Group purposes. These components represent approximately 100% (2020: 100%) of the Group's Revenue, 100% (2020: 100%) of Group profit before tax and 100% (2020: 100%) of Group total assets.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality levels, which ranged from £2.4m to £5.5m (2020: £2.1m to £3.7m) having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 6 components (2020: 4 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. Due to the travel restrictions in place during the performance of the audit, the Group team has not visited any component auditors outside of the UK and instead held virtual conference meetings with all component auditors (2020: virtual meetings held with all component auditors). At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The Group operates a shared service centre in India, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The shared service centre is subject to specified risk-focused audit procedures by us, principally the testing of transaction processing controls. Additional procedures are performed at certain reporting components to address specific audit risks not addressed by the work performed centrally over the shared service centre.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

4. The impact of climate change on the audit

In planning our audit, we considered the impacts of climate change on the Group's business and its financial statements.

The Group has made a commitment to be net zero in own assets and leases by 2030 and to support its clients to meet this target by 2050. Further information has been provided in the Group's Strategic Report on page 39. The Group's climate related disclosures as recommended by the Task Force on Climate Related Financial Disclosure ("TCFD") are included on page 58 of the Annual Report.

As part of our audit, we have made enquiries of the directors to understand the extent of the potential impact of climate change risk on the Group's financial statements. We have performed a risk assessment of how climate risks facing the Group and the Group's strategy to mitigate these risks may affect the financial statements and our audit. In addition, we held discussions with our own climate change professionals to challenge our risk assessment.

The potential impacts of these matters relate to forward looking estimates, which includes cost projections for long-term contracts and impairment assessments for goodwill. Taking into account our risk assessment procedures, the headroom on goodwill and the nature and duration of the group's contracts, we have assessed that there is not a significant risk to balances in the 2021 financial statements as a result of climate change. There was therefore no impact from climate change on our key audit matters.

We read the disclosure of climate related information in the front half of the Annual Report, which included the Group's adoption of climate related disclosures as recommended by the TCFD and considered consistency with the financial statements and our audit knowledge.

Independent Auditor's Report continued

to the members of Serco Group plc

5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- Significant deterioration of contractual performance impacting on profit margins across the Group;
- Significant deterioration in the Group's ability to win new contracts, and successfully retain existing contracts which are being re-bid;
- Significant deterioration of cash collection, leading to a build-up of working capital.

We also considered less predictable but realistic second order impacts, such as the impact of the Covid-19 pandemic, and the possible impact of major contractual or other claims which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics, in particular in relation to profitability of existing contracts, and win rates assumed for future pipeline, by comparing to the group's approved budgets, growth and economic forecasts and our knowledge of the entity and the sector in which it operates.
- Challenging whether the break-points in the Group's reverse-stress test analysis were not plausible to occur by comparing these scenarios with the Group's previous experience, including the experience to date during the Covid-19 pandemic, assessing the working capital assumptions by comparing the forecasts to actual recent experience and existing supplier/customer arrangements.
- Assessing the conversion of past budgets to actual results to assess the directors' track record of budgeting accurately.
- We inspected the confirmation from the lender of the level of committed financing, and the associated covenant requirements.
- We made inquiries to understand the group's insurance arrangements in respect of certain items and obtained copies of key insurance policies to corroborate the assertions made.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on pages 196 to 197 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, internal legal counsel and the Group’s Ethics & Compliance function and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes including minutes of board committees such as the audit committee and risk committee.
- Considering remuneration incentive schemes and performance targets for directors and management including the Revenue, Trading Profit and Free Cash Flow / Days Sales Outstanding targets for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic subject matter experts to assist us in identifying fraud risks based on discussions of the circumstances of the Group.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that variable revenue is inappropriately recognised, and
- the risk that Group and component management may be in a position to make inappropriate accounting entries, and
- the risk of bias in accounting estimates and judgements such as assessing whether long-term contracts are onerous, determining whether provisions for disputes and litigation are adequate and the assumptions and data used when testing for impairment of goodwill.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all components and at the Group consolidation level based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unexpected account combinations.
- Assessing significant accounting estimates for bias.

We read the disclosures in the front end related to the Company’s obligations under the Deferred Prosecution Agreement with the UK Serious Fraud Office and considered consistency with the financial statements and our audit knowledge.

Independent Auditor's Report continued

to the members of Serco Group plc

6. Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of certain of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation, (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the Group's operations,
- anti-bribery and corruption, recognising the Governmental nature of many of the Group's customers,
- employment law, due to the significant number of employees the Group employs,
- Data protection laws, such as the General Data Protection Regulations in Europe due to the number of employees and the services performed for customers in Europe, and
- Single source procurement regulations in the UK, due to the contracting environment.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We read the disclosures in the front end related to the Company's obligations under the Deferred Prosecution Agreement with the UK Serious Fraud Office and considered consistency with the financial statements and our audit knowledge.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within Viability Statement on pages 105 to 106 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on pages 105 to 106 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

Independent Auditor's Report continued

to the members of Serco Group plc

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 178, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
23 February 2021

Consolidated Income Statement

For the year ended 31 December

	Note	2021 £m	2020 £m
Revenue	8	4,424.6	3,884.8
Cost of sales		(3,956.6)	(3,501.8)
Gross profit		468.0	383.0
Administrative expenses		(243.3)	(220.0)
Exceptional profit on disposal of subsidiaries and operations		–	11.0
Other exceptional operating items	9	(1.2)	1.5
Other expenses – amortisation and impairment of intangibles arising on acquisition	18	(16.0)	(9.0)
Share of profits in joint ventures and associates, net of interest and tax	6	8.7	12.7
Operating profit		216.2	179.2
Operating profit before exceptional items		217.4	166.7
Investment revenue	12	2.4	1.9
Finance costs	13	(26.4)	(27.8)
Total net finance costs		(24.0)	(25.9)
Profit before tax		192.2	153.3
Profit before tax and exceptional items		193.4	140.8
Tax on profit before exceptional items	14	111.9	(18.9)
Exceptional tax	14	(0.2)	(0.4)
Tax credit/(charge)		111.7	(19.3)
Profit for the year		303.9	134.0
Attributable to:			
Equity owners of the Company		303.9	133.8
Non-controlling interest		–	0.2
Earnings per share (EPS)			
Basic EPS	16	24.86p	10.89p
Diluted EPS	16	24.43p	10.67p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2021 £m	2020 £m
Profit for the year		303.9	134.0
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit obligations*	30	66.8	18.2
Actuarial (loss)/gain on reimbursable rights*	30	(0.5)	3.9
Income tax relating to these items*	14	(21.7)	(5.9)
Share of other comprehensive income in joint ventures and associates	6	3.3	2.7
Items that may be reclassified subsequently to profit or loss:			
Net exchange (loss)/gain on translation of foreign operations**		(11.6)	7.9
Fair value gain/(loss) on cash flow hedges during the year**		0.2	(0.2)
Income statement items reclassified		0.1	–
Tax relating to items that may be reclassified**		4.0	–
Total other comprehensive income for the year		40.6	26.6
Total comprehensive income for the year		344.5	160.6
Attributable to:			
Equity owners of the Company		344.5	160.4
Non-controlling interest		–	0.2

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

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

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves* £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2020	24.5	462.9	165.9	(111.9)	541.4	1.5
Total comprehensive income for the year	–	–	136.5	23.9	160.4	0.2
Issue of share capital	0.2	0.2	–	(0.2)	0.2	–
Shares transferred to award holders on exercise of share awards	–	–	–	0.1	0.1	–
Expense in relation to share based payments	–	–	–	11.2	11.2	–
At 1 January 2021	24.7	463.1	302.4	(76.9)	713.3	1.7
Total comprehensive income for the year	–	–	307.3	37.2	344.5	–
Income statement items reclassified	–	–	–	0.1	0.1	–
Dividends paid	–	–	(26.5)	–	(26.5)	–
Shares purchased and held in Treasury	–	–	–	(40.7)	(40.7)	–
Cancellation of shares held in Treasury	(0.3)	–	(20.4)	20.7	–	–
Shares transferred from Treasury to own shares reserves	–	–	(20.0)	20.0	–	–
Shares transferred to award holders on exercise of share awards	–	–	–	0.2	0.2	–
Expense in relation to share based payments	–	–	–	15.8	15.8	–
At 31 December 2021	24.4	463.1	542.8	(23.6)	1,006.7	1.7

* An analysis of other reserves is presented as part of note 33 Reserves.

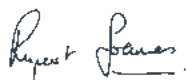
The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	At 31 December 2021 £m	At 31 December 2020 £m
Non-current assets			
Goodwill	17	852.7	669.6
Other intangible assets	18	144.0	80.6
Property, plant and equipment	19	55.5	54.2
Right of use assets	19	416.7	387.5
Interests in joint ventures and associates	6	17.6	19.2
Contract assets	21	2.6	–
Trade and other receivables	21	13.6	25.3
Deferred tax assets	15	214.3	83.2
Retirement benefit assets	30	166.2	114.6
		1,883.2	1,434.2
Current assets			
Inventories	20	19.6	21.4
Contract assets	21	319.0	296.1
Trade and other receivables	21	305.7	313.5
Current tax assets		5.5	4.9
Cash and cash equivalents	22	198.4	335.7
Derivative financial instruments	29	2.6	4.5
		850.8	976.1
Total assets		2,734.0	2,410.3
Current liabilities			
Contract liabilities	23	(61.3)	(42.3)
Trade and other payables	23	(526.0)	(533.9)
Derivative financial instruments	29	(2.0)	(9.3)
Current tax liabilities		(17.2)	(21.6)
Provisions	26	(79.6)	(62.1)
Lease obligations	24	(126.3)	(109.3)
Loans	25	(64.9)	(89.7)
		(877.3)	(868.2)
Non-current liabilities			
Contract liabilities	23	(48.6)	(47.5)
Trade and other payables	23	(7.3)	(9.4)
Derivative financial instruments	29	–	(0.1)
Deferred tax liabilities	15	(40.3)	(26.9)
Provisions	26	(118.0)	(115.9)
Lease obligations	24	(304.0)	(293.3)
Loans	25	(312.1)	(299.1)
Retirement benefit obligations	30	(18.0)	(34.9)
		(848.3)	(827.1)
Total liabilities		(1,725.6)	(1,695.3)
Net assets		1,008.4	715.0
Equity			
Share capital	31	24.4	24.7
Share premium account	32	463.1	463.1
Retained earnings		542.8	302.4
Other reserves	33	(23.6)	(76.9)
Equity attributable to owners of the Company		1,006.7	713.3
Non-controlling interest		1.7	1.7
Total equity		1,008.4	715.0

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 23 February 2022 and signed on its behalf by:



Rupert Soames
Group Chief Executive Officer



Nigel Crossley
Group Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	2021 £m	2020 £m
Net cash inflow from operating activities before exceptional items		357.4	270.5
Exceptional items		(7.5)	(2.0)
Net cash inflow from operating activities	36	349.9	268.5
Investing activities			
Interest received		0.6	0.3
Decrease in other investments		–	0.1
Exceptional sale of other investments		13.0	–
Dividends received from joint ventures and associates		13.5	19.8
Exceptional distribution from joint ventures		–	1.9
Other dividends received		0.6	0.4
Proceeds from disposal of property, plant and equipment		7.0	20.9
Net cash inflow on disposal of subsidiaries and operations		–	11.0
Acquisition of subsidiaries, net of cash acquired	7	(234.9)	(4.9)
Proceeds from loans receivable		–	1.2
Purchase of other intangible assets		(8.2)	(8.3)
Purchase of property, plant and equipment		(23.9)	(41.8)
Net cash (outflow)/inflow from investing activities		(232.3)	0.6
Financing activities			
Interest paid		(24.9)	(24.9)
Capitalised finance costs paid		(0.6)	(0.9)
Advances of loans		110.0	447.9
Repayments of loans		(139.7)	(348.5)
Capital element of lease repayments		(111.3)	(100.8)
Cash movements on hedging instruments		(16.6)	2.4
Dividends paid to shareholders		(26.5)	–
Own shares repurchased		(40.7)	–
Proceeds received from exercise of share options		0.2	0.1
Net cash outflow from financing activities		(250.1)	(24.7)
Net (decrease)/increase in cash and cash equivalents		(132.5)	244.4
Cash and cash equivalents at beginning of year		335.7	89.5
Net exchange (loss)/gain		(4.8)	1.8
Cash and cash equivalents at end of year	22	198.4	335.7

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1. General information

Serco Group plc (the Company) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

These Consolidated Financial Statements comprise the Company and its subsidiaries (together referred to as the Group) and are presented in pounds Sterling because this is the currency of the primary economic environment in which Serco operates. All amounts have been rounded to the nearest one hundred thousand pounds and foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

On 31 December 2020, international accounting standards as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards in its Consolidated Financial Statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

These Consolidated Financial Statements on pages 191 to 252 have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as stated below.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company up to 31 December each year. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect the returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests represent the portion of profits or losses and net assets in subsidiaries that is not held by the Group and is presented within equity in the Consolidated Balance Sheet, separate from equity of shareholders of Serco Group plc.

Going concern

In assessing the basis of preparation of the financial statements for the year ended 31 December 2021, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014' particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

At 31 December 2021, the Group's principal debt facilities comprised a £250m revolving credit facility (of which £nil was drawn), acquisition term loan facilities totalling £120m (of which £120m was drawn) and £259m of US private placement notes, giving £629m of committed credit facilities and committed headroom of £444m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility and are outlined on page 88. As at 31 December 2021, the Group's primary restricting covenant, its leverage ratio, is below the covenant of 3.5x and is below the Group's target range of 1x-2x at 0.68.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on the Group's future performance. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved budget. The budget is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions. As part of the budgeting process covering 2022 and 2023, consideration was given to the known impacts of Covid-19, though most of the Group's contracts deliver critical services to governments and the delivery requirements of these have not been materially impacted. Where situations have evolved, these have been reflected in the Group's most recent forecasts and thus are included within the assessment process outlined below.

The Directors have considered the ongoing impact of Covid-19 on the Group's operations. The key impacts which the Group has felt are lower passenger volumes on the Group's train operating contracts, lower volumes within its air traffic control business in the Middle East, higher costs within the Health portfolio and lower usage of the Group's UK leisure centres. The Group has continued to trade profitably during the pandemic, and even at the various peaks globally, the potentially adverse impact of the pandemic was mitigated through the Group's involvement in Covid-related responses. As a result, the Directors no longer consider going concern to be a critical accounting judgement as was previously disclosed in the financial statements for the year ended 31 December 2020.

Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Directors believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test shows that, even after assuming that the US private placement loans of \$28.4m due to mature before 30 June 2023 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 60% of its target new business and rebid wins, combined with a profit margin 60 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants.

In respect of win rates, rebids have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions over the last two years, therefore a reduction of 60% or more to the budgeted win rates and rebid rates is not considered plausible. The Group does not generally bid for contracts at margins below its target range.

In respect of margin reduction, due to the diversified nature of the Group's portfolio of long-term contracts and the fact that the Group has met or exceeded its full-year guidance for the last five years, a reduction in margin of 60bps versus the Group's budget is not considered plausible within the assessment period combined with a 60% reduction in win rates for new business and rebids.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Adoption of new and revised standards

There have been no new accounting standards implemented by the Group during the year and no revisions to accounting standards have had a material impact on the Group's Financial Statements.

Amendments to IFRS16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19 Related Rent Concessions – amendment to IFRS16 Leases. The amendments provide relief to lessees from applying IFRS16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS16, if the change were not a lease modification.

The relief was originally limited to reductions in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022. The impact of applying the amendment and subsequent extension to the Group's Financial Statements was immaterial.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provided reliefs that were not applicable to the Group. The impact of replacing benchmarks is not expected to have a material impact on the Group, see note 29 for details of the Group's interest rate risk management strategy.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

New standards, amendments and interpretations not yet adopted

The following published new accounting standards, amendments to accounting standards and interpretations that are not mandatory for 31 December 2021 reporting periods, have not been early adopted by the Group. These are effective for annual reporting periods beginning on or after the date indicated:

	Effective Date
Annual Improvements to IFRS Standards 2018-2020	01 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	01 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	01 January 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	01 January 2022
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	01 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	01 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	01 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	01 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)	01 January 2023
Initial Application of IFRS 17 and IFRS 9 – Comparative Information	01 January 2023

These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods.

Changes in accounting policies

The Group, following a review of its accounting policies, has updated its accounting policy for modifications to contracts with customers which do not result in the provision of distinct goods or services. Previously, it was stated that if the pricing in the new contract was not commensurate with the stand-alone selling prices for the goods or services and the new goods and services were not distinct from those in the original contract, that any historic adjustments would be recognised through opening retained earnings. This is not the case, and the Group would recognise any adjustments as an adjustment to revenue in the period of the modification. No such modifications have occurred either during the year ended 31 December 2021 or 31 December 2020.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date, regardless of whether that price is directly observable or is estimated using another valuation technique. There are certain transactions in these financial statements which are similar to fair value but are determined by the treatment set out in their respective standards. These are share based payment transactions that are within the scope of IFRS2 *Share Based Payment*, leasing transactions that are within the scope of IFRS16 *Leases*, the calculation of net realisable value under IAS2 *Inventories* and value in use under IAS36 *Impairment of Assets*.

Revenue

The Group recognises revenue based on the principles set out in IFRS 15 *Revenue from Contracts with Customers* and is recognised in any period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

For all contracts, the Group determines whether each arrangement meets the definition of a contract under IFRS 15 and creates enforceable rights and obligations.

Contracts are combined if they are entered into at or near the same time and one or more of the following criteria are met:

- They are negotiated as a package with a single commercial objective.
- Consideration receivable in one contract depends on the other contract.
- Goods or services are a single performance obligation.

For contracts with multiple components, Management applies judgement to consider whether those promised goods and services are:

- a deliverable (i.e. a good or a service) that is distinct; or
- a series of distinct deliverables that are substantially the same and that have the same pattern of transfer to the customer (transferred over time using the same measure of progress).

At contract inception, the transaction price is the total amount of consideration to which the Group expects to be entitled to in exchange for transferring goods or services to a customer.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. Where there is only one performance obligation, no allocation is necessary as the full transaction price is allocated to the single performance obligation.

Where there is more than one performance obligation, the Group looks at each performance obligation separately to see if there is an observable price available, however due to the bespoke nature of the services provided by the Group there is normally no observable stand-alone selling price and the expected cost plus margin approach is used. All bid models for new contracts are built up and negotiated with the customers on a cost-plus margin basis and therefore this approach most accurately reflects the commercial reality and the value of the benefits transferred to the customer.

The Group enters into contracts which contain extension periods where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised bid and phase in costs are expensed.

Further details on revenue recognition for specific contract types are shown below.

Revenue recognition: Repeat service-based contracts

The majority of the Group's contracts are repeat service-based contracts where value is transferred to the customer over time as the core services are delivered. Therefore, in most cases revenue will be recognised on the output basis, based on direct measurements of the value to the customer of the services transferred to date relative to the remaining services under the contract. This is a faithful depiction of the transfer of services since the service delivered to the customer is unchanged. Where the output method is used, the Group often uses a method of time elapsed which requires minimal estimation. Certain repeat service-based contracts use output methods based upon: user numbers; service activity levels; or fees collected. Where any price reductions within output-based contracts are contractual, but the level of service is not decreasing, revenue will be deferred from initial years to subsequent years in order for revenue to be recognised on a consistent basis.

There are certain contracts where a separate performance obligation has been identified for services where the pattern of delivery differs to the core services and which are capable of being distinct, such as asset construction or asset maintenance. In these instances, where the transfer of control is most closely aligned to our efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. In limited circumstances, other methods are used to measure progress under the input method, including resources consumed, time elapsed or labour hours expended. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

Where deemed appropriate, the Group will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

Under IFRS15, unless upfront fees received from customers including transition payments can be clearly attributable to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

In general, the timing of satisfaction of performance obligations is consistent with when payment becomes due, other than in instances where up front win fees or transition payments are received, where in most instances these are deferred.

Any changes to the enforceable rights and obligations with customers and/or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Group's policies.

Revenue recognition: Variable revenue

The Group has a number of contracts where at least an element of the revenue generated is variable in nature. Variability in revenue recognised can arise from a number of factors, including usage related volumes, graduated performance against contractual performance indicators, indexation linked pricing, profit sharing elements and customer decisions related to the provision of goods or services. Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur.

Revenue recognition: Long-term project-based contracts

The Group has a limited number of project based long-term contracts. Revenue associated with these contracts is recognised at the point in time when control over the deliverable is passed to the customer.

Revenue recognition: Contract modifications

When a modification to an existing contract is approved, the Group first assesses whether it adds distinct goods or services to the existing contract that are priced commensurate with the stand-alone selling prices for those goods or services. If this is the case, then the modification is accounted for prospectively as a separate contract. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are not distinct from those in the original contract, then this is considered to form part of the original contract. Pricing is updated for the entirety of the revised contract and any historic adjustments recorded as a result are recognised as a cumulative adjustment to revenue in the period of the modification. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are distinct from those in the original contract, then this is considered to represent the termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

Revenue recognition: Other

Sales of goods are recognised when goods are delivered and title has passed.

The Group has a limited number of pass through arrangements in respect of goods or services procured by the Group on behalf of customers where it assesses whether it is acting as a principal or as an agent. The Group is acting as principal if it is in control of a good or a service prior to transferring to the customer and gross revenue and costs are recognised. More commonly, the Group is acting as agent where it is arranging for those goods or services to be provided to the customer without obtaining control, for example, where the Group is engaged to manage operations for a customer but procures goods or services on behalf and at the instructions of the customer in order to deliver the operation. When acting as an agent, only the fee or commission is recognised as revenue and the costs represent only the direct costs of facilitating the transaction.

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Group has no material exposure to returns or refunds.

Government grants

The majority of the Group's customers are governments. Any income that arises from a contractual agreement for the delivery of goods or services, or a specific modification to such a contract, is treated as revenue. Income from governments is only considered to be a government grant if it is not related to the supply of goods or services under a contractual arrangement.

Government grants are recognised where there is reasonable assurance that the grant will be received. Grants that compensate the Group for expenses incurred are recognised in the income statement as a reduction to the corresponding expenses on a systematic basis in the periods in which the expenses are recognised. There were no material government grants received during the year or prior year.

Contract costs

Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Bid costs are amortised over the duration of the contract to which they relate in equal annual instalments. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.

Contract costs can only be capitalised when the expenditure meets all of the following three criteria and are not within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment:

- The costs relate directly to a contract. These include direct labour, being the salaries and wages of employees providing the promised services to the customer; direct materials such as supplies used in providing the promised services to a customer; and other costs that are incurred only because an entity entered into the contract, such as payments to subcontractors.
- The costs generate or enhance the resources used in satisfying performance obligations in the future. For initial contract costs capitalised, such costs only fall into one of the following two categories: the mobilisation of contract staff, being the costs of moving existing contract staff to other Group locations; or directly incremental costs incurred in meeting contractual obligations incurred prior to contract delivery, which are required to ensure a proper handover from the previous contractor. Redundancy costs are never capitalised.
- The costs are expected to be recovered, i.e. the contract is expected to be profitable after amortising the capitalised costs.

Operating profit

Operating profit is not a measure defined by IFRS and the Group considers this to include the profits and losses from operations prior to corporation tax, interest revenue and finance costs.

Foreign currencies

Transactions in currencies other than Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity through the Consolidated Statement of Comprehensive Income (SOCl).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised directly within equity in the Group's hedging and translation reserve. On disposal of an operation, such translation differences are recognised as income or expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The Group uses a monthly approximation for transactions during the period. If exchange rates fluctuate significantly during a period, the use of approximate rates are reviewed to ensure they are still appropriate.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders. Dividend income is recognised on receipt.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. Where acquisition and transition costs for successful acquisitions are material, they are disclosed as exceptional costs within note 9.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (which is subject to a maximum of one year). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant accounting standards.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) *Business Combinations* are recognised at their fair value at the acquisition date, except where a different treatment is mandated by another standard.

Investments in joint ventures and associates

A joint venture is an arrangement whereby the owning parties have joint control and rights over the net assets of the arrangement. The Group's investments in joint ventures are incorporated using the equity method of accounting.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the Consolidated Balance Sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying value amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Determining whether joint control exists requires a level of judgement, based upon specific facts and circumstances which exist at the year end. Details of the unconsolidated joint ventures are provided in notes 5 and 6.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The results and assets and liabilities of associates are also incorporated in these financial statements using the equity method of accounting.

Goodwill

Goodwill is measured as the excess of the fair value of purchase consideration over the fair value of the net assets acquired and is recognised as an intangible asset when control is achieved. Negative goodwill is recognised immediately in the income statement. Fair value measurements are based on provisional estimates and may be subject to amendment within one year of the acquisition, resulting in an adjustment to goodwill.

Goodwill itself does not generate independent cash flows and therefore, in order to perform required tests for impairment, it is allocated at inception to the specific cash generating unit (CGU) or groups of CGUs which are expected to benefit from the acquisition.

On the disposal of a business which includes all or part of a CGU, any attributable goodwill is included in the determination of the profit or loss on disposal. Where part of a CGU with goodwill is sold, the attributable amount is calculated based on the future discounted cash flows leaving the Group as a proportion of the total CGU future discounted cash flows.

The fair values associated with material business combinations are valued by external advisers and any amount of consideration which is contingent in nature is evaluated at the end of each reporting period, based on internal forecasts.

Other intangible assets

Material intangible assets are grouped into classes of similar nature and use and separately disclosed. Other intangible assets are amortised from the date of completion.

Customer relationships can arise on the acquisition of subsidiaries and represent the incremental value expected to be gained as a result of existing contracts in the purchased business and identifiable technology-based propositions in the purchased business. These assets are amortised over the average length of the related contracts.

Software and IT represent computer systems and processes used by the Group in order to generate future economic value through normal business operations. The underlying assets are amortised over the period from which the Group expects to benefit, which is typically between three to eight years.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

Development expenditure is capitalised as an intangible asset only if the conditions below are met, with all research costs and other development expenditure being expensed when incurred. The period of expected benefit, and therefore period of amortisation, is typically between three and eight years. The capitalisation criteria are as follows:

- an asset is created that can be separately identified and which the Group intends to use or sell;
- the finalisation of the asset is technically feasible and the Group has adequate resources to complete its development for use or sale;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Property, plant and equipment

Assets held for use in the rendering of services, or for administrative purposes, are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment. Assets are grouped into classes of similar nature and use and separately disclosed except where this is not material.

Depreciation is provided on a straight-line basis at rates designed to reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Freehold buildings	2.5%
Leasehold improvements	The higher of 10% or the rate produced by the lease term
Machinery	15% – 20%
Vehicles	10% – 50%
Furniture	10%
Office equipment	20% – 33%
Right of use assets	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Given that there is limited history of material gains or losses on disposal of fixed assets, the level of judgement involved in determining the depreciation rates is not considered to be significant.

Asset impairment

The Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) at each reporting period, together with any other assets under the scope of IAS 36 *Impairment of Assets*, in order to assess whether there is any indication that those assets have suffered an impairment loss. As the impairment of assets has been identified as both a key source of estimation uncertainty and a critical accounting judgement, further details around the specific judgements and estimates can be seen in note 3.

If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine if there is any impairment loss. Goodwill is assessed for impairment annually, irrespective of whether there are any indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value with reference to pre-tax discount rates that reflect the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is estimated to be less than the carrying amount of the asset, the carrying amount is impaired to its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss which led to the impairment has decreased or no longer exists. Where an impairment loss is subsequently reversed, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years.

Impairment losses and reversals are recognised immediately within expenses in the income statement unless it is considered to be an exceptional item.

Retirement benefit costs

Payments to defined contribution pension schemes are charged as an expense as they fall due.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of comprehensive income.

Both current and past service costs are the amounts recognised in the income statement, reflecting the expense associated with the individuals. Current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period. Past service cost is recognised immediately. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds (which is only recognised to the extent that the Group has an unconditional right to receive it) and reductions in future contributions to the scheme. To the extent that an economic benefit is available as a reduction in future contributions and there is a minimum funding requirement required of the Group, the economic benefit available as a reduction in contributions is calculated as the present value of the estimated future service cost in each year, less the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Calculation of the amounts recognised in the Consolidated Financial Statements in respect of defined benefit pension schemes requires a high level of judgement, as further explained in note 3.

Defined benefit obligations arising from contractual obligations

Where the Group takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract, the Group's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities with a franchise adjustment. The franchise adjustment represents the estimated amount of scheme deficit that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised in the Statement of Comprehensive Income (SOCi).

End of contract provisions

Where the Group has a legal or constructive obligation to compensate employees at the end of a contract term and these employees cannot be relocated within the Group, a provision is recognised to reflect the expected outflow of economic benefits at the end of the contract. The obligation is reassessed at each reporting date. The amount calculated assumes the tenure of the employee base, expected turnover and salary.

Derivative financial instruments and hedging activities

The Group may enter into a variety of derivative financial instruments to manage the exposure to interest rate, foreign exchange risk and price risk, including currency swaps, foreign exchange forward contracts, interest rate swaps and commodity future contracts. Further details of derivative financial instruments are given in note 29.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges), hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Both at the inception of the hedge and on a periodic basis, the Group assesses whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Derivatives, which mature within 12 months, are presented as current assets or current liabilities.

Details of the fair values of the derivative instruments used for hedging purposes and movements in the hedging and translation reserve in equity are detailed in the Statement of Comprehensive Income and described in note 29.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when a hedge is no longer effective as a result of a change in risk management strategy, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is realised in the profit or loss account.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group de-designates the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Tax

The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes.

Deferred tax assets are generally recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which these items can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, it affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Group intends to settle its current tax assets and liabilities on a net basis.

Share based payment

Where the fair value of share options or shares under award requires the use of a valuation model, fair value is measured by use of Binomial Lattice, Black-Scholes or Monte Carlo Simulation models depending on the type of scheme, as set out in note 34. The expected life used in the models has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Where relevant, the value of the option or award has also been adjusted to take account of market conditions applicable to the option or award.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise service spares, supplies and consumables used in the rendering of services to our customers. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Trade receivables

Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any credit notes, provision for impairment and expected credit losses, to ensure that amounts recognised represent the recoverable amount.

Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. A provision for impairment arises where there is evidence that the Group will not be able to collect amounts due for reasons other than customer default, which is achieved by creating an allowance for doubtful debts recognised in the income statement within expenses.

When a trade receivable is expected to be uncollectible for reasons other than credit-related losses, it is provided for within the allowance. Subsequent recoveries of amounts previously provided for or written off are credited against expenses.

The majority of contracts entered into by the Group are with government organisations and therefore historic levels of default are relatively low and as a result, the risks associated with this judgement are not considered to be significant. An expected credit loss is recorded where there is evidence that a counterparty is at risk of default due to their credit worthiness. If the loss was material, the amount would be presented separately in the Consolidated Income Statement, however the Group's customer base is predominantly government or government-backed and as a result, the Group's expected credit loss at a given point in time across the entirety of the customer base is typically immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash, which are subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the Consolidated Cash Flow Statement.

Leases

The Group uses leases in the delivery of a number of contracts and in other centralised functions. Most notably, the Group uses accommodation leases in the delivery of the Asylum Accommodation and Support Services contract, vehicle leases in the Prisoner Escorting and Custodial Services contract and to deliver its UK vehicle fleet and support offices, amongst others. Where leases are utilised in the delivery of contracts, the Group aims to limit the duration of any non-cancellable periods of leases to be no longer than the duration of the underlying contract. For non-contract related leases, the Group has set policies on lease duration and purpose to ensure their appropriate use.

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and, simultaneously, a right of use asset is created representing the right conferred to control the manner of use of the leased asset. The Group typically uses an appropriate incremental borrowing rate, based on the lease location and duration, as it typically does not have access to the interest rate implicit in the lease.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered.

Where, on inception, the term of a lease is less than twelve months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the income statement on a straight-line basis over the term of the relevant lease.

Loans

Loans are stated at amortised cost using the effective interest-rate method. Accrued interest is recorded separately from the associated borrowings within current liabilities.

Loans are described as non-recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has an obligation to make a cash outflow as a result of a past event. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date when settlement is considered to be likely.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except when this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of the termination costs payable for an early exit and the best estimate of net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms. Further details of the judgements can be seen in note 3.

Notes to the Consolidated Financial Statements

continued

2. Significant accounting policies continued

Net investments in foreign operations

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are initially recognised in equity and accumulated in the hedging and translation reserve and reclassified from equity to profit or loss on disposal of the net investment. When monetary items no longer form part of a hedging relationship, the exchange differences that arose during the time that the hedge was in place remain in the hedging translation reserve until such time as the net investment is disposed of.

Dividends payable

Dividends are recorded in the Group's Consolidated Financial Statements in the period in which they are declared, appropriately authorised and no longer at the discretion of the Company.

Segmental information

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess their performance. The CODM is considered to be the Board of Directors as a body.

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment including right of use assets, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit assets. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 above, Management has made the following judgements that have the most significant effect on the amounts recognised in the Consolidated Financial Statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates, there is a significant risk that there could be material adjustment to the carrying amounts of onerous contract provisions within the next financial reporting period. This includes the potential recognition of onerous contract provisions for contracts which the Directors have assessed do not require a provision as at 31 December 2021.

Major sources of uncertainty which could result in a material adjustment within the next financial year, are:

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels;
- Volume driven revenue and costs being within the expected ranges;
- The outcome of open claims made by or against a customer regarding contractual performance or contractual negotiations taking place where there is expected to be a positive outcome from the Group's perspective;
- The ability of suppliers to deliver their contractual obligations on time and on budget; and
- The potential impact of any longer term impacts of Covid-19 on contract performance such as the performance and usage of leisure centres or passenger volumes in the UK and the risk that this may be impacted by any future wave of the virus which requires a subsequent lock down period, or as-yet unknown shifts in customer behaviours, in the absence of any customer support.

In the current year, an amount of £1.3m was released from historic provisions. The net charge on new and existing OCPs within Underlying Trading Profit was £1.3m. All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates, Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements.

The future range of possible outcomes in respect of those assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of onerous contract provisions in the next financial year. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts.

The individual provisions are discounted where the impact is assessed to be significant. When used, discount rates are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS37 *Provisions, Contingent Liabilities & Contingent Assets*. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top-down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. As at 31 December 2021, the provision recognised in respect of this portfolio of contracts is £9.7m (2020: £8.5m).

Onerous contract provisions totalling £4.5m are estimated for individual contracts, based on the specific characteristics of the contract including possible contract variations, estimates of transaction price such as variable revenues and forecast costs to fulfil those contracts. As noted above, the Group also holds a balance of £9.7m in respect of the portfolio risk associated with operating a large number of long-term contracts, giving a total onerous contract provision of £14.2m (see note 26). Management has considered the nature of the estimate for onerous contract provisions and concluded that it is reasonably possible that outcomes within the next financial year may be different from Management's assumptions and could, in aggregate, require a material adjustment to the onerous contract provision. However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and Management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the financial statements.

Whilst the focus of the judgement is to determine whether the Group is required to record an onerous contract provision, management also inherently assess whether any assets dedicated to the contract are required to be impaired where contracts are forecast to make sustainable losses in the future. In accordance with IAS 37, the Group will impair assets dedicated to the contract before the recognition of an onerous contract provision.

Impairment of goodwill

A key area of focus in recent years has been in the impairment testing of goodwill, though no impairment indicators were noted in the year ended 31 December 2021. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate.

Determining whether goodwill requires an actual impairment involves an estimation of the expected value in use of the asset (or cash generating unit (CGU) to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from latest approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. As was the case at the end of 2020, the budgeting process is required to estimate the ongoing impact of Covid-19, and whilst this remains a source of uncertainty, the Group's understanding of the potential impacts continues to improve. As a result of known and anticipated impacts of Covid-19 being included in Management's forecasts, no additional specific adjustments have been made to the cash flows used in assessing the value in use of assets.

Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates is performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the CGU being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco. For the purpose of impairment testing in accordance with IAS36 *Impairment of Assets*, Management estimates pre-tax discount rates based on the post-tax weighted average cost of capital which is used for internal purposes.

There continues to be significant headroom across all CGUs and as detailed in note 17, sufficient headroom remains even when reasonably possible changes to discount rates occur. However, a high degree of judgement remains in estimating future cash flows, particularly those relating to the terminal year of the value in use calculation.

Retirement benefit obligations

Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme. The Group's retirement benefit obligations are covered in note 30.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

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3. Critical accounting judgements and key sources of estimation uncertainty continued

In accounting for the defined benefit schemes, the Group has applied the principle that the asset recognised for the Serco Pension and Life Assurance Scheme is equal to the full surplus that will ultimately be available to the Group as a future refund.

No pension assets are invested in the Group's own financial instruments or property.

Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Critical accounting judgements

Deferred tax

Deferred tax assets are recognised on tax deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Significant Management judgement is required to determine the amount of deferred tax assets that should be recognised, based upon the likely timing, geography and the level of future taxable profits. Since a significant portion of the deductible temporary differences relate to historic tax losses, there has been historic evidence that future taxable profits may not be available.

A £162.8m UK tax asset is recognised on the Group's balance sheet at 31 December 2021 (31 December 2020: £30.6m) on the basis that structural changes in the underlying UK business indicate a sustained return to profitability which would enable future tax deductions within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long-term contracts being entered into as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business. A UK deferred tax asset of £186.2m was initially recognised during the year with this balance subsequently being revalued by £1.6m and £25.0m being used to offset profits and reserves movements arising in the year to 31 December 2021.

Further details on deferred taxes are disclosed in note 15.

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS1 *Presentation of Financial Statements* requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material and outside of the normal operating practice of the Company to be suitable for separate presentation. There is a level of judgement required in determining which items are exceptional on a consistent basis and require separate disclosure. Further details can be seen in note 9.

The segmental analysis in note 4 includes the additional performance measure of Trading Profit on operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those we consider material and outside of the normal operating practice of the Company to be suitable for separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgements about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice. The Group's Chief Operating Decision Maker (CODM) reviews the segmental analysis for operations.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties. The Group does not currently assess the merits as strong, especially given the legal uncertainties in such actions.

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2021 under IFRS8 *Operating Segments* are as set out below.

Reportable operating segments	Sectors
UK & Europe	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management, Justice & Immigration and Transport delivered to UK Government, UK devolved authorities and other public sector customers in the UK and Europe
Americas	Services for sectors including Citizen Services, Defence and Transport delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government
AsPac	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management, Justice & Immigration and Transport in the Asia Pacific region including Australia, New Zealand and Hong Kong
Middle East	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management and Transport in the Middle East region
Corporate	Central and head office costs

Each reportable operating segment is focused on a narrow group of customers in a specific geographic region and is run by a local Management team which reports directly to the Group's Chief Operating Decision Maker (CODM) on a regular basis. As a result of this focus, the sectors in each region have similar economic characteristics and are aggregated at the reportable operating segment level in these financial statements.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 2.

Information about major customers

The Group has three major governmental customers which each represent more than 5% of Group revenues in the current year. The customers' revenues were £1,814.4m (2020: £1,517.0m) for the UK Government within the UK & Europe segment, £993.0m (2020: £913.1m) for the US Government within the Americas segment and £836.4m (2020: £703.8m) for the Australian Government within the AsPac segment. These customers do not act in a unified way in making purchase decisions, and in general, the Group engages directly with the various departments of these customers in respect of the services it provides.

Segmental information

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each reportable operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment including right of use assets, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit asset. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

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

Year ended 31 December 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	2,131.6	1,120.0	908.4	264.6	–	4,424.6
Result						
Trading Profit/(Loss) from operations*	99.8	117.8	52.0	13.7	(49.9)	233.4
Amortisation and impairment of intangibles arising on acquisition	(0.8)	(11.7)	(3.5)	–	–	(16.0)
Operating profit/(loss) before exceptional items	99.0	106.1	48.5	13.7	(49.9)	217.4
Other exceptional operating items**	0.4	(4.1)	3.4	–	(0.9)	(1.2)
Operating profit/(loss)	99.4	102.0	51.9	13.7	(50.8)	216.2
Investment revenue						2.4
Finance costs						(26.4)
Profit before tax						192.2
Tax credit						111.9
Tax on exceptional items						(0.2)
Profit for the year						303.9

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within Other exceptional operating items are total acquisition related costs of £4.9m.

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4. Segmental information continued

Year ended 31 December 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	8.7	–	–	–	–	8.7
Depreciation of plant, property and equipment and right of use assets	(77.6)	(23.4)	(12.5)	(5.2)	(9.9)	(128.6)
Impairment of plant, property and equipment and right of use assets	(0.3)	–	–	–	–	(0.3)
Total depreciation and impairment of plant, property and equipment and right of use assets	(77.9)	(23.4)	(12.5)	(5.2)	(9.9)	(128.9)
Amortisation of intangible assets arising on acquisition	(0.8)	(11.7)	(3.5)	–	–	(16.0)
Amortisation of other intangible assets	(1.2)	(0.5)	(2.9)	(0.1)	(6.6)	(11.3)
Total amortisation and impairment of intangible assets	(2.0)	(12.2)	(6.4)	(0.1)	(6.6)	(27.3)
Segment assets						
Interests in joint ventures and associates	17.1	–	0.1	0.4	–	17.6
Other segment assets***	782.5	911.6	313.2	60.8	227.5	2,295.6
Total segment assets	799.6	911.6	313.3	61.2	227.5	2,313.2
Unallocated assets						420.8
Consolidated total assets						2,734.0
Segment liabilities						
Segment liabilities***	(641.2)	(187.7)	(224.7)	(53.2)	(182.3)	(1,289.1)
Unallocated liabilities						(436.5)
Consolidated total liabilities						(1,725.6)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

The depreciation charge in the UK&E segment has increased to £77.6m (2020: £61.6m) due to additional property leases together with the timing of renewals on existing leases on the Asylum Accommodation and Support Services Contract (AASC).

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,777.4	1,064.3	718.9	324.2	–	3,884.8
Result						
Trading Profit/(Loss) from operations*	69.6	100.8	32.6	13.9	(41.2)	175.7
Amortisation and impairment of intangibles arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Operating profit/(loss) before exceptional items	67.6	93.8	32.6	13.9	(41.2)	166.7
Exceptional profit on disposal of subsidiaries and operations	11.0	–	–	–	–	11.0
Other exceptional operating items**	1.0	1.4	(0.8)	–	(0.1)	1.5
Operating profit/(loss)	79.6	95.2	31.8	13.9	(41.3)	179.2
Investment revenue						1.9
Finance costs						(27.8)
Profit before tax						153.3
Tax charge						(18.9)
Tax on exceptional items						(0.4)
Profit for the year						134.0

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within Other exceptional operating items are total acquisition related costs of £2.4m.

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	12.7	–	–	–	–	12.7
Depreciation of plant, property and equipment and right of use assets	(61.6)	(22.5)	(9.6)	(7.6)	(8.1)	(109.4)
Impairment of plant, property and equipment and right of use assets	(0.7)	–	–	–	–	(0.7)
Total depreciation and impairment of plant, property and equipment and right of use assets	(62.3)	(22.5)	(9.6)	(7.6)	(8.1)	(110.1)
Amortisation of intangible assets arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Amortisation of other intangible assets	(0.7)	(0.6)	(3.0)	(0.4)	(9.3)	(14.0)
Total amortisation and impairment of intangible assets	(2.7)	(7.6)	(3.0)	(0.4)	(9.3)	(23.0)
Segment assets						
Interests in joint ventures and associates	18.7	–	0.1	0.4	–	19.2
Other segment assets***	750.9	675.3	274.4	87.9	174.3	1,962.8
Total segment assets	769.6	675.3	274.5	88.3	174.3	1,982.0
Unallocated assets						428.3
Consolidated total assets						2,410.3
Segment liabilities						
Segment liabilities***	(626.6)	(185.0)	(200.0)	(66.7)	(170.3)	(1,248.6)
Unallocated liabilities						(446.7)
Consolidated total liabilities						(1,695.3)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

5. List of principal undertakings

The following are considered to be the principal undertakings of the Group as at the year end:

Principal subsidiaries		2021	2020
United Kingdom	Serco Limited	100%	100%
Australia	Serco Australia Pty Limited	100%	100%
USA	Serco Inc.	100%	100%
Principal joint ventures and associates*		2021	2020
United Kingdom	Merseyrail Services Holding Company Limited	50%	50%

* Following the termination of services provided by the Group through AWE Management Limited, it is no longer considered a principal associate (see note 6).

A full list of subsidiaries and related undertakings is included in the Appendix on pages 259 to 261 which form part of the financial statements.

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6. Joint ventures and associates

AWE Management Limited (AWEML) and Merseyrail Services Holding Company Limited (MSHCL) were the only equity accounted entities which were material to the Group during the year or prior year. Dividends of £13.5m (2020: £15.5m) and £nil (2020: £1.5m), respectively, were received from these companies in the year. The low level of dividends received in respect of MSHCL were due to lower passenger volumes which were negatively impacted by Covid-19.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWEML on 30 June 2021.

As announced on 24 June 2021, Vivo Defence Services Limited (VIVO), a joint venture between Serco Limited and ENGIE SA, has been awarded contracts to provide repairs and maintenance work for Service Family Accommodation (SFA) by the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO). VIVO is not a material joint venture to the Group in 2021.

Summarised financial information of AWEML and MSHCL, and an aggregation of the other equity accounted entities in which the Group has an interest in is as follows:

31 December 2021

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	638.7	161.0	237.0	1.4	238.4
Operating profit/(loss)	49.6	(0.8)	11.8	(0.3)	11.5
Net finance cost	–	(0.1)	(0.1)	–	(0.1)
Income tax (charge)/credit	(12.0)	0.3	(2.8)	0.1	(2.7)
Profit/(loss) from operations	37.6	(0.6)	8.9	(0.2)	8.7
Other comprehensive income	–	6.6	3.3	–	3.3
Total comprehensive income/(expense)	37.6	6.0	12.2	(0.2)	12.0
Non-current assets	–	13.9	7.0	0.2	7.2
Current assets	8.5	43.4	23.8	7.7	31.5
Current liabilities	(1.7)	(23.6)	(12.2)	(3.9)	(16.1)
Non-current liabilities	–	(4.0)	(2.0)	(3.0)	(5.0)
Net assets	6.8	29.7	16.6	1.0	17.6
Proportion of Group ownership	24.5%	50.0%	–	–	–
Carrying amount of investment	1.7	14.9	16.6	1.0	17.6

* Total results of the entity multiplied by the respective proportion of Group ownership.

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	8.5	28.9	16.5	4.7	21.2
Current financial liabilities excluding trade and other payables and provisions	(0.3)	(5.3)	(2.7)	–	(2.7)
Non-current financial liabilities excluding trade and other payables and provisions	–	(2.9)	(1.5)	–	(1.5)
Depreciation and amortisation	–	(5.8)	(2.9)	–	(2.9)
Interest income	–	–	–	–	–
Interest expense	–	(0.2)	(0.1)	–	(0.1)

* Total results of the entity multiplied by the respective proportion of Group ownership.

The Group's share of liabilities within joint ventures and associates is £21.1m (2020: £224.5m). In 2020, £163.1m relates to a defined benefit pension obligation against which Serco is fully indemnified. As a result of the Ministry of Defence's termination of the Management & Operations contract with AWEML, the gross obligation no longer exists. The remaining liabilities include £3.9m of lease obligations (2020: £6.2m) and the balance is trade and other payables which arise as part of the day-to-day operations carried out by those entities. Other than liabilities associated with leases, the Group has no material exposure to third party debt or other financing arrangements within any of its joint ventures and associates.

Certain employees of the group headed by MSHCL are members of a sponsored defined benefit pension scheme. Given the significance of the scheme to understanding the position of the entities, the following key disclosures are made:

Main assumptions: 2021	MSHCL
Rate of salary increases (%)	3.25%
Inflation assumption (CPI %) – pre-retirement	2.35%
Inflation assumption (CPI %) – post-retirement	2.85%
Discount rate (%)	1.80%
Post-retirement mortality:	Nil
Current male industrial pensioners at 65 (years)	N/A
Future male industrial pensioners at 65 (years)	N/A
Retirement benefit funding position (100% of results)	£m
Present value of scheme liabilities	(468.4)
Fair value of scheme assets	280.9
Net amount recognised	(187.5)
Members' share of deficit	75.0
Franchise adjustment*	112.5
Net retirement benefit obligation	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

31 December 2020

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,106.8	150.7	346.5	18.6	365.1
Operating profit/(loss)	75.0	(5.7)	15.5	(0.1)	15.4
Net investment revenue/(finance cost)	0.3	(0.1)	–	–	–
Income tax (charge)/credit	(14.0)	1.5	(2.7)	–	(2.7)
Profit/(loss) from operations	61.3	(4.3)	12.8	(0.1)	12.7
Other comprehensive income	–	5.3	2.7	–	2.7
Total comprehensive income/(expense)	61.3	1.0	15.5	(0.1)	15.4
Non-current assets	668.1	19.1	173.3	0.1	173.4
Current assets	191.4	43.2	68.5	1.8	70.3
Current liabilities	(169.2)	(29.6)	(56.3)	(0.8)	(57.1)
Non-current liabilities	(665.9)	(8.5)	(167.4)	–	(167.4)
Net assets	24.4	24.2	18.1	1.1	19.2
Proportion of Group ownership	24.5%	50.0%	–	–	–
Carrying amount of investment	6.0	12.1	18.1	1.1	19.2

* Total results of the entity multiplied by the respective proportion of Group ownership.

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6. Joint ventures and associates continued

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	119.8	22.5	40.6	0.8	41.4
Current financial liabilities excluding trade and other payables and provisions	(0.6)	(5.5)	(2.9)	0.1	(2.8)
Non-current financial liabilities excluding trade and other payables and provisions	–	(7.7)	(3.8)	–	(3.8)
Depreciation and amortisation	–	(6.1)	(3.1)	(0.4)	(3.5)
Interest income	0.3	0.1	0.1	–	0.1
Interest expense	–	(0.2)	(0.1)	–	(0.1)

* Total results of the entity multiplied by the respective proportion of Group ownership.

Key disclosures with respect of the defined benefit pension schemes of material joint ventures and associates:

Main assumptions: 2020	AWEML	MSHCL
Rate of salary increases (%)	1.9%	2.8%
Inflation assumption (CPI %)	1.9%	1.9%
Discount rate (%)	1.5%	2.4%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	23.0	N/A
Future male industrial pensioners at 65 (years)	25.1	N/A

Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,597.7)	(450.5)
Fair value of scheme assets	1,931.8	233.8
Net amount recognised	(665.9)	(216.7)
Members' share of deficit	–	86.7
Franchise adjustment*	–	130.0
Related asset, right to reimbursement	665.9	–
Net retirement benefit obligation	–	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

7. Acquisitions

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited (FFA), for consideration of AU Dollars \$52.2m (£29.6m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included AU Dollars \$3.6m (£2.1m) of cash resulting in a net cash outflow on acquisition of AU Dollars \$48.6m (£27.5m). At the same time, the Group transferred AU Dollars \$25.2m (£14.3m) to allow FFA to settle existing debt and debt-like balances. FFA is a specialist provider of cleaning, facility maintenance and management services in Australia. The operating results, assets and liabilities have been recognised effective 4 January 2021.

FFA contributed post acquisition the following amounts have been recognised, AU Dollars \$206.8m (£112.8m) of revenue and AU Dollars \$5.7m (£3.1m) of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2021.

On 27 April 2021, the Group acquired 100% of the issued share capital of Whitney, Bradley & Brown, Inc (WBB) for US Dollars \$300.5m (£211.9m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included US Dollars \$7.2m (£5.1m) of cash resulting in a net cash outflow on acquisition of US Dollars \$293.3m (£206.8m). The acquisition will increase the scale, breadth and capability of Serco's North American Defence business and will give Serco a strong platform from which to address all major segments of the US Defence services market. The operating results, assets and liabilities have been recognised effective 27 April 2021.

WBB contributed US Dollars \$135.8m (£98.5m) of revenue and US Dollars \$7.5m (£5.5m) of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2021.

On 30 June 2021, the Group acquired 100% of the issued share capital of Mercurius Finance S.A., the holding company of Clemaco Trading N.V., Clemaco Contracting N.V. and Targets N.V. (together Clemaco), for €7.8m (£6.7m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included €7.1m (£6.1m) of cash resulting in a net cash outflow on acquisition of €0.7m (£0.6m). Clemaco specialises in the support and maintenance of ships for the Belgian Navy, enabling Serco to provide additional value to existing Serco and Clemaco customers and expanding the Group's existing activities with the Belgian Navy. The operating results, assets and liabilities have been recognised effective 30 June 2021.

Clemaco contributed €5.4m (£4.6m) of revenue and €0.2m (£0.2m) of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2021.

Based on estimates made of the full year impact of the acquisition of WBB and Clemaco, had the acquisitions taken place on 1 January 2021, Group revenue and operating profit before exceptional items for the period would have increased by approximately £58.9m and £4.6m respectively, taking total Group revenue to £4,483.5m and total Group operating profit before exceptional items to £222.0m. Due to the date of acquisition of FFA, the annualised impact is not considered to be materially different to the results already included in the financial statements.

	Provisional fair values			
	FFA £m	WBB £m	Clemaco £m	Total £m
Goodwill	29.7	148.6	0.5	178.8
Other intangible assets	19.8	62.4	–	82.2
Property, plant and equipment	1.6	2.0	0.1	3.7
Right of use assets	2.3	7.6	–	9.9
Retirement benefit assets	1.3	–	–	1.3
Inventories	0.1	–	–	0.1
Trade and other receivables	14.9	22.5	1.3	38.7
Cash and cash equivalents	2.1	5.1	6.1	13.3
Corporation tax assets	–	0.1	0.1	0.2
Trade and other payables	(19.2)	(15.3)	(1.4)	(35.9)
Provisions	(1.7)	(1.0)	–	(2.7)
Retirement benefit obligations	(2.7)	–	–	(2.7)
Loans	(14.3)	–	–	(14.3)
Corporation tax liabilities	(0.7)	–	–	(0.7)
Deferred tax liabilities	(1.3)	(8.6)	–	(9.9)
Lease obligations	(2.3)	(11.5)	–	(13.8)
Acquisition date fair value of consideration transferred	29.6	211.9	6.7	248.2
Satisfied by:				
Cash	29.6	211.9	6.7	248.2
Total consideration	29.6	211.9	6.7	248.2

Goodwill on the acquisitions of FFA and WBB represents the premium associated with expanding the Group's capabilities in the relevant sectors and geographical locations in which the acquired companies operate. For FFA, this represents scale within facilities management in Australia, whilst for WBB it relates to the increased presence in the US defence market as well as considerable expertise in complementary areas. No tax deductions related to the goodwill arising on either transaction are available. The acquisition related intangibles represent customer relationships which have been valued using our best estimate of forecast cash flows discounted to present value and, in the case of WBB, certain software related assets and the brand names associated with them.

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

	£m
Cash consideration in respect of current period acquisitions:	
FFA	27.5
WBB	206.8
Clemaco	0.6
Net cash outflow in relation to acquisitions	234.9
Exceptional acquisition related costs	(4.9)
Net cash impact in the year on acquisitions	230.0

Costs associated with the acquisitions of both FFA and WBB are shown as exceptional costs in the Consolidated Income Statement. The total acquisition related costs recognised in exceptional items for the year ended 31 December 2021 was £4.9m. There were no material costs associated with the acquisition of Clemaco during the year.

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8. Revenue from contracts with customers

Revenue

Information regarding the Group's major customers and a segmental analysis of revenue is provided in note 4.

An analysis of the Group's revenue from its key market sectors, together with the timing of revenue recognition across the Group's revenue from contracts with customers, is as follows:

Year ended 31 December 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	262.2	764.6	145.6	31.4	1,203.8
Justice & Immigration	468.9	–	374.2	–	843.1
Transport	149.3	79.9	7.3	135.6	372.1
Health & Other Facilities Management	260.9	–	220.3	94.4	575.6
Citizen Services	990.3	275.5	161.0	3.2	1,430.0
	2,131.6	1,120.0	908.4	264.6	4,424.6
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	2.5	–	6.6	–	9.1
Revenue recognised at a point in time	17.3	–	8.4	–	25.7
Products and services transferred over time	2,111.8	1,120.0	893.4	264.6	4,389.8
	2,131.6	1,120.0	908.4	264.6	4,424.6

Year ended 31 December 2020 (restated*)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	243.7	725.2	133.3	27.0	1,129.2
Justice & Immigration	393.7	–	328.1	–	721.8
Transport	143.3	84.7	7.7	194.2	429.9
Health & Facilities Management	247.8	–	110.0	102.8	460.6
Citizen Services	748.9	254.4	139.8	0.2	1,143.3
	1,777.4	1,064.3	718.9	324.2	3,884.8
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	1.1	–	(0.8)	–	0.3
Revenue recognised at a point in time	14.2	–	0.8	–	15.0
Products and services transferred over time	1,762.1	1,064.3	718.9	324.2	3,869.5
	1,777.4	1,064.3	718.9	324.2	3,884.8

* The prior period balances have been restated to ensure consistent application of the sector definitions used for the current period. This follows a review in 2021 of the Group's sector definitions to align with the strategic objectives of the Group. The change has no impact to the income statement or the balance sheet of the Group.

Transaction price allocated to remaining performance obligations

The following table shows the transaction price allocated to remaining performance obligations. This represents revenue expected to be recognised in subsequent periods arising on existing contractual arrangements.

In assessing the future transaction price, the judgements of most relevance are the future term over which the transaction price is calculated and the estimation of variable revenue to be included.

Where a contract with a customer includes, within the term of the committed contract, provisions for price-rebasing or a provision for market testing, revenue beyond these is included to the extent that there are no indicators which suggest that the contract will not continue past this point and it is highly probable that a significant reduction will not occur. Where there is a requirement for the Group, or a customer, to enter into a new contract, rather than continuing an existing contract, such an extension is not included for the purposes of calculating future transaction price.

Additionally, the Group has a small subset of contracts that contain a termination for convenience clause, for example due to national security considerations which are assumed by the Group not to be without cause. These contracts are considered to run for the full intended term for the purpose of calculating the transaction price allocated to remaining performance obligations, other than instances where the Group believes that termination will occur before the original contract end date.

Under the terms of certain contracts which the Group has with its customers, the Group's compensation for providing those services is based on volumes or other drivers of variable activity, such as additional activities awarded under existing contracts. These volumes are not guaranteed, however based on historic volumes and the nature of the contracts in operation, such as the provision of asylum seeker accommodation or passenger transport, Management are able to prepare a sufficiently reliable estimate of the minimum level of variable revenue that is likely to be earned. As a result, variable revenue is included only to the level at which Management remain confident that a significant reduction will not occur.

As part of the considerations around variable revenue, Management consider the impact that factors such as contractual performance, anticipated demand and pricing (including indexation) may have on future revenue recognised. Management also consider whether there are possible impacts from climate change and other environmental related risks, with certain sectors considered to be more at risk than others, however no adjustment was identified in relation to existing contracts' future revenue forecasts.

	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Within 1 year (2022)	1,580.1	597.3	803.1	135.4	3,115.9
Between 2 – 5 years (2023 – 2026)	3,666.7	195.4	1,524.5	193.9	5,580.5
5 years and beyond (2027+)	3,340.1	118.4	1,456.6	118.4	5,033.5
	8,586.9	911.1	3,784.2	447.7	13,729.9

9. Exceptional items

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

For the year ended 31 December	2021 £m	2020 £m
Exceptional items arising		
Exceptional profit on disposal of subsidiaries and operations	–	11.0
Other exceptional operating items		
Restructuring costs	0.1	0.1
Costs associated with UK Government review	–	(1.3)
Increase in onerous lease provision	(0.6)	–
Movement in other provisions and other items	–	2.6
Reversal of impairment in interest in joint venture and related loan balances	–	2.5
Costs associated with successful acquisition	(4.9)	(2.4)
Profit on sale of investments	4.2	–
Other exceptional operating items	(1.2)	1.5
Exceptional operating items	(1.2)	12.5
Exceptional tax	(0.2)	(0.4)
Total exceptional operating items net of tax	(1.4)	12.1

Other exceptional operating items

The Group completed the acquisition of Facilities First Australia Holdings Pty Limited (FFA) and Whitney, Bradley & Brown, Inc (WBB) in 2021. The combined transaction and implementation costs incurred during the year ended 31 December 2021 of £4.9m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2020.

During 2021, the Group sold an investment recording a profit of £4.2m which was treated as exceptional in line with the Group's accounting policy.

The Group has recorded an additional £0.6m property provision related to the onerous lease of a building to cover the expected loss until March 2025. The building was vacated following the strategy review completed in 2014 and therefore the associated cost is treated as exceptional.

Exceptional costs of £1.3m were recorded in 2020 associated with the UK Government review and the programme of Corporate Renewal. No such costs were incurred in the current financial year.

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9. Exceptional items continued

Exceptional tax

Exceptional tax for the year was a charge of £0.2m (2020: £0.4m charge) which arises on exceptional items within operating profit.

The tax charge on exceptional costs has been increased as an element of the exceptional costs associated with the WBB acquisition were not allowable for tax. This is partially offset by previously unrecognised capital losses in Australia that were utilised against the gain arising from the sale of an investment reducing the charge.

10. Operating profit

Operating profit is stated after charging/(crediting):

Year ended 31 December	2021 £m	2020 £m
Research and development costs	1.2	1.8
Profit on disposal of property, plant and equipment	(0.2)	(0.4)
Profit on early termination of leases	(0.6)	(2.9)
Loss on disposal of intangible assets	1.6	0.6
Depreciation and impairment of property, plant and equipment	19.9	16.2
Depreciation and impairment of right of use assets	109.0	93.9
Amortisation and impairment of intangible assets – arising on acquisition	16.0	9.0
Amortisation, write down and impairment of intangible assets – other	11.3	14.0
Exceptional profit on disposal of subsidiaries and operations	–	11.0
Staff costs (note 11)	2,000.5	1,753.9
Allowance for doubtful debts charged to income statement	0.4	1.9
Net foreign exchange charge	0.5	0.3
Movement on non-designated hedges and reclassified cash flow hedges	–	(0.3)
Lease payments recognised through operating profit *	2.8	5.6
Operating lease income from sub-leases	(1.5)	(1.6)

* The lease payments recognised in operating profit are those which have not been recorded in accordance with IFRS16 Leases due to their status as either short-term or low value.

Amounts payable by the Company and its subsidiary undertakings in respect of audit and non-audit services to the Company's Auditor are shown below.

Year ended 31 December	2021 £m	2020 £m
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	1.7	1.7
Fees payable to the Company's Auditor and their associates for other services to the Group: – audit of the Company's subsidiaries pursuant to legislation	0.6	0.6
Total audit fees	2.3	2.3
– Audit-related assurance services	0.1	0.2
– Other non-audit services	0.1	–
Total non-audit fees	0.2	0.2

Fees payable to the Company's Auditor for non-audit services to the Company are not required to be disclosed separately because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded, are set out in the Audit Committee Report on page 128. No services were provided pursuant to contingent fee arrangements.

11. Staff costs

The average number of persons employed by the Group (including Executive Directors) was:

Year ended 31 December	2021 number	2020 number
UK & Europe	22,377	20,649
Americas	8,693	8,014
AsPac	15,438	11,740
Middle East	3,518	4,198
Unallocated	858	729
	50,884	45,330

The average number of persons employed includes all permanent employees and those with fixed term contracts. It excludes self-employed contractors and other casual workers.

Aggregate remuneration of all employees based on the average number of employees reported above was:

Year ended 31 December	2021 £m	2020 £m
Wages and salaries	1,759.7	1,547.3
Social security costs	127.4	111.0
Other pension costs (note 30)	97.6	84.4
	1,984.7	1,742.7
Share based payment expense (note 34)	15.8	11.2
	2,000.5	1,753.9

12. Investment revenue

Year ended 31 December	2021 £m	2020 £m
Interest receivable on other loans and deposits	0.6	0.2
Net interest receivable on retirement benefit obligations (note 30)	1.1	1.2
Other dividends received	0.6	0.4
Movement in discount on other debtors	0.1	0.1
	2.4	1.9

13. Finance costs

Year ended 31 December	2021 £m	2020 £m
Interest payable on lease liabilities	7.8	9.5
Interest payable on other loans	15.6	15.3
Facility fees and other charges	2.4	2.1
Movement in discount on provisions	–	0.2
	25.8	27.1
Foreign exchange on financing activities	0.6	0.7
	26.4	27.8

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14. Tax

14 (a) Income tax recognised in the income statement

Year ended 31 December	Before exceptional items 2021 £m	Exceptional items 2021 £m	Total 2021 £m	Before exceptional items 2020 £m	Exceptional items 2020 £m	Total 2020 £m
Current income tax						
Current income tax charge	34.6	0.8	35.4	41.8	0.4	42.2
Adjustments in respect of prior years	1.3	–	1.3	(1.3)	–	(1.3)
Deferred tax						
Current year credit	(146.5)	(0.6)	(147.1)	(23.5)	–	(23.5)
Adjustments in respect of prior years	(1.3)	–	(1.3)	1.9	–	1.9
	(111.9)	0.2	(111.7)	18.9	0.4	19.3

The tax expense for the year can be reconciled to the profit in the Consolidated Income Statement as follows:

Year ended 31 December	Before exceptional items 2021 £m	Exceptional items 2021 £m	Total 2021 £m	Before exceptional items 2020 £m	Exceptional items 2020 £m	Total 2020 £m
Profit before tax	193.4	(1.2)	192.2	140.8	12.5	153.3
Tax calculated at a rate of 19.00% (2020: 19.00%)	36.7	(0.2)	36.5	26.7	2.4	29.1
Expenses not deductible for tax purposes*	1.8	0.6	2.4	6.5	(0.2)	6.3
UK unprovided deferred tax**	–	–	–	(4.2)	(1.9)	(6.1)
Other unprovided deferred tax	2.2	–	2.2	2.5	–	2.5
Effect of the use of unrecognised tax losses	(0.4)	(0.3)	(0.7)	(1.1)	–	(1.1)
Additional recognition of UK deferred tax asset***	(146.4)	–	(146.4)	(9.5)	–	(9.5)
Overseas rate differences	11.2	0.1	11.3	7.2	0.1	7.3
Other non taxable income	(4.6)	–	(4.6)	(1.4)	–	(1.4)
Adjustments in respect of prior years****	–	–	–	0.6	–	0.6
Adjustments in respect of deferred tax on pensions	–	–	–	(5.9)	–	(5.9)
Impact of revaluing brought forward UK provided deferred tax from 19% to 25%	(10.8)	–	(10.8)	–	–	–
Adjustments in respect of equity accounted investments	(1.6)	–	(1.6)	(2.5)	–	(2.5)
Tax (credit)/charge	(111.9)	0.2	(111.7)	18.9	0.4	19.3

* Relates to costs that are not allowable for tax deduction under local tax law.

** Arises due to timing differences between when an amount is recognised in the income statement and when the amount is subject to UK tax. This is nil in the current year due to the recognition of previously unrecognised UK deferred tax assets as referred to below.

*** In the current year, the Group brought onto the balance sheet a previously unrecognised UK deferred tax asset of £144.8m at 1 January 2021. This asset was revalued during the year giving a net adjustment of £146.4m.

**** Included within adjustments in respect of prior years for the year ended 31 December 2020, is a charge of £4.9m being an immaterial adjustment related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS16 Leases in 2019.

The income tax charge for the year is based on the UK statutory rate of corporation tax for the period of 19.00% (2020: 19.00%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Management are closely monitoring the Organisation for Economic Co-operation and Development's Pillar II solution with regards to global minimum corporate tax for multinational enterprises, which is expected to be enacted in 2022 with application from 1 January 2023. The accounting implications under IAS12 will be determined when the relevant legislation is available.

14 (b) Income tax recognised in the SOCI

Year ended 31 December	2021 £m	2020 £m
Current tax		
Taken to retirement benefit obligations reserves	0.8	–
Deferred tax		
Relating to net investment hedge	4.0	–
Taken to retirement benefit obligations reserve	(22.5)	(5.9)
	(17.7)	(5.9)

14 (c) Tax on items taken directly to equity

Year ended 31 December	2021 £m	2020 £m
Current tax		
Recorded in share based payment reserve	(0.7)	–
Deferred tax		
Recorded in share based payment reserve	0.7	–
	–	–

15. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using local substantively enacted tax rates.

The movement in net deferred tax assets during the year was as follows:

	2021 £m	2020 £m
At 1 January – asset	(56.3)	(37.2)
Income statement credit*	(148.4)	(21.6)
Items recognised in equity and in other comprehensive income	17.8	5.9
Arising on acquisition	9.9	–
Exchange differences	3.0	(3.4)
At 31 December – asset	(174.0)	(56.3)

* Included within the income statement credit for the year ended 31 December 2020, is a charge of £4.9m being an immaterial adjustment related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS 16 Leases in 2019.

The movement in deferred tax assets and liabilities during the year was as follows:

	Temporary differences on assets/intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	Onerous contract provisions £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2021	25.5	(24.7)	14.8	(0.5)	(31.1)	(40.3)	(56.3)
(Credited)/charged to income statement (note 14a)	(11.7)	(7.6)	(0.8)	(0.3)	(127.3)	(0.7)	(148.4)
Arising on acquisition of a subsidiary	5.6	(2.4)	(0.4)	–	(3.3)	10.4	9.9
Items recognised in equity and in other comprehensive income (note 14b and 14c)	–	(0.7)	22.5	–	(4.0)	–	17.8
Exchange differences	0.5	0.9	0.1	–	(0.3)	1.8	3.0
At 31 December 2021	19.9	(34.5)	36.2	(0.8)	(166.0)	(28.8)	(174.0)

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15. Deferred tax continued

Other temporary differences include amounts such as provisions and accruals which, under certain tax laws, are only allowable when expended.

Of the amount credited to the income statement, £nil has been taken to costs of sales in respect of the R&D Expenditure Credit.

As it is now considered that the UK business has returned to sustainable profitability, tax losses of £662m have been valued on the balance sheet at 31 December 2021.

The movement in deferred tax assets and liabilities during the previous year was as follows:

	Temporary differences on assets/intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	Onerous contract provisions £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2020	24.4	(15.6)	6.8	(1.9)	(21.0)	(29.9)	(37.2)
Charged/(credited) to income statement (note 14a)*	2.8	(6.2)	–	1.3	(10.1)	(9.4)	(21.6)
Items recognised in equity and in other comprehensive income (note 14b and 14c)	–	–	5.9	–	–	–	5.9
Reclassification	–	(2.0)	2.0	–	–	–	–
Exchange differences	(1.7)	(0.9)	0.1	0.1	–	(1.0)	(3.4)
At 31 December 2020	25.5	(24.7)	14.8	(0.5)	(31.1)	(40.3)	(56.3)

* Included within other temporary differences is a charge of £4.9m being an immaterial adjustment in the year ended 31 December 2020 related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS 16 Leases in 2019.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following analysis shows the deferred tax balances (after offset) for financial reporting purposes:

	2021 £m	2020 £m
Deferred tax liabilities	40.3	26.9
Deferred tax assets	(214.3)	(83.2)
	(174.0)	(56.3)

As at the balance sheet date, the UK has a potential deferred tax asset of £234.3m (2020: £189.9m) available for offset against future profits. A deferred tax asset has currently been recognised of £162.8m (2020: £30.6m). Recognition has been based on there being sufficient certainty of future taxable profits against which these deductions can be utilised. No deferred tax asset has been recognised in respect of the remaining asset (net £71.5m) as they are more restricted in their use either due to their nature, such as capital losses, or the period and entity in which they arose, as revenue losses made before April 2017 are more restricted in their use. On 24 May 2021 legislation which increases the UK tax rate from 19% to 25% from April 2023 was substantively enacted. These measures increase the Group's future current tax charge accordingly. The deferred tax balance at 31 December 2021 has been calculated reflecting the increased rate of 25% where the balance is expected to be realised after April 2023.

Losses of £1.3m (2020: £0.1m) expire within 5 years, losses of £0.1m (2020: £0.5m) expire within 6-10 years, losses of £nil (2020: £0.7m) expire within 20 years and losses of £1,077.4m (2020: £1,052.3m) may be carried forward indefinitely.

16. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS 33 *Earnings per Share*.

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

Number of shares	2021 millions	2020 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,222.6	1,229.1
Effect of dilutive potential ordinary shares: Shares under award	21.4	25.2
Weighted average number of ordinary shares for the purpose of diluted EPS	1,244.0	1,254.3

Earnings per share

	Earnings 2021 £m	Per share amount 2021 pence	Earnings 2020 £m	Per share amount 2020 pence
Basic EPS				
Earnings for the purpose of basic EPS	303.9	24.86	133.8	10.89
Effect of dilutive potential ordinary shares	–	(0.43)	–	(0.22)
Diluted EPS	303.9	24.43	133.8	10.67
Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	303.9	24.86	133.8	10.89
Add back exceptional items	1.2	0.10	(12.5)	(1.02)
Add back tax on exceptional items	0.2	0.01	0.4	0.03
Earnings excluding exceptional items for the purpose of basic EPS	305.3	24.97	121.7	9.90
Effect of dilutive potential ordinary shares	–	(0.43)	–	(0.20)
Excluding exceptional items, diluted	305.3	24.54	121.7	9.70

17. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2020	1,006.0	(331.8)	674.2
Exchange differences	(11.6)	7.0	(4.6)
At 31 December 2020	994.4	(324.8)	669.6
Acquisitions	178.8	–	178.8
Exchange differences	7.0	(2.7)	4.3
At 31 December 2021	1,180.2	(327.5)	852.7

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 1 January 2021 £m	Acquisitions £m	Exchange differences 2021 £m	Goodwill balance 31 December 2021 £m	Headroom on impairment analysis 2021 £m	Headroom on impairment analysis 2020 £m
UK & Europe	184.4	0.5	(1.3)	183.6	728.0	688.5
Americas	366.7	148.6	12.5	527.8	415.8	658.3
AsPac	108.6	29.7	(7.0)	131.3	380.6	328.0
Middle East	9.9	–	0.1	10.0	103.6	103.2
	669.6	178.8	4.3	852.7	1,628.0	1,778.0

Included above is the detail of the headroom on the cash generating units (CGUs) existing at the year end, which reflects where future discounted cash flows are greater than the underlying assets and includes all relevant cash flows, including where provisions have been made for future costs and losses. Headroom overall has decreased compared to 2020 driven primarily by the movement in cash flows in the Americas CGU compounded by an increase in discount and terminal growth rates. The UK & Europe and AsPac CGUs have both seen increases in headroom as improvements to future cash flows have outweighed the impact of discount rates.

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17. Goodwill continued

The key quantifiable assumptions applied in the impairment review are set out below:

	Discount rate 2021 %	Discount rate 2020 %	Terminal growth rates 2021 %	Terminal growth rates 2020 %
UK & Europe	9.3	8.6	2.0	1.9
Americas	10.9	10.7	2.4	2.5
AsPac	11.0	10.1	2.2	2.2
Middle East	12.1	12.1	1.3	1.6

* The financial statements for the year ended December 2020 disclosed different discount rates to those used in the underlying impairment analysis. These have therefore been restated, but this has no impact on the conclusions regarding impairment.

Discount rate

Pre-tax discount rates derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are reviewed annually with external advisers and are adjusted for risks specific to the market in which the CGU operates.

Discount rates used in 2021 have increased compared with 2020 with the exception of the Middle East where the rate has remained flat. The change can be attributed to an increase in the equity risk premium (ERP) applied by management following a return to the same margin of ERP over the base model as was used until the end of 2019. In 2020, this margin was removed owing to the range of discount rates amongst the Group's peers narrowing, however a return to a wider spread of discount rates, as the pandemic eases, has allowed a return to the previous approach.

Terminal growth rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources and have not materially changed as compared with 2020.

Short-term growth rates

The annual impairment test is performed immediately prior to the year end, based initially on five-year cash flow forecasts approved by Management. Short-term revenue growth rates used in each CGU five-year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short-term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

As explained in note 8, Management considers certain sectors in which the Group operates to be more exposed to environmental risks than others. For example, changes in consumer attitudes to aviation or the use of private vehicles, may have an impact on the Group's Transport contracts. Currently, no adjustment to existing contracts is required, although Management will continue to monitor the potential impact of environmental risks and will include these in future analysis as required.

Sensitivity analysis

Sensitivity analysis has been performed for each key assumption; a 1% movement in discount rates and a 1% movement in terminal growth rates are considered to be reasonably possible, as has a degree of estimation uncertainty in the cash flows associated with each CGU of up to 10% in the final year of the plan. Performing a sensitivity analysis on short-term growth rates is not a numerical exercise, as growth rates are based on known opportunities and the likelihood of those opportunities being won and turned into resulting cash flows. However, in order to model a sensitivity scenario that reflects the judgement associated with short-term growth rates, Management have applied a no growth model to cash flows outside of the 2-year budget period. No impairment results from these changes, even when combined with the additional 1% increase in discount rates and 1% reduction in terminal growth rates.

Management has also considered the sensitivity of cash flows in the terminal year for the CGUs with the lowest headroom. Terminal year cash flows would need to reduce by 56% (£12.9m) and 41% (£27.5m) in the Middle East and AsPac, respectively, before an impairment would need to be recognised.

18. Other intangible assets

	Acquisition related	Other		Total £m
	Customer relationships £m	Software and IT £m	Internally generated development expenditure £m	
Cost				
At 1 January 2021	95.2	131.9	56.9	284.0
Arising on acquisition	79.3	2.9	–	82.2
Additions – internal development	–	0.2	–	0.2
Additions – external	–	8.0	–	8.0
Disposals	(1.2)	(12.1)	(1.0)	(14.3)
Reclassification to property, plant and equipment	–	(0.9)	–	(0.9)
Exchange differences	3.1	(1.2)	(0.1)	1.8
At 31 December 2021	176.4	128.8	55.8	361.0
Accumulated amortisation and impairment				
At 1 January 2021	44.8	102.2	56.4	203.4
Amortisation charge – internal development	–	5.0	0.4	5.4
Amortisation charge – external	16.0	5.9	–	21.9
Disposals	(1.2)	(10.6)	(0.9)	(12.7)
Reclassification to property, plant and equipment	–	(0.5)	–	(0.5)
Exchange differences	0.7	(1.1)	(0.1)	(0.5)
At 31 December 2021	60.3	100.9	55.8	217.0
Net book value				
At 31 December 2021	116.1	27.9	–	144.0

	Acquisition related	Other		Total £m
	Customer relationships £m	Software and IT £m	Internally generated development expenditure £m	
Cost				
At 1 January 2020	99.1	123.6	56.9	279.6
Additions – internal development	–	0.9	–	0.9
Additions – external	–	7.4	–	7.4
Disposals	(1.5)	(1.8)	–	(3.3)
Reclassification from property, plant and equipment	–	0.4	–	0.4
Exchange differences	(2.4)	1.4	–	(1.0)
At 31 December 2020	95.2	131.9	56.9	284.0
Accumulated amortisation and impairment				
At 1 January 2020	38.4	90.4	54.3	183.1
Amortisation charge – internal development	–	2.2	1.9	4.1
Amortisation charge – external	9.0	9.9	–	18.9
Disposals	(1.2)	(1.5)	–	(2.7)
Reclassification from property, plant and equipment	–	0.2	–	0.2
Exchange differences	(1.4)	1.0	0.2	(0.2)
At 31 December 2020	44.8	102.2	56.4	203.4
Net book value				
At 31 December 2020	50.4	29.7	0.5	80.6

Customer relationships are amortised over the average length of contracts acquired. The Group is carrying £116.1m (2020: £50.4m) in relation to customer relationships. Amortisation of intangibles arising on acquisition consists of amortisation in relation to customer relationships and totals £16.0m (2020: £9.0m).

The net book value of internally generated intangible assets as at 31 December 2021 was £nil (2020: £0.5m) in development expenditure and £7.8m (2020: £19.6m) in software and IT.

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19. Property, plant and equipment and right of use assets

	Land and buildings owned £m	Land and buildings leased £m	Leasehold improvements owned £m	Other assets owned* £m	Other assets leased* £m	Total £m
Cost						
At 1 January 2021	4.3	479.5	31.9	133.4	136.4	785.5
Arising on acquisition	–	9.0	1.5	2.2	0.9	13.6
Additions	0.3	178.9	2.2	21.4	22.1	224.9
Reclassification between property, plant and equipment categories	–	–	–	8.2	(8.2)	–
Reclassifications from other intangible assets	–	–	0.6	0.3	–	0.9
Disposals	(0.5)	(112.1)	(2.4)	(29.7)	(18.7)	(163.4)
Exchange differences	–	0.3	(0.1)	(0.9)	(0.2)	(0.9)
At 31 December 2021	4.1	555.6	33.7	134.9	132.3	860.6
Accumulated depreciation and impairment						
At 1 January 2021	2.8	141.6	17.5	95.1	86.8	343.8
Charge for the year – impairment	–	–	–	0.3	–	0.3
Charge for the year – depreciation	0.2	88.7	3.5	15.9	20.3	128.6
Reclassification between property, plant and equipment categories	–	–	–	8.0	(8.0)	–
Reclassifications from other intangible assets	–	–	0.5	–	–	0.5
Disposals	(0.1)	(40.0)	(2.4)	(23.3)	(18.2)	(84.0)
Exchange differences	(0.1)	0.1	(0.1)	(0.6)	(0.1)	(0.8)
At 31 December 2021	2.8	190.4	19.0	95.4	80.8	388.4
Net book value**						
At 31 December 2021	1.3	365.2	14.7	39.5	51.5	472.2

* Other assets include machinery, vehicles, furniture and equipment.

** The net book value is shown on the balance sheet as £55.5m of owned assets in property, plant and equipment and £416.7m of leased assets in right of use assets.

The impairment charge for the year includes £nil (2020: £0.2m) charged against right of use assets arising in the year on newly entered into leases on onerous contracts.

The additions for leased land and buildings include £3.1m (2020: £1.3m) for dilapidation provisions and £nil (2020: £0.3m credit) for non-cash lease incentives.

	Land and buildings owned £m	Land and buildings leased £m	Leasehold improvements owned £m	Other assets owned* £m	Other assets leased* £m	Total £m
Cost						
At 1 January 2020	4.6	424.2	33.6	128.3	126.6	717.3
Additions	0.2	134.2	4.7	36.9	24.9	200.9
Reclassification between property, plant and equipment categories	(0.2)	0.2	–	2.5	(2.5)	–
Reclassifications to other intangible assets	–	–	–	(0.4)	–	(0.4)
Disposals	(0.3)	(78.2)	(6.3)	(34.4)	(12.2)	(131.4)
Exchange differences	–	(0.9)	(0.1)	0.5	(0.4)	(0.9)
At 31 December 2020	4.3	479.5	31.9	133.4	136.4	785.5
Accumulated depreciation and impairment						
At 1 January 2020	3.0	128.3	20.7	95.5	77.2	324.7
Charge for the year – impairment	–	0.2	–	0.3	0.2	0.7
Charge for the year – depreciation	0.2	73.7	3.1	12.6	19.8	109.4
Reclassification between property, plant and equipment categories	(0.2)	0.2	–	0.5	(0.5)	–
Reclassifications to other intangible assets	–	–	–	(0.2)	–	(0.2)
Disposals	(0.2)	(60.2)	(6.3)	(14.0)	(9.5)	(90.2)
Exchange differences	–	(0.6)	–	0.4	(0.4)	(0.6)
At 31 December 2020	2.8	141.6	17.5	95.1	86.8	343.8
Net book value**						
At 31 December 2020	1.5	337.9	14.4	38.3	49.6	441.7

* Other assets include machinery, vehicles, furniture and equipment.

** The net book value is shown on the balance sheet as £54.2m of owned assets in property, plant and equipment and £387.5m of leased assets in right of use assets.

20. Inventories

	2021 £m	2020 £m
Service spares, supplies and consumables	19.6	21.4

21. Contract assets, trade and other receivables

Contract asset: Non-current	2021 £m	2020 £m
Accrued income	2.6	–

Contract assets: Current	2021 £m	2020 £m
Accrued income and other unbilled receivables	306.5	278.0
Capitalised bid costs	2.4	2.8
Capitalised mobilisation and phase in costs	9.8	15.3
Other contract assets	0.3	–
	319.0	296.1

An Expected Credit Loss (ECL) is recognised against contract assets only when it is considered to be material and there is evidence that the credit worthiness of a counterparty may render balances irrecoverable.

The Group's Consolidated Balance Sheet includes capitalised bid and phase in costs that are realised as a part of the normal operating cycle of the Group. These assets represent up-front investment in contracts which are recoverable and expected to provide benefits over the life of those contracts. Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs can only be capitalised when the expenditure meets all three criteria identified in note 2.

Movements in the period were as follows:

Capitalised other contract assets, bid and phase in costs	2021 £m	2020 £m
At 1 January	18.1	23.0
Additions	0.3	1.3
Amortisation	(4.0)	(6.8)
Written off	(1.5)	–
Exchange differences	(0.4)	0.6
At 31 December	12.5	18.1

Total trade and other receivables held by the Group at 31 December 2021 amount to £321.9m (2020: £338.8m).

Trade and other receivables: Non-current	2021 £m	2020 £m
Trade receivables	–	3.1
Other investments	–	9.4
Prepayments	0.4	1.7
Other receivables	13.2	11.1
	13.6	25.3

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21. Contract assets, trade and other receivables continued

Other non-current receivables include long term employee compensation plans, advances and other non-trade receivables.

Trade and other receivables: Current	2021 £m	2020 £m
Trade receivables	234.4	244.3
Prepayments	42.9	45.5
Amounts owed by joint ventures and associates	1.7	0.2
Other receivables	26.7	23.5
	305.7	313.5

Other receivables include amounts due from third parties, advances paid to suppliers and other non-trade receivables.

The management of trade receivables is the responsibility of the reportable operating segments, although they report to the Group on a monthly basis on debtor days, debtor ageing and significant outstanding debts. The average credit period taken by customers is 19 days (2020: 23 days) and no interest was charged on overdue amounts in the current or prior reporting period.

Each customer has an external credit score which determines the level of credit provided. However, the majority of our customers have a sovereign credit rating as a result of being government organisations. Of the trade receivables balance at the end of the year, £68.0m is due from agencies of the UK Government, the Group's largest customer, £54.7m from the Australian Government, £37.9m from the US Government and £23.8m from the Government of the United Arab Emirates. There are no other customers who represent more than 5% of the total balance of trade receivables. Of the trade receivables balance at the end of 2020, £63.5m was due from agencies of the UK Government, £57.1m from the Australian Government, £27.8m from the US Government and £42.7m from the Government of the United Arab Emirates. The maximum potential exposure to credit risk in relation to trade receivables at the reporting date is equal to their carrying value. The Group does not hold any collateral as security.

The Group does not have any material impairments associated with expected credit losses due to the sovereign credit rating of most customers. Further specific impairments to trade receivables are based on estimated irrecoverable amounts and provisions on outstanding balances greater than a year old unless there is firm evidence that the balance is recoverable. The total amount of these impairments for the Group was £4.4m as of 31 December 2021 (2020: £7.0m).

Ageing of trade receivables	2021 £m	2020 £m
Not due	191.3	175.5
Overdue by less than 30 days	25.1	49.1
Overdue by between 30 and 60 days	8.2	5.5
Overdue by more than 60 days	14.2	21.2
Allowance for doubtful debts	(4.4)	(7.0)
	234.4	244.3

Of the total overdue trade receivable balance, 92% (2020: 73%) relates to the Group's four major governmental customers (being the governments of the UK, US, Australia and the United Arab Emirates).

Movements on the Group allowance for doubtful debts	2021 £m	2020 £m
At 1 January	7.0	5.5
Arising on acquisition	1.6	–
Net charges and releases to income statement	0.4	1.9
Utilised	(4.7)	(0.2)
Exchange differences	0.1	(0.2)
At 31 December	4.4	7.0

Included in the current other receivables balance is a further £0.8m (2020: £0.2m) due from agencies of the UK Government.

22. Cash and cash equivalents

	Sterling 2021 £m	Other currencies 2021 £m	Total 2021 £m	Sterling 2020 £m	Other currencies 2020 £m	Total 2020 £m
Customer advance payments*	–	0.1	0.1	–	0.1	0.1
Other cash and short-term deposits	172.9	25.4	198.3	243.6	92.0	335.6
Total cash and cash equivalents	172.9	25.5	198.4	243.6	92.1	335.7

* Customer advance payments totalling £0.1m (2020: £0.1m) are encumbered cash balances.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

23. Contract liabilities, trade and other payables

Contract liabilities: Current	2021 £m	2020 £m
Deferred income	61.3	42.3
Contract liabilities: Non-current	2021 £m	2020 £m
Deferred income	48.6	47.5

The allocation of deferred income between current and non-current is presented on the basis that the current portion will unwind in the following twelve months through revenue. There were no material items in the current portion of deferred income in 2020 which did not unwind during the year.

Total trade and other payables held by the Group at 31 December 2021 amount to £533.3m (2020: £543.3m).

Trade and other payables: Current	2021 £m	2020 £m
Trade payables	89.2	99.6
Other payables	123.7	134.5
Accruals	313.1	299.8
	526.0	533.9

Other payables include sales and other direct taxes, payroll taxes, salaries and other non-trade payables.

The average credit period taken for trade purchases is 23 days (2020: 25 days).

Trade and other payables: Non-current	2021 £m	2020 £m
Other payables	7.3	9.4

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24. Leases

The Directors estimate that the fair value of the Group's lease obligations approximates their carrying amount. The Group uses leases in the delivery of its contractual obligations and the services required to support the delivery of those contracts, including administrative functions. There are no material future cash outflows relating to leases in place as at 31 December 2021 that are not reflected in the minimum lease payments disclosed below and the Group does not have any leases to which it is contracted but which are not yet reflected in the minimum lease payments. Additionally, the Group does not have any leases where payments are variable. The Group has a significant number of leases which include either termination or extension options, or both. Included in amounts payable under leases below are only those amounts which reflect Management's view of the reasonably certain lease term in line with current operational requirements.

No lease liability is recognised in respect of leases which have a lease term of less than twelve months in duration at the point of entering into the lease, or where the purchase price of the underlying right of use asset is less than £5,000.

The total cash outflow for leases, excluding short-term leases and low-value leases, in the year was £119.1m (2020: £110.3m). This is presented in the Consolidated Cash Flow Statement as £111.3m (2020: £100.8m) relating to the principal element of the lease liability payments, with the remaining balance of £7.8m (2020: £9.5m) presented within interest paid.

	Minimum lease payments 2021 £m	Minimum lease payments 2020 £m
Amounts payable under leases		
Within one year	131.0	115.3
Between one and five years	263.9	228.9
After five years	53.6	90.5
	448.5	434.7
Less: future finance charges	(18.2)	(32.1)
Present value of lease obligations	430.3	402.6
Less: amount due for settlement within one year (shown within current liabilities)	(126.3)	(109.3)
Amount due for settlement after one year	304.0	293.3

The following amounts are included in the Group's Consolidated Financial Statements in respect of its leases:

	Note	2021 £m	2020 £m
Additions to right of use assets (including transitional adjustments)	19	201.0	159.1
Depreciation charge on right of use assets (including transitional adjustments)	19	(109.0)	(93.5)
Impairment of right of use assets	19	–	(0.4)
Net disposals of right of use assets	19	(72.6)	(20.7)
Net reclassifications from right of use assets	19	(0.2)	(2.0)
Net exchange differences on right of use assets	19	0.1	(0.3)
Carrying amount of right of use assets	19	416.7	387.5
Current lease liabilities	24	126.3	109.3
Non-current lease liabilities	24	304.0	293.3
Capital element of lease repayments		(111.3)	(100.8)
Interest expense on lease liabilities	13	(7.8)	(9.5)
Profit on early termination of leases	10	0.6	2.9
Expenses relating to short-term or low-value leases	10	(2.8)	(5.6)

25. Loans

	Total 2021 £m	Total 2020 £m
Loans are repayable as follows:		
On demand or within one year	64.9	89.7
Between one and two years	40.2	64.9
Between two and five years	160.8	124.6
After five years	111.1	109.6
	377.0	388.8
Less: amount due for settlement within one year (shown within current liabilities)	(64.9)	(89.7)
Amount due for settlement after one year	312.1	299.1

Included within amounts repayable within one year is £nil (2020: £nil) related to the draw down on the revolving credit facility. See note 22 for cash balances available.

	Carrying amount 2021 £m	Fair value 2021 £m	Carrying amount 2020 £m	Fair value 2020 £m
Loans	377.0	389.4	388.8	397.8

The fair values are based on cash flows discounted using a market rate appropriate to the loan. All loans are held at amortised cost.

Analysis of Net Debt

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

	At 1 January 2021 £m	Cash flow £m	Acquisitions*	Exchange differences £m	Non-cash movements** £m	At 31 December 2021 £m
Loans payable	(388.8)	29.7	(14.3)	(2.9)	(0.7)	(377.0)
Lease obligations	(402.6)	111.3	(13.8)	(0.5)	(124.7)	(430.3)
Liabilities arising from financing activities	(791.4)	141.0	(28.1)	(3.4)	(125.4)	(807.3)
Cash and cash equivalents	335.7	(145.8)	13.3	(4.8)	–	198.4
Derivatives relating to Net Debt	(4.7)	–	–	5.3	–	0.6
Net Debt	(460.4)	(4.8)	(14.8)	(2.9)	(125.4)	(608.3)

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

** Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

	At 1 January 2020 £m	Cash flow £m	Exchange differences £m	Non-cash movements* £m	At 31 December 2020 £m
Loans payable	(305.0)	(99.4)	15.6	–	(388.8)
Lease obligations	(369.9)	100.8	0.9	(134.4)	(402.6)
Liabilities arising from financing activities	(674.9)	1.4	16.5	(134.4)	(791.4)
Cash and cash equivalents	89.5	244.4	1.8	–	335.7
Derivatives relating to Net Debt	1.0	–	(5.7)	–	(4.7)
Net Debt	(584.4)	245.8	12.6	(134.4)	(460.4)

* Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

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26. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2021	83.2	15.7	14.5	64.6	178.0
Arising on acquisition	1.7	0.9	–	0.1	2.7
Transferred from working capital	2.1	–	–	23.2	25.3
Charged to income statement – exceptional	–	0.6	–	–	0.6
Charged to income statement – other	18.3	4.4	2.1	14.8	39.6
Released to income statement – exceptional	(0.1)	–	–	(0.3)	(0.4)
Released to income statement – other	(6.2)	(4.2)	(2.1)	(8.5)	(21.0)
Included in the valuation of right of use asset	–	3.1	–	–	3.1
Utilised during the year	(22.6)	(1.0)	(0.3)	(3.6)	(27.5)
Exchange differences	(2.6)	(0.2)	–	–	(2.8)
At 31 December 2021	73.8	19.3	14.2	90.3	197.6
Analysed as:					
Current	29.2	5.7	14.0	30.7	79.6
Non-current	44.6	13.6	0.2	59.6	118.0
	73.8	19.3	14.2	90.3	197.6

Employee related provisions include amounts for long-term service awards and terminal gratuity liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until rewards fall due and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

The majority of property provisions relate to leased properties and are associated with the requirement to return properties to either their original condition, or to enact specific improvement activities in advance of exiting the lease. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in January 2037.

A contract provision is recorded when a contract is deemed not be profitable and therefore is considered onerous. The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. Individual provisions are only discounted where the impact is assessed to be significant. Currently, no contract provisions are discounted. Discount rates are calculated based on the estimate risk-free rate of interest for the region in which the provision is located and matched against the ageing profit of the provision.

Included within other provisions is:

- £43.0m related to indemnities provided in respect of a historic business transaction. Within this amount, £36.0m is reserved for potential tax liabilities arising within the disposed company when local tax submissions are reviewed by the relevant authorities which represents Management's best estimate of the likely outcome based on past experiences and other known factors. Under the indemnity, £36.0m is the Group's maximum potential exposure to these tax matters. The timing of utilisation is dependent on future events which could occur within the next twelve months, or over a longer period, with the majority expected to be settled by 31 December 2023.
- £20.1m related to claims made against the Group. These claims are varied in nature, although they typically come from either the Group's service users, claimants for vehicle related incidents or the Group's employees. Whilst there is some level of judgement on the amount to be recorded, in almost all instances the variance to the actual claim paid out will not individually be material, however the timing of when the claims are reported and settled is less certain as a process needs to be followed prior to the amounts being paid. The Group has decided to reclassify these claim liabilities from other payables to other provisions during 2021 as, although the liability is materially accurate, there is sufficient uncertainty associated with the timing of settlement. The claim liabilities reported in other payables in 2020 was £19.8m. The adjustment was made in the current year and no prior year adjustment was considered necessary since it was concluded that the balance sheet reclassification did not constitute a material prior period error that required restatement.
- £27.2m related to legal and other costs that the Group expects to incur over an extended period, in respect of past events for which a provision has been recorded, none of which are individually material.

27. Capital and other commitments

Capital expenditure contracted but not provided	2021 £m	2020 £m
Property, plant and equipment	1.2	6.6
Intangible assets	0.8	3.4

28. Contingent liabilities

The Group has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2020: £3.8m). The actual commitment outstanding at 31 December 2021 was £5.7m (2020: £3.8m).

The Group has provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2021 was £263.8m (2020: £247.9m).

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties. The Group does not currently assess the merits as strong, especially given the legal uncertainties in such actions.

The Group is also aware of other claims and potential claims which involve or may involve legal proceedings against the Group although the timing of settlement of these claims remains uncertain. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

29. Financial risk management

29 (a) Fair value of financial instruments

i) Hierarchy of fair value

The vast majority of financial instruments are held at amortised cost. The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: Inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 31 December 2021 and the comparison fair values for loans and leases, are all considered to fall into Level 2. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves.

There have been no transfers between levels in the year.

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29. Financial risk management continued

The Group held the following financial instruments which fall within the scope of IFRS 9 *Financial Instruments* at 31 December:

	Carrying amount (measurement basis)		Comparison fair value	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost 2021 £m	Fair value – Level 2 2021 £m	2021 £m	Amortised cost 2020 £m	Fair value – Level 2 2020 £m	2020 £m
Financial assets						
Financial assets – current						
Cash and bank balances	198.4	–	198.4	335.7	–	335.7
Derivatives designated as FVTPL						
Forward foreign exchange contracts	–	2.6	2.6	–	4.5	4.5
Receivables						
Trade receivables (note 21)	234.4	–	234.4	244.3	–	244.3
Amounts owed by joint ventures and associates (note 21)	1.7	–	1.7	0.2	–	0.2
Financial assets – non-current						
Receivables						
Trade receivables (note 21)	–	–	–	3.1	–	3.1
Other investments (note 21)	–	–	–	9.4	–	9.4
Financial liabilities – current						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	–	(2.0)	(2.0)	–	(9.2)	(9.2)
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	–	–	–	–	(0.1)	(0.1)
Financial liabilities at amortised cost						
Trade payables (note 23)	(89.2)	–	(89.2)	(99.6)	–	(99.6)
Loans (note 25)	(64.9)	–	(65.2)	(89.7)	–	(91.2)
Lease obligations (note 24)	(126.3)	–	(126.3)	(109.3)	–	(109.3)
Financial liabilities – non-current						
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	–	–	–	–	(0.1)	(0.1)
Financial liabilities at amortised cost						
Loans (note 25)	(312.1)	–	(324.2)	(299.1)	–	(306.6)
Lease obligations (note 24)	(304.0)	–	(304.0)	(293.3)	–	(293.3)

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

ii) Fair value of derivative financial instruments

The fair value of derivative financial instruments results in a net asset of £0.6m (2020: net liability of £4.9m) comprising current assets of £2.6m (2020: £4.5m), current liabilities of £2.0m (2020: £9.3m) and non-current liabilities of £nil (2020: £0.1m).

	1 January 2021 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2021 £m
Forward foreign exchange contracts	(4.9)	0.2	5.3	0.6

	1 January 2020 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2020 £m
Forward foreign exchange contracts	1.1	(0.2)	(5.8)	(4.9)

The fair value of financial liabilities recognised at fair value through profit and loss is £2.0m (2020: £9.2m) and relates to derivatives that are not designated in hedge accounting relationships. The fair value of the derivatives and their credit risk adjusted fair value are not materially different and are approximately equal to the amount contractually payable at maturity due to the short tenure of the instruments.

29 (b) Financial risk

The Board is ultimately responsible for ensuring that financial and non-financial risks are monitored and managed within acceptable and known parameters. The Board delegates authority to the Executive team to manage financial risks. The Group's Treasury function acts as a service centre and operates within clearly defined guidelines and policies that are approved by the Board. The guidelines and policies define the financial risks to be managed, specify the objectives in managing these risks, delegate responsibilities to those managing the risks and establish a control framework to regulate treasury activities to minimise operational risk.

29 (c) Liquidity risk

i) Credit facilities

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. As at 31 December, the Group's committed bank credit facilities and corresponding borrowings were as follows:

	Currency	Amount 2021 £m	Drawn 2021 £m	Utilised for bonding facility 2021 £m	Total facility available 2021 £m
Syndicated revolving credit facility	Sterling	250.0	–	–	250.0
Term loan facility	Sterling	120.0	120.0	–	–

	Currency	Amount 2020 £m	Drawn 2020 £m	Utilised for bonding facility 2020 £m	Total facility available 2020 £m
Syndicated revolving credit facility	Sterling	250.0	–	–	250.0
Term loan facility	Sterling	45.0	45.0	–	–

In April 2021, the Group drew down on a new £75m, 3-year term loan facility in order to fund the purchase of Whitney, Bradley & Brown, Inc. The Group has £259.2m (2020: £346.7m) of US private placement loan notes which will be repaid as bullet repayments between 2022 and 2032.

ii) Maturity of financial liabilities

The Group's financial liabilities will be settled on both a net and a gross basis over the remaining period between the balance sheet date and the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay.

At 31 December 2021	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Trade payables (note 23)	89.2	–	–	–	89.2
Obligations under leases* (note 24)	131.0	107.1	156.8	53.6	448.5
Loans** (note 25)	66.1	40.5	161.2	111.4	379.2
Future loan interest	12.2	11.3	16.3	12.2	52.0
Derivatives settled on gross basis:					
Outflow	1,427.9	–	–	–	1,427.9
Inflow	(1,428.4)	–	–	–	(1,428.4)
	298.0	158.9	334.3	177.2	968.4

* The present value of lease obligations is £430.3m after deducting £18.2m of future finance costs.

** Loans are stated gross of capitalised finance costs.

Notes to the Consolidated Financial Statements

continued

29. Financial risk management continued

At 31 December 2020	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Trade payables (note 23)	99.6	–	–	–	99.6
Obligations under leases (note 24) – restated*	115.3	86.2	142.7	90.5	434.7
Loans** (note 25)	90.9	65.8	125.1	109.9	391.7
Future loan interest	15.2	10.8	21.8	16.1	63.9
Derivatives settled on gross basis:					
Outflow	1,007.8	–	–	–	1,007.8
Inflow	(1,003.2)	–	–	–	(1,003.2)
	325.6	162.8	289.6	216.5	994.5

* The present value of lease obligations is £402.6m after deducting £32.1m of future finance costs. The amount has been restated to show the undiscounted obligations under leases.

** Loans are stated gross of capitalised finance costs.

Gross cash flows in the table above relating to forward foreign exchange contracts total £1,428.4m (inflow) and £1,427.9m (outflow) on demand or within one year (2020: £1,003.2m (inflow) and £1,007.8m (outflow) on demand or within one year).

29 (d) Foreign exchange risk

i) Transactional

It is the Group's policy to hedge material transactional exposures using forward foreign exchange contracts to fix the functional currency value of non-functional currency cash flows. At 31 December 2021, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or highly probable forecast transactions.

ii) Translational

Where possible the Group will raise external funding to match the currency profile of its foreign operations, in order to mitigate translation exposure. If matched funding is not possible, currency derivatives may be used to protect against movements in foreign exchange.

iii) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Details of the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IFRS 9 Financial Instruments can be seen in note 2.

The Group holds a number of forward foreign exchange contracts designated as cash flow hedges. These derivatives are hedging highly probable forecast foreign currency trade payments in the UK business. The net notional amounts are summarised by currency below:

	2021 £m	2020 £m
Sterling	(2.1)	(6.0)
Indian Rupee	2.2	6.0

All derivatives designated as cash flow hedges are highly effective and as at 31 December 2021, £nil (2020: £0.2m net fair value loss) has been deferred in the hedging reserve. During the year to 31 December 2021, £0.1m (2020: £0.1m loss) of net fair value gains were transferred to the hedging reserve and £0.1m fair value gains (2020: £0.1m loss) were reclassified to the Consolidated Income Statement.

iv) Currency sensitivity

The Group's currency exposures in respect of monetary items at 31 December 2021 that result in net currency gains and losses in the income statement and equity, arise principally from movement in US Dollar and Indian Rupee exchange rates. The impact of a 10% movement is summarised below:

	Pre-tax profits gain/(loss) 2021 £m	Equity gain/(loss) 2021 £m	Pre-tax profits gain/(loss) 2020 £m	Equity gain/(loss) 2020 £m
US Dollar	–	0.1	(0.1)	–
Indian Rupee	–	(0.2)	–	(0.6)
	–	(0.1)	(0.1)	(0.6)

29 (e) Interest rate risk

The Group's policy is to minimise the impact of interest rate volatility on earnings to provide an appropriate level of certainty to cost of funds. Exposure to interest rate risk arises principally on changes to US Dollar and Sterling interest rates.

i) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

	Floating rate	Fixed rate	Weighted average interest rate	Floating rate	Fixed rate	Weighted average interest rate
	2021	2021	2021	2020	2020	2020
	£m	£m	%	£m	£m	%
Financial assets						
Cash and cash equivalents	198.4	–	–	335.7	–	–
	Floating rate	Fixed rate	Weighted average interest rate	Floating rate	Fixed rate	Weighted average interest rate
	2021	2021	2021	2020	2020	2020
	£m	£m	%	£m	£m	%
Financial liabilities						
US Dollar loans	–	259.2	4.3	–	346.7	4.6
Other loans	120.0	–	1.6	45.0	–	1.5
	120.0	259.2	3.2	45.0	346.7	4.3

Exposure to interest rate fluctuations is mitigated through the issuance of fixed rate debt. The rates on the US Dollar loans are fixed for the term each loan. The loans will be repaid as bullet repayments between 2022 and 2032. Excluded from the above analysis is £430.3m (2020: £402.6m) of amounts payable under leases, which are subject to fixed rates of interest.

ii) Interest rate sensitivity

The effect of a 100 basis point increase in LIBOR rates on the net financial liability position (excluding leases) at the balance sheet date, with all other variables held constant, would have resulted in a £0.8m increase in pre-tax profit for the year to 31 December 2021 (2020: increase of £2.9m).

From 1 January 2022, SONIA (Sterling Overnight Index Average) replaces GBP LIBOR and with all other variables held constant is not expected to have a material impact on the Group. The floating rate loans mentioned above have been restructured effective 1 January 2022 so that the actual interest rates used are consistent when using SONIA as a benchmark compared with GBP LIBOR and this results in no change to the risk strategy going forward.

29 (f) Credit risk

The Group's principal financial assets are cash and cash equivalents, contract assets and trade and other receivables.

Credit risk is the risk that a counterparty could default on its contractual obligations. In this regard, the Group's principal exposure is to cash and cash equivalents, derivative transactions and trade receivables.

The Group's contract asset and trade receivables credit risk is relatively low given that a high proportion of our customer base are government bodies with strong sovereign, or sovereign like, credit ratings. However, where the assessed credit worthiness of a customer, government or non-government, falls below that considered acceptable, appropriate measures are taken to mitigate against the risk of contractual default using instruments such as credit guarantees.

The Group has not recorded any impairments related to contract assets or trade and other receivables relating to credit risk during the year ended 31 December 2021 (2020: none).

The Group's Treasury function primarily transacts with counterparties that comply with Board policy. Where exceptions are approved due to local requirements, the Group's exposures are monitored and kept to an immaterial level. The credit risk is measured by way of a counterparty credit rating from any two recognised rating agencies. Pre-approved limits are set based on a rating matrix and exposures monitored accordingly. The Group also employs the use of set-off rights in some agreements.

The Group's policy is to provide guarantees for joint ventures and associates only to the relevant proportion of support provided by the partners. At 31 December 2021, the Company has issued guarantees in respect of certain joint ventures and associates as per note 28.

Notes to the Consolidated Financial Statements

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29. Financial risk management continued

29 (g) Capital risk

The Board's objective is to maintain a capital structure that supports the Group's strategic objectives, including but not limited to reshaping the portfolio through mergers, acquisitions and disposals. In doing so the Board seeks to manage funding and liquidity risk, optimise shareholder return and maintain an implied investment grade credit position. This strategy is unchanged from the prior year.

The Board reviews and approves at least annually a treasury policy document which covers, inter alia, funding and liquidity risk, capital structure and risk management. This policy details targets for committed funding headroom, diversification of committed funding and debt maturity profile.

The Group plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders.

The following table summarises the capital of the Group:

	2021 £m	2020 £m
Cash and cash equivalents	(198.4)	(335.7)
Loans	377.0	388.8
Obligations under leases	430.3	402.6
Equity	1,008.4	715.0
Capital	1,617.3	1,170.7

30. Retirement benefit schemes

30 (a) Defined benefit schemes

i) Characteristics and risks

The Group contributes to defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. The normal contributions expected to be paid during the financial year ending 31 December 2022 are £6.8m (2021: £8.0m).

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2018 and completed in June 2019. The actuarially assessed deficit for funding purposes was £26.0m. The exercise to value the scheme as at 5 April 2021 is underway with completion anticipated during the first half of 2022 with an expected increase to the actuarially assessed deficit for funding purposes as a result of the RPI reform. As a scheme well hedged for inflation risk, the expected impact of RPI reform is a £65m increase to liabilities. This will be partially offset by changes to mortality assumptions and the scheme will work with the Trustees during the 2021 valuation process to address the impact on the funding level.

Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. As at 31 December 2021, the estimated actuarial surplus of SPLAS was £23m (2020: £20m deficit) based on the actuarial assessment on the funding basis valuation before the impact of RPI reform, whereas the accounting valuation resulted in an asset of £166.2m (2020: £114.6m). The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions.

The schedule of contributions for SPLAS was agreed during 2019, with 30.8% of pensionable salaries due to be paid from 1 November 2019, changing to 30.3% from 1 November 2020. The schedule of contributions also determined that additional shortfall contributions were required. A total of £13.2m of these have already been made, with further amounts of £1.7m for the years 2022 to 2028. A change to the schedule of contributions is being finalised with the pension trustees as part of the expected increase to the deficit for funding purposes as noted above.

The assets of funded schemes are held independently of the Group's assets in separate trustee administered schemes. The trustees of each pension scheme are required by law to act in the interest of the scheme and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regard to the assets of the scheme. The Group's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost method for accounting purposes. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions including discount rates to determine the present value of benefits, inflation assumptions, projected rates of salary growth and life expectancy of pension plan members. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Pension assets and liabilities in the different defined benefit schemes are not offset.

The schemes typically expose the Group to risks that impact the financial performance and position of the Group and may affect the amount and timing of future cash flows. The key risks are set out below:

- Investment risk. The schemes hold assets with which to discharge the future liabilities of these schemes. Any decline in the value of these investments directly impacts on the ability of the scheme to meet its commitments and could require the Group to fund this shortfall in future years. As a result of the SPLAS's investment strategy, which aims to reduce volatility risk by better matching assets to liabilities, 42% of the scheme's assets are annuity policies, 25% are Liability Driven Investments (LDIs) and the remainder is split between equities, bonds, pooled investment funds and cash or cash equivalents. The annuity policies result in an insurer funding the future benefit payments to the relevant members and therefore eliminate the risk of changes in the future value of the benefits to the scheme. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays and are therefore linked to the key drivers of the scheme's liabilities. SPLAS previously identified an investment strategy consisting of Multi-Asset Absolute Return (MAAR), Buy and Maintain credit (B&M) and LDI. SPLAS previously transferred assets to a passive LDI portfolio managed by BlackRock, over the course of late 2016 and early 2017. This ensures that the scheme remains protected against changes to interest rates and long-term inflation expectations, with the funding level therefore being relatively stable. The Buy and Maintain credit implementation comprised of four tranches, the last of which completed during 2020.
- Interest risk. The present values of the defined benefit schemes' liabilities are calculated using a discount rate determined by reference to high quality corporate bond yields and therefore a decrease in the bond interest rate will increase the schemes' liabilities. This will be partially offset by an increase in the return of the schemes' debt investments.
- Longevity risk. The present values of the defined benefit schemes' liabilities are calculated by reference to the best estimate of the mortality of the schemes' participants, both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liabilities.
- Inflation risk. The present values of the defined benefit schemes' liabilities are calculated to include the effect of inflation on future purchasing power based on estimations around inflation rates. An increase in expected future inflation rates will increase the schemes' liabilities.
- Salary risk. The present values of the defined benefit schemes' liabilities are calculated by reference to the future salaries of the schemes' participants, as such, an increase in the salary of the schemes' participants will increase the schemes' liabilities.

The defined benefit schemes are grouped together as follows:

- Contract specific. These are pre-funded defined benefit schemes. Under contractual arrangements the Group sponsors a section of an industry wide defined benefit scheme, the Railways Pension Scheme (RPS), paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund a deficit at the end of the franchise period and any costs are shared 60% by the employer and 40% by the members. The Group also makes contributions under Admitted Body status to a number of sections of the Local Government Pension Scheme for the period to the end of the relevant customer contracts. The Group will only participate in the Local Government Pension Schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions. In addition, the Group may be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. The Group also makes contributions to the Public Sector Superannuation Scheme in Australia and is the only non-UK contract specific scheme in which the Group participates. In respect of Local Government Pension Schemes and the Public Sector Superannuation Scheme, the Group recognises a sufficient level of provision in these financial statements based on the IAS 19 Employee Benefits valuation at the reporting date and contractual obligations.
- Non-contract specific. These do not relate to any specific contract and consist of two pre-funded defined benefit schemes and an unfunded defined benefit scheme. Any liabilities arising are recognised in full and the liabilities in relation to the unfunded scheme amount to £0.3m (2020: £0.3m). The unfunded scheme is the only non-UK non-contract specific scheme in which the Group participates. The funding policy for the pre-funded schemes is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis. One of these schemes is SPLAS and the other is a non-contract specific section of the RPS.

ii) Events in the year

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited (FFA). Included in the acquisition was a net pension obligation of £1.4m.

On 30 June 2021, the 31 December 2019 formal actuarial valuation report was issued for the RPS. This resulted in a reduction of the pension obligation on the non-contract specific section of the RPS as a result of a change in demographic assumptions.

Notes to the Consolidated Financial Statements

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30. Retirement benefit schemes continued

iii) Values recognised in total comprehensive income in the year

The amounts recognised in the Consolidated Financial Statements for the year are analysed as follows:

	Contract specific 2021 £m	Non-contract specific 2021 £m	Total 2021 £m
Recognised in the income statement			
Current service cost – employer	1.4	3.7	5.1
Administrative expenses and taxes	0.1	1.4	1.5
Recognised in arriving at operating profit after exceptionals	1.5	5.1	6.6
Interest income on scheme assets – employer	(0.2)	(21.8)	(22.0)
Interest on franchise adjustment	(0.1)	–	(0.1)
Interest cost on scheme liabilities – employer	0.3	20.7	21.0
Finance income	–	(1.1)	(1.1)

	Contract specific 2021 £m	Non-contract specific 2021 £m	Total 2021 £m
Included within the SOCI			
Actual return on scheme assets	2.6	39.7	42.3
Less: interest income on scheme assets	(0.2)	(21.8)	(22.0)
	2.4	17.9	20.3
Effect of changes in demographic assumptions	(0.1)	3.4	3.3
Effect of changes in financial assumptions	(0.1)	19.9	19.8
Effect of experience adjustments	–	23.4	23.4
Remeasurements	2.2	64.6	66.8
Change in franchise adjustment	0.1	–	0.1
Change in members' share	(0.6)	–	(0.6)
Actuarial profit on reimbursable rights	(0.5)	–	(0.5)
Total pension gain recognised in the SOCI	1.7	64.6	66.3

	Contract specific 2020 £m	Non-contract specific 2020 £m	Total 2020 £m
Recognised in the income statement			
Current service cost – employer	1.2	3.5	4.7
Administrative expenses and taxes	0.1	1.5	1.6
Recognised in arriving at operating profit after exceptionals	1.3	5.0	6.3
Interest income on scheme assets – employer	(0.2)	(29.1)	(29.3)
Interest cost on scheme liabilities – employer	0.4	27.8	28.2
Interest on franchise adjustment	(0.1)	–	(0.1)
Finance cost/(income)	0.1	(1.3)	(1.2)

	Contract specific 2020 £m	Non-contract specific 2020 £m	Total 2020 £m
Included within the SOCI			
Actual return on scheme assets	0.1	216.7	216.8
Less: interest income on scheme assets	(0.3)	(29.1)	(29.4)
	(0.2)	187.6	187.4
Effect of changes in demographic assumptions	0.4	–	0.4
Effect of changes in financial assumptions	(3.6)	(170.0)	(173.6)
Effect of experience adjustments	(0.6)	4.6	4.0
Remeasurements	(4.0)	22.2	18.2
Change in franchise adjustment	2.5	–	2.5
Change in members' share	1.3	0.1	1.4
Actuarial profit on reimbursable rights	3.8	0.1	3.9
Total pension (loss)/gain recognised in the SOCI	(0.2)	22.3	22.1

iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Contract specific 2021 £m	Non-contract specific 2021 £m	Total 2021 £m
Scheme assets at fair value			
Equities	14.9	40.8	55.7
Bonds except LDIs	3.2	365.0	368.2
Pooled investment funds	–	107.6	107.6
LDIs	–	390.0	390.0
Property	2.0	0.2	2.2
Cash and other	4.9	2.0	6.9
Annuity policies	–	662.3	662.3
Fair value of scheme assets	25.0	1,567.9	1,592.9
Present value of scheme liabilities	(41.7)	(1,417.4)	(1,459.1)
Net amount recognised	(16.7)	150.5	133.8
Franchise adjustment*	8.6	–	8.6
Members' share of deficit	5.8	–	5.8
Net retirement benefit asset	(2.3)	150.5	148.2
Net pension liability	(2.3)	(15.7)	(18.0)
Net pension asset	–	166.2	166.2
Net retirement benefit asset	(2.3)	150.5	148.2
Deferred tax liabilities	–	(36.9)	(36.9)
Net retirement benefit asset (after tax)	(2.3)	113.6	111.3

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

Notes to the Consolidated Financial Statements

continued

30. Retirement benefit schemes continued

	Contract specific 2020 £m	Non-contract specific 2020 £m	Total 2020 £m
Scheme assets at fair value			
Equities	11.3	44.3	55.6
Bonds except LDIs	4.1	363.2	367.3
Pooled investment funds	–	62.8	62.8
LDIs	–	408.3	408.3
Property	1.6	–	1.6
Cash and other	4.1	10.6	14.7
Annuity policies	–	690.2	690.2
Fair value of scheme assets	21.1	1,579.4	1,600.5
Present value of scheme liabilities	(37.0)	(1,497.8)	(1,534.8)
Net amount recognised	(15.9)	81.6	65.7
Franchise adjustment*	8.4	–	8.4
Members' share of deficit	5.6	–	5.6
Net retirement benefit asset	(1.9)	81.6	79.7
Net pension liability	(1.9)	(33.0)	(34.9)
Net pension asset	–	114.6	114.6
Net retirement benefit asset	(1.9)	81.6	79.7
Deferred tax liabilities	–	(15.2)	(15.2)
Net retirement benefit asset (after tax)	(1.9)	66.4	64.5

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets, assuming the full settlement of plan liabilities in the event of a plan wind-up. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Group either in the form of future refunds or, for plans still open to benefit accrual, in the form of possible reductions in future contributions.

As required by IAS 19 Employee Benefits, the Group has considered the extent to which the pension plan assets should be classified in accordance with the fair value hierarchy of IFRS 13 *Fair Value Measurement*.

- Equity and Bonds all virtually have quoted prices in active markets and are classified as level 1.
- Pooled investment funds are valued at fair value which is typically the Net Asset Value provided by the fund administrator and are classified as level 3.
- LDIs are valued at fair value which is typically the Net Asset Value provided by the fund administrator and are classified as level 2.
- Property assets are valued at fair value and are classified as level 3.
- Annuity policies are valued at fair value based on the share of the defined benefit obligation covered by the insurance contract and can be classified as level 3.

	Contract specific £m	Non-contract specific £m	Total £m
Changes in the fair value of scheme liabilities			
At 1 January 2020	31.1	1,353.4	1,384.5
Current service cost – employer	1.2	3.5	4.7
Current service cost – employee	0.7	–	0.7
Scheme participants' contributions	–	0.1	0.1
Interest cost – employer	0.4	27.8	28.2
Interest cost – employee	0.2	–	0.2
Benefits paid	(0.4)	(52.4)	(52.8)
Effect of changes in demographic assumptions	(0.4)	–	(0.4)
Effect of changes in financial assumptions	3.6	170.0	173.6
Effect of experience adjustments	0.6	(4.6)	(4.0)
At 1 January 2021	37.0	1,497.8	1,534.8
Current service cost – employer	1.4	3.7	5.1
Current service cost – employee	0.9	–	0.9
Scheme participants' contributions	–	0.4	0.4
Interest cost – employer	0.3	20.7	21.0
Interest cost – employee	0.1	–	0.1
Benefits paid	(0.8)	(58.5)	(59.3)
Effect of changes in demographic assumptions	0.1	(3.4)	(3.3)
Effect of changes in financial assumptions	0.1	(19.9)	(19.8)
Effect of experience adjustments	–	(23.4)	(23.4)
Arising on acquisition	2.7	–	2.7
Foreign exchange	(0.1)	–	(0.1)
At 31 December 2021	41.7	1,417.4	1,459.1

	Contract specific £m	Non-contract specific £m	Total £m
Changes in the fair value of scheme assets			
At 1 January 2020	20.7	1,408.5	1,429.2
Interest income on scheme assets – employer	0.2	29.1	29.3
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	(0.1)	(1.5)	(1.6)
Employer contributions	0.5	7.9	8.4
Contributions by employees	0.3	0.2	0.5
Benefits paid	(0.4)	(52.4)	(52.8)
Return on scheme assets less interest income	(0.2)	187.6	187.4
At 1 January 2021	21.1	1,579.4	1,600.5
Interest income on scheme assets – employer	0.2	21.8	22.0
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	(0.1)	(1.4)	(1.5)
Employer contributions	0.6	8.4	9.0
Contributions by employees	0.3	0.3	0.6
Benefits paid	(0.8)	(58.5)	(59.3)
Return on scheme assets less interest income	2.4	17.9	20.3
Arising on acquisitions	1.3	–	1.3
Foreign exchange	(0.1)	–	(0.1)
At 31 December 2021	25.0	1,567.9	1,592.9

	Total £m
Changes in the franchise adjustment	
At 1 January 2020	5.8
Interest on franchise adjustment Recognised in the SOCI	0.1
	2.5
At 1 January 2021	8.4
Interest on franchise adjustment Recognised in the SOCI	0.1
	0.1
At 31 December 2021	8.6

Notes to the Consolidated Financial Statements

continued

30. Retirement benefit schemes continued

v) Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which reflects 91% of total liabilities and 93% of total assets of the defined benefit pension scheme in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.3% at 31 December 2020 and at 31 December 2021.

The average duration of the benefit obligation at the end of the reporting period is 16.3 years (2020: 17.4 years).

Main assumptions	2021 %	2020 %
Discount rate	1.80	1.40
Rate of salary increases	2.95	2.50
Rate of increase in pensions in payment	2.75 (CPI) and 3.05 (RPI)	2.40 (CPI) and 2.75 (RPI)
Rate of increase in deferred pensions	2.00 (CPI) and 2.90 (RPI)	2.20 (CPI) and 2.80 (RPI)
Inflation assumption – pre-retirement	2.45 (CPI) and 3.35 (RPI)	2.00 (CPI) and 2.90 (RPI)
Inflation assumption – post-retirement	2.75 (CPI) and 3.05 (RPI)	2.40 (CPI) and 2.75 (RPI)

Post retirement mortality*	2021 years	2020 years
Current pensioners at 65 – male	21.7	21.6
Current pensioners at 65 – female	24.3	24.2
Future pensioners at 65 – male	23.9	23.9
Future pensioners at 65 – female	26.4	26.3

* The mortality assumptions have not been updated to reflect the potential effects of Covid-19 given there remains uncertainty of the Covid-19 impact on long-term mortality rates for pension scheme members.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 December 2021 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. The defined benefit obligation as at 31 December 2021 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Increase/(decrease) in defined benefit obligation	2021 £m	2020 £m
Discount rate – 0.5% increase	(119.1)	(125.3)
Discount rate – 0.5% decrease	127.6	142.4
Inflation – 0.5% increase	84.0	103.7
Inflation – 0.5% decrease	(92.6)	(96.6)
Rate of salary increase – 0.5% increase	3.5	3.7
Rate of salary increase – 0.5% decrease	(3.3)	(3.5)
Mortality – one-year age rating	54.0	59.8

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Assumptions in respect of the expected return on scheme assets are required when calculating the franchise adjustment for the contract-specific plans. These assumptions are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2021 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated risks of holding this type of investment, when compared to bond yields. The Group applies an equity risk premium of 4.6% (2020: 4.6%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by the scheme.

30 (b) Defined contribution schemes

The Group paid employer contributions of £92.1m (2020: £79.3m) into UK defined contribution schemes, foreign defined contribution schemes and foreign state pension schemes.

Serco accounts for certain pre-funded defined benefit schemes relating to contracts as defined contribution schemes because the contributions are fixed until the end of the current concession and at rebid any surplus or deficit would transfer to the next contractor. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

31. Share capital

	2021 £m	Number 2021 millions	2020 £m	Number 2020 millions
Issued and fully paid				
1,233,380,637 (2020: 1,223,380,637) ordinary shares of 2p each at 31 December	24.7	1,233.4	24.5	1,223.4
Issued: Nil (2020: 10,000,000) ordinary shares of 2p	–	–	0.2	10.0
Cancelled: 15,371,849 (2020: Nil) ordinary shares of 2p	(0.3)	(15.4)	–	–
1,218,008,788 (2020: 1,233,380,637) ordinary shares of 2p each at 31 December	24.4	1,218.0	24.7	1,233.4

During the year 15,371,849 shares were cancelled as part of the Serco Share Repurchase Programme (the Programme). At the end of 2020, the Group announced its intention to repurchase ordinary shares with a value of up to £40m, subject to a maximum of 122,338,063 ordinary shares being purchased, during the period 4 January 2021 to 11 June 2021. Through the Programme, the Group repurchased 30,721,849 ordinary shares for total consideration of £40.7m including fees.

On 28 June 2021, the Group announced that, of the ordinary shares repurchased and held in Treasury, 15,350,000 were transferred to the Employee Share Ownership Trust (ESOT) to be used to satisfy awards granted under the Group's share award schemes. The 15,371,849 ordinary shares remaining in Treasury were cancelled on 28 June 2021.

During 2020, 10,000,000 shares were issued to the ESOT to satisfy awards under the Group's share plan schemes.

The Company has one class of ordinary shares which carry no right to fixed income.

32. Share premium account

	2021 £m	2020 £m
At 1 January	463.1	462.9
Arising on shares issued	–	0.2
At 31 December	463.1	463.1

The movement on the account in the prior year was the release of an accrual for costs associated with the 2019 share issue which was no longer required.

Notes to the Consolidated Financial Statements

continued

33. Reserves

33 (a) Movements in other reserves

	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Treasury shares £m	Hedging reserve £m	Translation reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 January 2020	(151.8)	72.2	(4.4)	–	(0.2)	(27.8)	0.1	(111.9)
Total comprehensive income for the year	16.2	–	–	–	(0.2)	7.9	–	23.9
Issue of share capital	–	–	(0.2)	–	–	–	–	0.2
Shares transferred to award holders on exercise of share awards	–	(2.4)	2.5	–	–	–	–	0.1
Expense in relation to share based payments	–	11.2	–	–	–	–	–	11.2
At 1 January 2021	(135.6)	81.0	(2.1)	–	(0.4)	(19.9)	0.1	(76.9)
Total comprehensive income for the year	44.6	–	–	–	0.2	(7.6)	–	37.2
Income statement items reclassified	–	–	–	–	0.1	–	–	0.1
Shares purchased and held in Treasury	–	–	–	(40.7)	–	–	–	(40.7)
Cancellation of shares held in Treasury	–	–	–	20.4	–	–	0.3	20.7
Shares transferred from Treasury to own shares reserves	–	–	(0.3)	20.3	–	–	–	20.0
Shares transferred to award holders on exercise of share awards	–	(1.0)	1.2	–	–	–	–	0.2
Expense in relation to share based payments	–	15.8	–	–	–	–	–	15.8
At 31 December 2021	(91.0)	95.8	(1.2)	–	(0.1)	(27.5)	0.4	(23.6)

33 (b) Retirement benefit obligations reserve

The retirement benefit obligations reserve represents the actuarial gains and losses recognised in respect of annual actuarial valuations for defined benefit retirement schemes, the fair value adjustments on reimbursable rights and the related movements in deferred tax balances.

33 (c) Share based payment reserve

The share based payment reserve represents credits relating to equity-settled share based payment transactions and any gain or loss on the exercise of share award schemes satisfied by own shares.

33 (d) Own shares reserve

The own shares reserve represents the cost of shares in Serco Group plc held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy awards under the Group's share plan schemes. At 31 December 2021, the ESOT held 11,605,185 (2020: 7,036,349) shares equal to 1.0% of the current allotted share capital (2020: 0.6%). The market value of shares held by the ESOT as at 31 December 2021 was £15.6m (2020: £8.4m).

33 (e) Hedging and translation reserve

The hedging and translation reserve represents foreign exchange differences arising on translation of the Group's overseas operations and movements relating to cash flow hedges.

34. Share based payment expense

The Group recognised the following expenses related to equity-settled share based payment transactions:

	2021 £m	2020 £m
Long-Term Incentive Plan	12.3	4.9
Performance Share Plan	2.0	4.6
Deferred Bonus Plan	1.0	0.9
Equity Settled Bonus Plan	0.5	0.8
	15.8	11.2

Long-Term Incentive Plan (LTIP)

Under the LTIP, eligible employees have been granted conditional share awards. Awards vest after the performance period of two to three years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are subject only to continued employment on vesting dates which vary from two to three years after the grant dates.

On the performance related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR), Return on Invested Capital (ROIC) and measures linked to Strategic Objectives.

	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £	Number of shares under award 2020 thousands	Weighted average exercise price 2020 £
Outstanding at 1 January	22,149	Nil	11,468	Nil
Granted during the year	10,584	Nil	11,582	Nil
Dividend equivalent granted during the year	512	Nil	–	Nil
Exercised during the year	(29)	Nil	(11)	Nil
Lapsed during the year	(2,202)	Nil	(890)	Nil
Outstanding at 31 December	31,014	Nil	22,149	Nil

The awards over shares outstanding at 31 December 2021 were all unvested and had a weighted average contractual life of 1.3 years (2020: 1.9 years).

In the year, thirteen grants were made, of which seven were non-performance. The remaining six awards were performance-based awards, of which five awards were made with 75% of the award split equally between Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC) performance conditions, 15% linked to ESG Scorecard Objectives and 10% linked to improvements in order book. The other award was made with 85% of the award split equally between EPS, TSR and ROIC performance conditions and 15% linked to Strategic Objectives based on improvements in order book and employee engagement. The rewards subject to market-based performance conditions (such as the TSR condition for these awards) were valued using the Monte Carlo Simulation model. For awards subject only to non-market-based performance conditions (such as the EPS and ROIC conditions) the Black-Scholes model was used. The Black-Scholes model was also used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the TSR based awards.

The Monte Carlo and Black-Scholes models used the following inputs:

	2021
Weighted average share price	£1.41
Weighted average exercise price	Nil
Expected volatility	36.5%
Expected life	3 years
Risk free rate	0.14%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.30 (2020: £1.15).

Notes to the Consolidated Financial Statements

continued

34. Share based payment expense continued

Performance Share Plan (PSP)

Under the PSP, eligible employees have been granted options or conditional share awards with an exercise price of two or zero pence.

Awards vest after the performance period of two to three years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are only subject to continued employment on vesting dates which vary from two to three years after the grant dates.

On the performance related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC).

If options remain unexercised after a period of ten years from the date of grant, then the options expire.

	Number of options or shares under award 2021 thousands	Weighted average exercise price 2021 £	Number of options or shares under award 2020 thousands	Weighted average exercise price 2020 £
Outstanding at 1 January	19,091	0.02	28,485	0.02
Dividend equivalent granted during the year	129	0.02	–	Nil
Exercised during the year	(9,787)	0.02	(5,834)	0.02
Lapsed during the year	(96)	0.02	(3,560)	0.02
Outstanding at 31 December	9,337	0.02	19,091	0.02

Of these awards, 9,335,825 (2020: 6,459,304) were exercisable at the end of the year. The awards outstanding at 31 December 2021 had a weighted average contractual life of 5.5 years (2020: 6.2 years).

The awards subject to market-based performance conditions (such as the TSR condition for these awards), were valued using the Monte Carlo Simulation model. For awards subject only to non-market based performance conditions (such as the EPS and ROIC conditions) the Black-Scholes model was used. The Black-Scholes model was also used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the Absolute Share Price or TSR based awards.

There were no new awards granted under the Performance Share Plan in the year.

Deferred Bonus Plan (DBP)

Under the DBP, eligible employees are entitled to participate in a voluntary bonus deferral, using up to 50% of their earned annual bonus to purchase shares in the Group at market price. In connection with this, the Group will make a matching share award, up to a maximum of two times the gross bonus deferred, which will vest provided they remain in employment for that period, the shares are retained for that period and the performance measures have been met.

	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £	Number of shares under award 2020 thousands	Weighted average exercise price 2020 £
Outstanding at 1 January	2,046	Nil	3,380	Nil
Granted during the year	687	Nil	594	Nil
Dividend equivalent granted during the year	39	Nil	–	Nil
Exercised during the year	(966)	Nil	(1,928)	Nil
Outstanding at 31 December	1,806	Nil	2,046	Nil

The awards over shares outstanding at 31 December 2021 and 2020 were all unvested and had a weighted average contractual life of 1.5 years (2020: 1.3 years).

There were 686,472 awards granted under the Deferred Bonus Plan in the year, subject to the same EPS performance conditions as the LTIP. The awards were valued using the Black-Scholes model.

The Black-Scholes model used the following inputs:

	2021
Weighted average share price	£1.41
Weighted average exercise price	Nil
Expected volatility	36.5%
Expected life	3.0 years
Risk free rate	0.13%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.41 (2020: £1.29).

Equity Settled Bonus Plan (ESBP)

Under the ESBP, eligible employees who are subject to a compulsory bonus deferral, are granted share awards equivalent in value to the gross bonus deferred. The awards vest at the end of the deferral period and the awards are not subject to any performance or service conditions.

	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £	Number of shares under award 2020 thousands	Weighted average exercise price 2020 £
Outstanding at 1 January	908	Nil	308	Nil
Granted during the year	329	Nil	600	Nil
Dividend equivalent granted during the year	20	Nil	–	Nil
Outstanding at 31 December	1,257	Nil	908	Nil

The awards over shares outstanding at 31 December 2021 were all unvested and had a weighted average contractual life of 1.3 years (2020: 2.0 years).

There were 329,258 awards granted under the Equity Settled Bonus Plan in the year. The awards were valued using the Black-Scholes model.

The Black-Scholes model used the following inputs:

	2021
Weighted average share price	£1.40
Weighted average exercise price	Nil
Expected volatility	36.6%
Expected life	3 years
Risk free rate	0.10%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.40 (2020: £1.31).

Notes to the Consolidated Financial Statements

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35. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings and associates are disclosed below.

Transactions

During the year, Group companies entered into the following transactions with joint ventures and associates:

	Transactions 2021 £m	Current outstanding at 31 December 2021 £m	Non-current outstanding at 31 December 2021 £m
Sale of goods and services			
Joint ventures	1.6	1.7	–
Associates	0.8	–	–
Other			
Dividends received – joint ventures	–	–	–
Dividends received – associates	13.5	–	–
Receivable from consortium for tax – joint ventures	0.9	0.2	0.8
Total	16.8	1.9	0.8

Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. No guarantees have been given or received.

	Transactions 2020 £m	Current outstanding at 31 December 2020 £m	Non-current outstanding at 31 December 2020 £m
Sale of goods and services			
Joint ventures	0.1	–	–
Associates	2.3	0.2	–
Other			
Dividends received – joint ventures	4.3	–	–
Dividends received – associates	15.5	–	–
Receivable from consortium for tax – joint ventures	(0.1)	2.0	0.1
Total	22.1	2.2	0.1

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWE Management Limited (AWEML) on 30 June 2021.

As announced on 24 June 2021, Vivo Defence Services Limited (VIVO), a joint venture between Serco Limited and ENGIE SA, has been awarded contracts to provide repairs and maintenance work for Service Family Accommodation (SFA) by the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO). VIVO is not a material joint venture to the Group in 2021.

Remuneration of key Management personnel

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and Directors' liability insurance.

The remuneration of the key Management personnel of the Group is set out below in aggregate for each of the categories specified in IAS24 *Related Party Disclosures*:

	2021 £m	2020 £m
Short-term employee benefits	8.5	9.3
Share based payment expense	5.0	5.4
	13.5	14.7

The key Management personnel comprise the Executive Directors, Non-Executive Directors and members of the Executive Committee (2021: 18 individuals, 2020: 18 individuals).

Aggregate Directors' remuneration

The total amounts for Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations were as follows:

	2021 £m	2020 £m
Salaries, fees, bonuses and benefits in kind	3.5	3.6
Amounts receivable under long-term incentive schemes	2.8	3.4
Gains on exercise of share awards	3.6	3.6
	9.9	10.6

None of the Directors are members of the Company's defined benefit or money purchase pension schemes.

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 139 to 170.

36. Notes to the Consolidated Cash Flow statement

Year ended 31 December	2021 Before exceptional items £m	2021 Exceptional items £m	2021 Total £m	2020 Before exceptional items £m	2020 Exceptional items £m	2020 Total £m
Profit before tax	193.4	(1.2)	192.2	140.8	12.5	153.3
Net finance costs	24.0	–	24.0	25.9	–	25.9
Operating profit for the year	217.4	(1.2)	216.2	166.7	12.5	179.2
Adjustments for:						
Share of profits in joint ventures and associates	(8.7)	–	(8.7)	(12.7)	–	(12.7)
Exceptional distribution from joint venture	–	–	–	–	(1.9)	(1.9)
Share based payment expense	15.8	–	15.8	11.2	–	11.2
Impairment of property, plant and equipment	0.3	–	0.3	0.3	–	0.3
Impairment of right of use assets	–	–	–	0.4	–	0.4
Depreciation of property, plant and equipment	19.6	–	19.6	15.9	–	15.9
Depreciation of right of use assets	109.0	–	109.0	93.5	–	93.5
Amortisation of intangible assets	27.3	–	27.3	23.0	–	23.0
Exceptional profit on disposal of subsidiaries and operations	–	–	–	–	(11.0)	(11.0)
Reversal of impairment on loans to JVs	–	–	–	–	(1.2)	(1.2)
Profit on early termination of leases	(0.6)	–	(0.6)	(2.9)	–	(2.9)
Profit on disposal of property, plant and equipment	(0.2)	–	(0.2)	(0.4)	–	(0.4)
Loss on disposal of intangible assets	1.6	–	1.6	0.6	–	0.6
(Decrease)/increase in provisions	(7.2)	(1.5)	(8.7)	16.2	(4.0)	12.2
Total non-cash items	156.9	(1.5)	155.4	145.1	(18.1)	127.0
Operating cash inflow/(outflow) before movements in working capital	374.3	(2.7)	371.6	311.8	(5.6)	306.2
Decrease/(increase) in inventories	1.7	–	1.7	(2.9)	–	(2.9)
Decrease/(increase) in receivables	25.4	–	25.4	(0.1)	–	(0.1)
(Decrease)/increase in payables	(1.9)	(4.8)	(6.7)	(2.3)	3.6	1.3
Movements in working capital	25.2	(4.8)	20.4	(5.3)	3.6	(1.7)
Cash generated by operations	399.5	(7.5)	392.0	306.5	(2.0)	304.5
Tax paid	(42.1)	–	(42.1)	(35.9)	–	(35.9)
Non-cash R&D expenditure	–	–	–	(0.1)	–	(0.1)
Net cash inflow/(outflow) from operating activities	357.4	(7.5)	349.9	270.5	(2.0)	268.5

Notes to the Consolidated Financial Statements

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37. Post balance sheet events

Serco share repurchase programme

Following the successful completion of the share buyback programme during 2021, in which 30.7m shares were repurchased at an average price including fees of 1.32p, the Group has announced its intention to commence a further share buyback of up to £90m. Consistent with the Group's capital allocation policy, the objective of the programme is to provide additional returns to shareholders as well as aid the Group in meeting its medium-term leverage targets. The buyback programme is expected to complete within 12 months with the shares either cancelled or held in Treasury.

Dividends

Subsequent to the year end, the Board has recommended the payment of a final dividend in respect of the year ended 31 December 2021 of 1.61p. The dividend remains subject to shareholder approval at the Annual General Meeting and therefore no amounts have been recognised in respect of a dividend in these Consolidated Financial Statements.

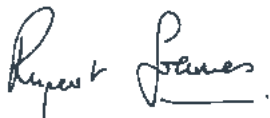
Company Balance Sheet

At 31 December	Note	2021 £m	2020 £m
Fixed assets			
Right of use assets	39	0.1	0.1
Investments in subsidiaries	40	2,041.7	2,032.7
		2,041.8	2,032.8
Current assets			
Debtors: amounts due within one year	41	3.9	5.0
Debtors: amounts due after more than one year	41	534.2	366.1
Derivative financial instruments due within one year	45	2.6	4.5
Corporation tax asset		0.5	1.0
Cash at bank and in hand		138.2	206.2
		679.4	582.8
Total assets		2,721.2	2,615.6
Creditors: amounts falling due within one year			
Trade and other payables	42	(80.0)	(73.2)
Loans	43	(64.9)	(89.7)
Provisions	44	(12.6)	(11.3)
Derivative financial instruments	45	(2.0)	(9.2)
		(159.5)	(183.4)
Net current assets		519.9	399.4
Creditors: amounts falling due after more than one year			
Loans	43	(312.1)	(299.1)
Amounts owed to subsidiary companies		(1,203.6)	(1,046.5)
Provisions	44	(41.1)	(41.1)
		(1,556.8)	(1,386.7)
Total liabilities		(1,716.3)	(1,570.1)
Net assets		1,004.9	1,045.5
Capital and reserves			
Called up share capital	47	24.4	24.7
Share premium account	48	463.1	463.1
Capital redemption reserve		0.4	0.1
Profit and loss account	49	437.1	493.0
Share based payment reserve	50	81.1	66.7
Own shares reserve		(1.2)	(2.1)
Total shareholders' funds		1,004.9	1,045.5

The accompanying notes form an integral part of the financial statements.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The total profit for the year was £11.0m (2020: loss £22.5m) and the total comprehensive income for the year was £11.0m (2020: loss of £22.5m).

The financial statements (registered number 02048608) were approved by the Board of Directors on 23 February 2022 and signed on its behalf by:



Rupert Soames
Group Chief Executive Officer



Nigel Crossley
Group Chief Financial Officer

Company Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Treasury shares £m	Share based payment reserve £m	Own shares reserve £m	Total shareholders' equity £m
At 1 January 2020	24.5	462.9	0.1	515.5	–	57.9	(4.4)	1,056.5
Total comprehensive income for the year	–	–	–	(22.5)	–	–	–	(22.5)
Issue of share capital	0.2	0.2	–	–	–	–	(0.2)	0.2
Shares transferred to award holders on exercise of share awards	–	–	–	–	–	(2.4)	2.5	0.1
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	–	3.2	–	3.2
Expense in relation to share based payments	–	–	–	–	–	8.0	–	8.0
At 1 January 2021	24.7	463.1	0.1	493.0	–	66.7	(2.1)	1,045.5
Total comprehensive income for the year	–	–	–	11.0	–	–	–	11.0
Dividends paid by the Group	–	–	–	(26.5)	–	–	–	(26.5)
Shares purchased and held in Treasury	–	–	–	–	(40.7)	–	–	(40.7)
Cancellation of shares held in Treasury	(0.3)	–	0.3	(20.4)	20.4	–	–	–
Shares transferred from Treasury to own shares reserve	–	–	–	(20.0)	20.3	–	(0.3)	–
Shares transferred to award holders on exercise of share awards	–	–	–	–	–	(1.0)	1.2	0.2
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	–	9.0	–	9.0
Expense in relation to share based payments	–	–	–	–	–	6.8	–	6.8
Tax charge on items taken directly to equity	–	–	–	–	–	(0.4)	–	(0.4)
At 31 December 2021	24.4	463.1	0.4	437.1	–	81.1	(1.2)	1,004.9

The accompanying notes form an integral part of the financial statements.

Notes to the Company Financial Statements

38. Accounting policies

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs) but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in note 2 to the Consolidated Financial Statements, except as noted below.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

39. Right of use assets

Leased vehicles of £0.1m (2020: £0.1m) have been included on the balance sheet following the adoption of IFRS 16 Leases.

40. Investments held as fixed assets

Shares in subsidiary companies at cost	£m
At 1 January 2020	2,029.5
Awards over parent's shares made to employees of subsidiaries	3.2
At 1 January 2021	2,032.7
Awards over parent's shares made to employees of subsidiaries	9.0
At 31 December 2021	2,041.7

The Company directly owns 100% of the ordinary share capital of the following subsidiaries:

Name	% ownership
Serco Holdings Limited	100%

41. Debtors

Amounts due within one year	2021 £m	2020 £m
Other debtors	3.9	5.0

Included within other debtors is prepaid intercompany interest of £3.0m (2020: £4.2m), amounts owed by other subsidiary companies £0.7m (2020: £0.7m) and other prepayments of £0.2m (2020: £0.1m).

Amounts due after more than one year	2021 £m	2020 £m
Amounts owed by subsidiary companies	534.2	366.1

The expected credit loss provision against amounts owed by subsidiary companies is immaterial.

Notes to the Company Financial Statements

continued

42. Trade and other payables

	2021 £m	2020 £m
Amounts due within one year		
Amounts owed to subsidiary companies	64.5	55.6
Trade creditors	0.5	0.4
Accruals and deferred income	13.4	15.9
Other creditors including taxation and social security	1.6	1.3
	80.0	73.2

43. Loans

	2021 £m	2020 £m
Loans are repayable as follows:		
On demand or within one year	64.9	89.7
Between one and two years	40.2	64.9
Between two and five years	160.8	124.6
After five years	111.1	109.6
	377.0	388.8
Less: amount due for settlement within one year (shown within current liabilities)	(64.9)	(89.7)
Amount due for settlement after one year	312.1	299.1

44. Provisions

	Contract £m	Other £m	Total £m
At 1 January 2021	8.5	43.9	52.4
Charged to income statement	1.3	–	1.3
At 31 December 2021	9.8	43.9	53.7
Analysed as:			
Current	9.8	2.8	12.6
Non-current	–	41.1	41.1
	9.8	43.9	53.7

Other provisions are held for indemnities given on disposed businesses and legal and other costs that the Company expects to incur over an extended period, in respect of past events, for which a provision has been recorded. These costs are based on past experience of similar items and other known factors and represent Management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next twelve months or over a longer period.

45. Derivative financial instruments

	Assets 2021 £m	Liabilities 2021 £m	Assets 2020 £m	Liabilities 2020 £m
Forward foreign exchange contracts	2.6	(2.0)	4.5	(9.2)
Analysed as:				
Current	2.6	(2.0)	4.5	(9.2)

The Company holds derivative financial instruments in accordance with the Group's policy in relation to its financial risk management. Details of the disclosures are set out in note 29 of the Group's Consolidated Financial Statements.

46. Deferred tax

The deferred tax asset not recognised is as follows:

At 31 December	2021 £m	2020 £m
Depreciation in excess of capital allowances	0.3	0.2
Share based payments and employee benefits	2.4	–
Short-term timing differences	1.8	1.3
Losses	51.5	40.0
	56.0	41.5

47. Called up share capital

Issued and fully paid	2021 £m	Number 2021 millions	2020 £m	Number 2020 millions
1,233,380,637 (2020: 1,223,380,637) ordinary shares of 2p each at 31 December	24.7	1,233.4	24.5	1,223.4
Issued: Nil (2020: 10,000,000) ordinary shares of 2p	–	–	0.2	10.0
Cancelled: 15,371,849 (2020: Nil) ordinary shares of 2p	(0.3)	(15.4)	–	–
1,218,008,788 (2020: 1,233,380,637) ordinary shares of 2p each at 31 December	24.4	1,218.0	24.7	1,233.4

During the year 15,371,849 shares were cancelled as part of the Serco Share Repurchase Programme (the Programme). At the end of 2020, the Group announced its intention to repurchase ordinary shares with a value of up to £40m, subject to a maximum of 122,338,063 ordinary shares being purchased, during the period 4 January 2021 to 11 June 2021. Through the Programme, the Group repurchased 30,721,849 ordinary shares for total consideration of £40.7m including fees.

On 28 June 2021, the Group announced that, of the ordinary shares repurchased and held in Treasury, 15,350,000 were transferred to the Employee Share Ownership Trust (ESOT) to be used to satisfy awards granted under the Group's share award schemes. The 15,371,849 ordinary shares remaining in Treasury were cancelled on 28 June 2021.

During 2020, 10,000,000 shares were issued to the ESOT to satisfy awards under the Group's share plan schemes.

The Company has one class of ordinary shares which carry no right to fixed income.

48. Share premium account

	2021 £m	2020 £m
At 1 January	463.1	462.9
Arising on shares issued	–	0.2
At 31 December	463.1	463.1

The movement on the account in the prior year is the release of an accrual for costs associated with the 2019 share issue that will no longer be incurred.

Notes to the Company Financial Statements

continued

49. Profit and loss account

	2021 £m	2020 £m
At 1 January	493.0	515.5
Profit/(loss) for the year	11.0	(22.5)
Equity dividends	(26.5)	–
Shares transferred from Treasury to own shares reserve	(20.0)	–
Cancellation of shares held in Treasury	(20.4)	–
At 31 December	437.1	493.0

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these accounts. The total profit for the year was £11.0m (2020: loss of £22.5m) and the total comprehensive income for the year was £11.0m (2020: loss of £22.5m).

The Company plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders. During 2015, Serco Group plc as a statutory entity created £519m of reserves from the Rights Issue which was structured to ensure that these reserves were distributable. As a result of this transaction, the Group has sufficient distributable reserves to facilitate the payment of distributions by Serco Group plc.

50. Share based payment reserve

	2021 £m	2020 £m
At 1 January	66.7	57.9
Awards over parent's shares made to employees of subsidiaries	9.0	3.2
Share based payment charge	6.8	8.0
Shares transferred to award holders on exercise of share awards	(1.0)	(2.4)
Tax charge on items taken directly to equity	(0.4)	–
At 31 December	81.1	66.7

Details of the share based payment disclosures are set out in note 34 of the Group's Consolidated Financial Statements.

51. Own shares

The own shares reserve represents the cost of shares in Serco Group plc held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy awards under the Group's share plan schemes. At 31 December 2021, the ESOT held 11,605,185 (2020: 7,036,349) shares equal to 1.0% of the current allotted share capital (2020: 0.6%). The market value of shares held by the ESOT as at 31 December 2021 was £15.6m (2020: £8.4m).

52. Contingent liabilities

The Company has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2020: £3.8m). The actual commitment outstanding at 31 December 2021 was £5.7m (2020: £3.8m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2021 was £243.5m (2020: £228.6m).

Following the announcement during 2020 that the Company has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Company has continued to assess the merit, likely outcome and potential impact on the Company of any such litigation that either has been or might potentially be brought against the Company. Any outcome is subject to a number of significant uncertainties. The Company does not currently assess the merits as strong, especially given the legal uncertainties in such actions.

The Company is also aware of other claims and potential claims which involve or may involve legal proceedings against the Company although the timing of settlement of these claims remains uncertain. The Directors are of the opinion, having regard to legal advice received and the Company's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Company's financial position.

53. Related parties

The Directors of Serco Group plc had no material transactions with the Company or its subsidiaries during the year other than service contracts and Directors' liability insurance. Details of the Directors' remuneration are disclosed in the Remuneration Report for the Group.

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100% owned by Serco Group plc.

Appendix: List of subsidiaries and related undertakings

Company name	Serco Group interest	Registered office address
ACN 611 392 744 Pty Ltd	49%	Level 6, 123 Epping Road, Macquarie Park NSW 2113, Australia
Aeradio Technical Services L.L.C. ²	49%	Headquarters Building, PO Box 126, Doha, Qatar
Aeradio Technical Services WLL ^{2/4}	49%	Headquarters Building, Building # 1605, Road # 5141, Askar # 951, PO Box 26803 Manama, Kingdom of Bahrain
AWE Management Limited	24.5%	Hill House, 1 Little New Street, London, EC4A 3TR
BRTRC Federal Solutions, Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Cardinal Insurance Company Limited	100%	Dorey Court, Admiral Park, St Peter Port, GY1 4AT Guernsey
Chimera WBB JV L.L.C.	49%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Clemaco Contracting NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
Clemaco Trading NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
COMPASS SNI Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Confluent Innovations, L.L.C.	49%	5880 Innovation Drive, Dublin, OH 43016, United States
Decisive Analytics Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Djurgårdens Farjetrafik AB	50%	Svensksundsvagen 17, 111 49 Stockholm, Sweden
DMS Maritime Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Facilities First Australia Holdings Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Facilities First Australia Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Facilities First Australia Sub-Holdings Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Hong Kong Parking Limited	40%	Room 2601, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong
Innu Serco Inc	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
Innu Serco Limited Partnership	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
International Aeradio (Emirates) L.L.C. – Abu Dhabi	49%	Office No. 503, 5th Floor, Al Muhairy Building, Zayed The First Street, PO Box 3164 Abu Dhabi, United Arab Emirates
International Aeradio (Emirates) L.L.C. – Dubai	49%	19th Floor, Rolex Tower, Sheikh Zayed Road, PO Box 9197 Dubai, United Arab Emirates
JBI Properties Services Company L.L.C.	49%	7th Floor, Al Sila Tower Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates
Joint Integrated Range Solutions L.L.C.	49%	8337 W. Sunset Road, Suite 250, Las Vegas, NV 89113, United States
Khadamat Facilities Management L.L.C.	49%	The United Arab Emirates University, Al Jamea Street, Al Maqam District, PO Box 66718 Al Ain, United Arab Emirates
LOGTEC Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Mahani Technical Services, L.L.C.	49%	511 Duckwater Fall Road, Duckwater, Nevada 89314, United States
Mercurius Finance SA	100%	42 rue de la Vallée, L-2661 Luxembourg
Merseyrail Electrics 2002 Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF
Merseyrail Infraco Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF
Merseyrail Services Holding Company Limited ³	50%	2 New Bailey, 6 Stanley Street, Salford, Greater Manchester, M3 5GS
Northern Rail Holdings Limited	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES United Kingdom
Northern Rail Limited	50%	Serco House 16 Bartley Wood, Business Park Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Priority Properties North West Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, , RG27 9UY, United Kingdom
Serco (Jersey) Limited	100%	26 New Street, St. Helier, JE2 3RA, Jersey
Serco Australia Pty Limited ³	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Belgium S.A.	100%	1945 Chaussée de Wavre, 1160 Auderghem, Brussels, Belgium

Appendix: List of subsidiaries and related undertakings *continued*

Company name	Serco Group interest	Registered office address
Serco Caledonian Sleepers Limited	100%	Basement and Ground Floor Premises, 1-5 Union Street, Inverness, IV1 1PP, Scotland, United Kingdom
Serco Canada Inc.	100%	330 Bay Street, Suite 400, Toronto, Canada M5H 2S8
Serco Canada Marine Corporation	100%	330 Bay Street, Suite 400, Toronto, Canada M5H 2S8
Serco Citizen Services Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Corporate Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Czech Republic s.r.o.	100%	Praha City Centre, Klimentska 46, Prague, 110 02, Czech Republic
Serco Defence Clothing Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Defence S.A.	100%	1945 Chaussée de Wavre, 1160 Auderghem, Brussels, Belgium
Serco Defence Services Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Environmental Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Ferries (Guernsey) Crewing Limited	100%	4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, GY1 2JA, Guernsey
Serco Ferries (HR) Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Geografix Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Gestion de Negocios S.L.U.	100%	Calle Ayala no 13, 1° derecha, CP-28001, Madrid, Spain
Serco Group (HK) Limited	100%	Unit 3103, 31/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong
Serco Group Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Holdings Limited ¹	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Inc. ³	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Serco Integrated Transport Private Limited ²	100%	Office# 431, Level 4, Augusta Point, Sector 53 Golf Course Road, Gurgaon 122002, India
Serco International Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco International S.à r.l	100%	7, rue Robert Stümper, L-2557, Luxembourg
Serco Italia S.p.A.	100%	Viale della Tecnica 161, 00144, Rome, Italy
Serco Leasing Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Leisure Operating Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Limited ³	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Listening Company Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Luxembourg S.A.	100%	Rue Sainte Zithe, 33, L-2763 Luxembourg
Serco Nederland B.V.	100%	Kapteynstraat 1, 2201 BB Noordwijk ZH, Netherlands
Serco New Zealand (Asset Management Services) Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Training Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco North America (Holdings), Inc.	100%	1209 Orange Street, Wilmington, DE 19801, United States

Company name	Serco Group interest	Registered office address
Serco North America Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Nunavut Ltd.	49%	Field Law, House 2436, PO Box 1734, Iqaluit, NU X0A 0H0, Canada
Serco Paisa Limited	50%	Ci Tower, St. George's Square, New Malden, Surrey, KT3 4TE United Kingdom
Serco PIK Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Pension Trustee Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Projects L.L.C.	49%	Global Business Centre 2, Second Floor, Al Hitmi Village Building, C-Ring Road, PO Box 25422 Doha, State of Qatar
Serco Regional Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Safety Services L.L.C.	49%	Hala Business Center, Al Khor Building, Office 201, 202, Baniyas Street, Al Buteen Area Deira, Dubai
Serco Sarl	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco SAS	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco Saudi Arabia L.L.C.	100%	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 31, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Saudi Fire Services L.L.C.	95%	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 31, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Saudi Services L.L.C.	60%	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 31, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Security Services SASU	100%	15 Rue Lumière, Technoparc Pays de Gex, 01630 Saint Genis Pouilly, France
Serco Services GmbH	100%	Lise-Meitner-Strasse 10, 64293 Darmstadt, Germany
Serco Singapore Pte Limited	100%	38 Beach Road, #29-11 South Beach Tower, Singapore, 189767
Serco Switzerland S.A.	100%	62 Route de Frontenex Bis 86, 1208 Geneva, Switzerland
Serco Traffic Camera Services (VIC) Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco-IAL Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco-IPS Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
STJ Administration Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Targets NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
TJS Corporate Security WA Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Hospitality & Entertainment Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Services (FNQ) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Services (Newcastle) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Services (SA) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Services (Vic) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
TJS Services (WA) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Vivo Defence Services Limited	50%	Shared Services Centre Q3 Office, Quorum Business Park, Benton Lane, Newcastle-Upon-Tyne, NE12 8EX, United Kingdom
WBB Intermediate Holding Corp.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Whitney, Bradley & Brown, Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States

1 Serco Holdings Limited is directly owned by Serco Group plc. All other subsidiaries and associated undertakings are held indirectly via Group companies.

2 Companies in liquidation as at 31 December 2021.

3 Companies key to the consolidated numbers, all of which are engaged in the provision of support services.

4 Companies with a non-controlling interest due to being consolidated in full as a result of considerations over control.

Shareholder Information

Our website

The Company's website, www.serco.com, provides access to share price information as well as sections on managing your shareholding online, corporate governance and other investor relations information.

Shareholder queries

Our share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed opposite.

American Depositary Receipts (ADRs)

Serco has established a sponsored Level I ADR programme. Serco ADRs are traded on the US over-the-counter market (SCGPY).

For queries relating to your ADR holding, please contact our ADR depository bank, Deutsche Bank Trust Company Americas.

Managing your shares online

Shareholders can manage their holding online by registering to use our shareholder portal at www.shareview.co.uk. This free service is provided by our Registrar, giving quick and easy access to your shareholding.

Electronic communications

We encourage shareholders to consider receiving their communications electronically which means you receive information quickly and securely and allows us to communicate in a more environmentally friendly and cost-effective way. You can register for this service online using our share portal at www.shareview.co.uk

Duplicate documents

Some shareholders find that they receive duplicate documentation due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact our Registrar, Equiniti.

Changes of address

To avoid missing important correspondence relating to your shareholding, it is important that you inform our Registrar of your new address as soon as possible.

Sharegift

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to Sharegift (Registered Charity no.10526886), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org or by calling +44 (0) 207 930 3737.

Dividend

Proposed final dividend

The Directors have recommended payment of a final dividend of 1.61p in respect of the year ended 31 December 2021, subject to approval by shareholders at the Annual General Meeting.

Key dates

Annual General Meeting 28 April 2022
Ex-dividend date 12 May 2022
Record date 13 May 2022
Payment date 7 June 2022

Dividend payment

Shareholders are encouraged to receive dividends directly to their bank or building society which saves paper, helping to minimise our environmental impact and reducing the cost of printing and delivery. Mandate forms are available at www.shareview.co.uk

Useful Contacts

Serco's registered office

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY
United Kingdom

Telephone: +44 (0)1256 745 900
Email: investorcentre@serco.com

Registered in England and Wales No. 2048608

Group General Counsel and Company Secretary

David Eveleigh

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

Telephone: 0371 384 2932 (from within UK)
+44 (0)121 415 7047 (from outside UK)
Lines are open 8.30am to 5.30pm
Monday to Friday. (excluding public holidays
in England and Wales)

Website: www.shareview.co.uk

Shareholders can securely send queries via the website using the 'Help' section.

ADR depository bank

Deutsche Bank Trust Company Americas
c/o American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn NY 11219
USA

Telephone: +1 866 249 2593 (toll-free within USA)
+1 718 921 8124 (from outside USA)

Website: www.adr.db.com
Email: db@astfinancial.com

Brokers

JP Morgan Cazenove
Barclays

Auditor

KPMG LLP

Unsolicited mail and shareholder fraud

Shareholders are advised to be wary of unsolicited mail or telephone calls offering free advice, to buy shares at a discount or offering free company reports. For further information on how shareholders can be protected from investment scams visit www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams

Notification of major interests in shares (TR1 Forms)

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Legal Disclaimer

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Notes



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