Annual Report and Accounts **2023**

serco

Impact a better future

Our Purpose is to impact a better future.

We bring together the right people, the right technology and the right partners to create innovative solutions that deliver positive impact and address some of the most urgent and complex challenges facing governments globally.

With a primary focus on serving governments globally, our services are powered by more than 50,000 colleagues working across multiple sectors including defence, space, migration, justice, healthcare, transport and customer services. We operate across four regions: UK & Europe, North America, Asia Pacific and the Middle East.

20+

Countries

500+

Contracts

50,000+

Colleagues

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

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Highlights

Revenue
£4.9bn
2022: £4.5bn

Order book
£13.6bn
2022: £14.8bn

Underlying operating profit
£249m
2022: £237m

Reported operating profit
£272m
2022: £217m

Underlying EPS, diluted
15.4p
2022: 13.9p

Reported EPS, diluted
17.9p
2022: 12.8p

Dividend per share
3.41p
2022: 2.86p

Underlying ROIC
21.4%
2022: 20.6%

Free cash flow
£209m
2022: £159m

Employee engagement
71 points
2022: 70 points

Major incident frequency
0.35 per 1m hours
2022: 0.43 per 1m hours

Lost time incident frequency
6.07 per 1m hours
2022: 5.78 per 1m hours

Definitions for each KPI can be found in the Glossary on page 229

See pages 20 to 25 for more information on our business

At a Glance

What we do

We bring together the right people, the right technology and the right partners to create innovative solutions that deliver positive impact.

Our vision is to be the partner of choice to governments globally. Our core capabilities includes service design and advisory, resourcing, complex programme management, systems integration, case management, engineering, assets and facilities management.

Underpinned by our unique operating model, Serco drives innovation and supports customers from service discovery through to delivery.

Our Purpose, Vision, Mission and Values

A refreshed way to describe our why, what and how, underpinned by our deep-rooted values.

Purpose

Impact a better **future**

Vision

The **partner of choice** to **governments globally**

Mission

Bring together the **right people** the **right technology** and the **right partners** **to deliver positive impact**

Values

Trust

Care

Innovation

Pride

See pages 22 to 25 for more information on our strategy

At a Glance continued

Revenue in 2023

Our revenue in 2023 was £4,874m, or £5,347m, if you include our share of joint ventures and associates.

Our sectors

Our business is focused across five core sectors

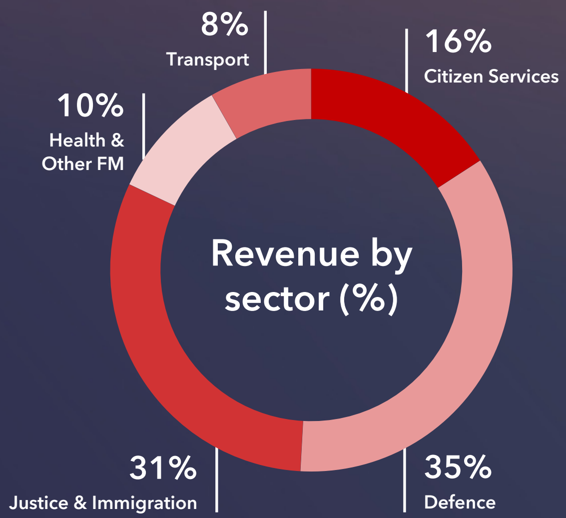
£1,838m
Defence

£1,681m
Justice & Immigration

£445m
Transport

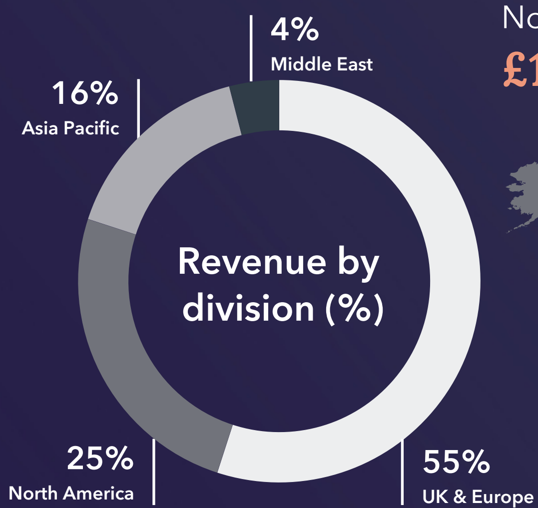
£527m
Health & Other Facilities Management

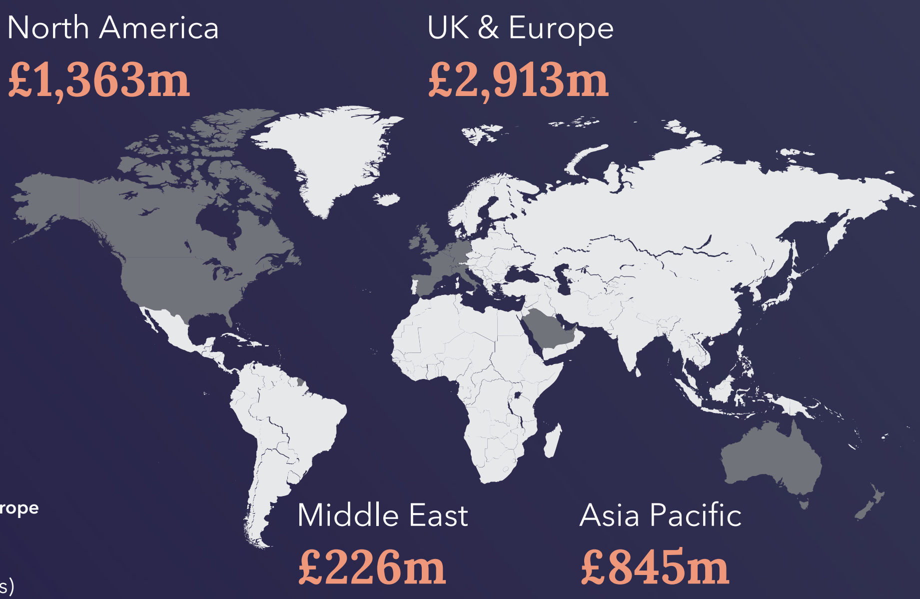
£856m
Citizen Services



Our divisions

Serco's operations are delivered across four geographic regions.





(including share of joint ventures and associates)

Chair's Statement

Serco had another successful year thanks to our employees, with revenue, profit, cash and returns to shareholders all increasing. Our strategy continues to work well and with a sharper focus on operations, we remain confident about the future.

John Rishton
Chair

The Board's main areas of focus in 2023 were to ensure a successful transition to a new Group Chief Executive and to support Management to improve employee engagement, health and safety, and improve contract wins rates.

- Mark Irwin became Group Chief Executive on 1 January 2023. The handover from Rupert Soames, his predecessor, was smooth and Mark has settled well into his role as the leader of the organisation. He has sharpened the focus on operational aspects of our business, on health and safety and is driving performance with more emphasis on customers, colleagues and capabilities.
- Health and safety has always been extremely important to us and was a key focus in 2023, following a higher number of incidents in 2022. This year saw a reduction in both the severity and number of incidents.
- Employee engagement moved from 70, already a high level, to 71. We continue to evolve our employee value proposition and it was pleasing to see the improvement, especially given the tight labour market conditions and cost-of-living crisis.
- Contract win rates were good for both rebids and new work in the year, reversing the dip experienced in the second half of 2022. This included the strategically important rebid of our Centers for Medicare & Medicaid Services (CMS) contract in the US.

Highlights

- **Revenue up 7%** to £4.9bn, with organic growth of 4%
- **Underlying operating profit of £249m,** the sixth consecutive year of growth.
- **Free cash flow of £209m,** trading cash conversion of 111%, covenant net debt: EBITDA at the year-end of 0.5x.
- Order intake of £4.6bn.
- **Growing returns to shareholders,** with recommended ordinary dividend up 19% year-on-year, a share buyback of £90m in 2023 and further £140m in 2024.

Chair's Statement continued

Our performance

The Company delivered good results in 2023, with revenue, underlying operating profit and cash all increasing. The immigration and defence sectors both saw strong demand and the justice sector also grew. Governments around the world are facing ever more complex challenges. Serco's significant expertise across sectors and geographies gives us a competitive advantage to support governments to address these challenges.

Acquisitions are an important part of our strategy, and in 2023 we agreed to buy two businesses, European Homecare (EHC), and Climatize. EHC, which completed in March 2024, is a leading private provider of immigration services in Germany. In conjunction with ORS, the Swiss-based business we acquired in 2022, this strategic acquisition will create a strong partner for European governments in immigration services and complement the support we already provide to government customers in the UK and Australia. Climatize, which completed in January 2024, is a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia, offering zero-carbon advisory and related engineering services. The business will significantly boost Serco's sustainability advisory capability in the Middle East with opportunity to scale this across our other geographies.

It was also very encouraging to see the success of some of the acquisitions we have made in recent years. Revenue at ORS in 2023 was more than double the level of 2021, the year before we acquired it. Bringing together Serco's capability with ORS's European operations enabled the business to scale up in a way that would not have been possible as a standalone entity. In the US, we have seen strong order intake in the defence sector over the last two years, which was made possible by combining skills from Serco with the NSBU and WBB businesses we acquired in 2019 and 2021, respectively.

Returns to our shareholders increased again in 2023. Consistent with our stated capital allocation priorities, we progressed with our plan of increasing ordinary dividends, as we continue on our path to reduce dividend cover progressively towards 3x over the coming years, and returned another £90m of surplus capital to shareholders through a share buyback. The Board is recommending a final dividend of 2.27p which is an increase of 18% year-on-year and has agreed a further £140m share buyback for 2024.

Strategy

Serco operates in very large, growing markets. The focused business-to-government (B2G) operating model established over recent years is delivering competitive advantage and differentiation, and we believe that this will enable the business to grow its revenue faster than the market, profit faster than revenue and to convert that profit into cash. The strategic framework has delivered strong results in recent years and remains unchanged. Mark Irwin is bringing a sharper focus to our operational performance that will seek to make our business even better in the coming years. Three strategic enablers - Customers, Colleagues and Capabilities – were identified and laid out in our 2022 Annual Report. We have made good early progress on these in 2023. Successful execution of our strategic priorities should improve contract delivery for customers and improved efficiency in our operations; and we believe that the Group is well positioned to deliver our medium-term growth targets.

Corporate Governance

One of my most important roles as Chair is to ensure that Serco has strong governance and risk management. These responsibilities cover many areas (and are covered in detail in our Corporate Governance report on page 94), including Board diversity and effectiveness, remuneration, financial reporting, as well as environmental and societal considerations.

We have a dedicated Risk Committee and we detail our approach to risk on pages 32 to 46. There were no changes to Non-Executive Directors during the year.

Our Board tries to enhance its effectiveness by being close to Serco's people and operations. During 2023, I visited our businesses in North America, the UK, the Middle East and Australia. In May, we held our Board meeting in Italy where some of our key European contracts are based. Our European business has grown significantly over the last few years and this gave the Board the opportunity to spend time with the European leadership team and meet employees and customers to discuss key areas such as immigration and space. Your Non-Executive Directors (NEDs) also visited contracts, spending time with the contract teams and customers in our various markets and participated in our annual regional conferences.

Dame Sue Owen is the Board's employee representative. We have a dedicated employee working closely with her and the wider Group to ensure that the Board understands employee perspectives and issues. In addition, all NEDs participated in virtual and face-to-face meetings with employees in each of our markets to discuss topics that were important to them. We also have an 'Ask the Board' function, where employees are given the opportunity to anonymously raise issues for our attention. In a year where many businesses, including ours, wrestled with the challenges of a tight labour market and a cost-of-living crisis, I was pleased our vacancy rates reduced significantly and engagement scores increased to 71.

ESG has always been important to Serco and, as demonstrated in the Our Impact section on pages 49 to 69, we continue to adapt and develop our thinking and embed this into our strategy. We have been clear on our purpose, values and impact on society for many years. Our customers are governments and frequently the contracts we enter into have specific measures for areas such as Social Value and other ESG aspects. With our strong purpose, mission and vision we believe we are well positioned to deliver positive outcomes as we focus on our impact and the themes of People, Place and Planet, all underpinned by strong governance. More detail on our approach and ESG commitments and performance is included on pages 49 to 69.

Our Board evaluation during the year was an internal review and the results were discussed at the December Board meeting. We took account of last year's feedback when deciding the areas to be covered by the Board in 2023. The evaluation concluded that the Board and its Committees continued to operate effectively. Further information on this review process and the outcome are provided on page 104.

Looking ahead

Governments around the world continue to face complex, fast-moving challenges on multiple fronts. I believe the strategic positioning of Serco means we are well placed to be a partner that can deliver sustainable value to governments. If we can be responsive, agile and demonstrate value, I am confident we will deliver sustainable and profitable growth, and create value for all our stakeholders. To finish, on behalf of the entire Board, let me express our profound appreciation to the hardworking employees of Serco, and our many partners, for their incredible commitment and achievements during 2023.

John Rishton
Chair
1 March 2024

Group Chief Executive's Summary Review

We are making good progress in building a resilient international platform for growth in the government services sector. Our strong results for 2023 reflect this progress, with another year of growth in revenue and profit and continued excellent cash generation.

We enhanced our customer relationships and improved our win rates compared to the prior year, delivered better safety outcomes for our colleagues, and announced two strategic acquisitions to strengthen our capabilities.

We have entered 2024 with increased execution focus on service excellence to our customers, effective conversion of a substantial pipeline of opportunities, the safety and productivity of our colleagues, and progressing the technology-enablement of our business, all aligned to delivery of our medium-term goals.

Mark Irwin
Group Chief Executive

Highlights

- **Revenue:** grew by 7% to £4.9bn, organic revenue growth of 4%.
- **Underlying operating profit:** increased by 5% to £249m, a margin of 5.1%. More than 60% of Group underlying operating profit derived from outside the UK[(1)].
- **Underlying earnings per share:** increased by 10% to 15.36p.
- **Cash flow:** free cash flow very strong at £209m, trading cash conversion of 111%.
- **Adjusted net debt:** better than previous guidance at £109m; covenant leverage at 0.5x EBITDA.
- **Order intake:** £4.6bn of wins, order book remains strong at £13.6bn.
- **Pipeline:** pipeline of potential new work of £10.1bn, +28% since half year, highest level in a decade.
- **Dividend per share:** recommended final dividend per share of 2.27p, +18% year on year.
- **New £140m share buyback in 2024:** continuing to return capital to shareholders as a result of strong trading and cash conversion consistent with our capital allocation priorities.
- **Updated guidance for 2024:** Revenue and underlying operating profit unchanged, net debt updated to include better 2023 outcome and new share buyback.

Group Chief Executive's Summary Review continued

In 2023 we made good progress towards building a resilient international platform for growth in the government services sector. We delivered growth in revenue, profit and cash, with all three financial performance measures ending the year better than our initial guidance. We have also made good progress executing our strategy with clarity about our Purpose - to impact a better future; our Vision – to be the partner of choice to governments globally; and our Mission - to bring together the right people, the right technology and the right partners to support our government customers with solving some of the most complex problems that they face.

We grew revenue by 7% to £4.9bn, with organic growth of 4%, acquisitions adding another 4% and a 1% drag from currency. Underlying operating profit increased by 5% to £249m and our cash generation was again very strong, with 111% profit to trading cash conversion.

In North America, which generates close to half our profit, organic revenue growth was strong. We secured the rebid for our CMS contract, one of the largest and strategically crucial contracts in the Group and we strengthened our order book with excellent rebid success. Within North America, Canada continues to grow, and we are seeing our focus on global collaboration bear fruit with success in winning employment services work in Ontario, as we entered the sector for the first time by leveraging our longstanding work in the UK.

Our UK business delivered high organic revenue growth, margin improvement and good conversion rates for new wins and recompetes. In Europe, the successful integration of ORS, which is now delivering revenue more than double the level prior to us acquiring it, has strengthened our position in immigration services. We have followed that with the acquisition of European Homecare, a German immigration services provider which will complement the work we do to support governments in the UK, Australia and across Europe.

Our Middle East business had a good year. Although profit reduced slightly, order intake was high as we saw success in executing our strategy of repositioning Serco for higher margin growth in the most dynamic markets in the region. The development of an advisory business has helped us win work in new segments, such as sustainability services at the Red Sea Global megaproject and has expanded our presence in the exciting new giga-cities of Saudi Arabia.

Our Asia Pacific business had a difficult year. Volume-variable work, which as part of a portfolio we expect to ebb and flow, reduced in the period, tight labour markets created operational challenges and new business wins did not meet our expectations. We took appropriate action, appointing a new CEO for the business and implementing the necessary business changes to ensure we are well positioned for future opportunities in what remains an important market for Serco.

In summary, we are pleased with the full year results for 2023 which were the direct result of the hard work and dedication of more than 50,000 colleagues across the Group. For that we remain grateful, as we do for the continued trust of our customers and the support of our shareholders.

After my first full year as Group Chief Executive, I am confident that we enter this next stage of Serco's development with strong foundations and a strategy aimed at delivering profitable, sustainable growth aligned to our medium-term goals. We enter 2024 with the largest pipeline of potential new work in a decade, a business plan to deliver margin improvement from a rigorous approach to operational efficiency, a network of partnerships to support technology enablement and a robust balance sheet providing good optionality for capital allocation. We therefore see clear opportunity to sustain the consistent positive results reported in recent years.

Mark Irwin
Group Chief Executive
Serco – Impact a better future
1 March 2024

To me, impact is not about one existential event. It is about a mindset that says everything we do matters. How we do it matters, and the outcomes of what we do matter; then it is about finding a way for us to be able to measure that and be accountable for those better outcomes by working in partnership with our clients to impact a better future.

Group Review

Strong performance and positive outlook

Strong performance in 2023, positive outlook for 2024 and medium-term

Year ended 31 December	2023	2022	Change at reported currency	Change at constant currency
Revenue(2)	£4,874m	£4,534m	7 %	8 %
Underlying operating profit(3)	£249m	£237m	5 %	5 %
Reported operating profit(3)	£272m	£217m	25 %	
Underlying earnings per share (EPS), diluted(4)	15.36p	13.92p	10 %	
Reported EPS (i.e. after non-underlying items), diluted	17.93p	12.79p	40 %	
Dividend per share (recommended)	3.41p	2.86p	19 %	
Free cash flow(5)	£209m	£159m	31 %	
Adjusted net debt(6)	£109m	£204m	(47)%	
Reported net debt(7)	£562m	£650m	(13)%	

Summary of financial performance

Revenue, underlying operating profit and underlying earnings per share

Revenue increased by 7%, or £340m, to £4,874m (2022: £4,534m). Organic revenue growth was 4% (£199m), acquisitions added 4% (£174m) and currency was a drag of 1% (£33m). Revenue has increased organically as growth in the immigration and defence sectors, areas we have invested in significantly in recent years, more than offset Covid-related work which concluded in 2022. Were revenue from our joint ventures to be included, it would add a further 5% to the Group's organic revenue growth, as our VIVO Defence Services work for the UK's Defence Infrastructure Organisation continues to experience robust demand.

Underlying operating profit increased by 5% to £249m (2022: £237m), and growth on a constant currency basis was also 5%. Ongoing demand for immigration services in the UK and Europe, operational improvement in our existing portfolio, as well as the successful ramp up of new business signed in prior years, more than offset a 7% impact from Covid-related work, as well as lower volumes in Asia Pacific. Improved margins in the UK & Europe division broadly offset lower margins in the other regions, underlining the benefit of our geographic and sectoral diversity, and the overall resilience this brings to our business.

Reported operating profit increased by 25% to £272m. The growth rate was greater than for underlying operating profit because of positive exceptional operating items. Exceptional operating items of £53.8m resulted from the release of £43.9m of provisions held for indemnities provided on businesses disposed of in 2015, predominantly due to the claims period ending, and £9.9m compensation we received on the early termination of a contract.

Diluted underlying earnings per share increased by 10% to 15.36p (2022: 13.92p). The percentage improvement was higher than the increase in underlying operating profit as a 7% reduction in the weighted average number of shares, due to our share buybacks in 2022 and 2023, more than offset higher net finance costs.

The revenue and underlying operating profit performances are discussed in more detail in the Divisional Reviews.

Cash flow and net debt

Free cash flow was very strong at £209m. This was 31% better than the prior year (2022: £159.1m), which itself had been a particularly good outcome. Trading cash conversion was also very strong at 111%. High conversion of profit to cash in recent years has been achieved, in part, by intense focus on the cash management process. An important element of this has been increased focus on the timeliness and accuracy of issuing sales invoices, which enables our customers to pay us on time. In 2023, cash flow benefitted from continued good performance on working capital, including successful collection of some older debt, the timing of payments on some large contracts, contract mobilisation dynamics, and the working capital unwind of lower work levels in Asia Pacific. Average working capital days were at attractive levels with debtor days of 16 (2022: 22 days) and creditor days of 20 (2022: 21 days). The reduction in debtor days reflects the factors mentioned above, some of which are temporary. Including accrued income and other unbilled receivables, day sales outstanding for 2023 were 38 days (2022: 48 days). Of all UK supplier invoices, 94% were paid in under 30 days (2022: 87%) and 98% were paid in under 60 days (2022: 95%). No working capital financing facilities were utilised in this or the prior year.

Adjusted net debt was £109m at the end of December. This was a reduction of £95m (December 2022: £204m) despite £34m of dividend payments to shareholders and £89m being spent on our share buyback programme, net of fees.

Group Review continued

The period end adjusted net debt compares to a daily average of £232m (2022: £231m) and a peak of £362m (2022: £377m). The variance reflects free cash flow being generated across the year, while returns to shareholders – our share buyback and final dividend – were concentrated in the first half. Receipts towards the end of the period supported the closing balance being lower than prior guidance.

Our measure of adjusted net debt excludes lease liabilities, which aligns closely with the covenants on our financing facilities. Lease liabilities totalled £454m at the end of December (2022: £446m), the majority being leases on housing for asylum seekers under our Asylum Accommodation and Support Services Contract (AASC). The terms of these leases do not extend beyond the expected life of the contract we have with the customer.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.5x EBITDA (2022: 0.8x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

On 27 February 2024, we issued $150m (£118m) of US Private Placement loan notes. The notes are equally split into two series of $75m each with maturities of five and ten years, giving an average maturity of seven and a half years. The average interest rate on the new loan notes is fixed at 6.58%, which compares to a blended rate of 3.97% for the existing notes.

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

Capital allocation and returns to shareholders

We aim to have a strong balance sheet with our target financial leverage of 1x to 2x net debt to EBITDA, and, consistent with this, the Board's capital allocation priorities are to:

- Invest in the business to support organic growth.
- Increase ordinary dividends to reward shareholders with a growing and sustainable income stream.
- Selectively invest in strategic acquisitions that add capability, scale or access to new markets, enhance the Group's future potential organic growth and have attractive returns.
- Return any surplus cash to shareholders through share buybacks or other means.

Our capital allocation framework was actively applied in 2023:

- **Invest to support organic growth:** significant investment has been put into business development, which has supported our healthy pipeline of new opportunities. In the Middle East, we have invested in developing an advisory capability and this has generated good new business wins in the year. We also invested in new pilot programmes to partner with both start-up and established technology businesses, as well as academic and research institutions to create a broader capability ecosystem from which to deliver future growth.
- **Increase ordinary dividends:** the Board is recommending a final dividend of 2.27p per share. Following the interim dividend of 1.14p, this results in a full year dividend of 3.41p, an increase of 19% compared to 2022, as we continue on our path to reduce dividend cover progressively towards 3x over the coming years.
- **Invest in acquisitions:** we agreed to acquire European Homecare (EHC), a leading provider of immigration services in Germany, and we also agreed to acquire Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services. The Climatize acquisition completed in January 2024 and EHC completed in March 2024. We continue to assess other opportunities that are aligned to our strategy and provide potential to enhance future organic growth.
- **Return surplus cash to shareholders:** in 2023 we completed a £90m share buyback and the Board has agreed that it intends to buy back a further £140m of the Company's shares during 2024. Net debt to EBITDA was 0.5x at the end of 2023 and the £140m buyback, applied retrospectively, would take leverage to 1.0x, the low end of our preferred 1-2x range and the level below which we consider capital to be surplus.

Contract awards, order book, rebids and pipeline

Contract awards

Order intake in 2023 was £4.6bn, a book-to-bill rate of 95%. Book-to-bill of slightly below 100% reflects a significant number of bids currently submitted and awaiting decision. Our win rates in the year improved and have rebounded to the levels we have delivered on average over recent years, following a dip in the second half of 2022.

There were around 60 contract awards worth £10m or more each. As in 2022, North America had the strongest book-to-bill at 154%, with robust new order intake in Defence and Citizen Services as well as the strategically important rebid of our Centers for Medicare & Medicaid Services (CMS) contract.

Our Middle East business showed strong momentum, with full year book-to-bill of 150%, supported by order intake in the second half approaching 2x revenue. Around £2.1bn, or 45%, of the order intake came from North America, £1.9bn, or 41%, from the UK & Europe, and the Middle East and Asia Pacific both contributed £0.3bn, or 7%.

Approximately 40% of the order intake value was new business and 60% was rebids or extensions of existing work. The win rate by value for new work was approaching 35%, while the win rate by value for retaining existing work was approximately 90%.

New wins included a £350m five-year contract to deliver functional health assessments in the south-west of England for the Department of Work and Pensions to determine disability benefits and a contract to deliver electronic monitoring services in England and Wales that is expected to be worth £200m over its initial six-year term. We also secured a £140m, five-year contract with the Government of Ontario to assist job seekers develop their skills and match them to employment opportunities, and a £78m, nine-year contract with the UK Home Office to run the Derwentside Immigration Removal Centre. In the UK, increases in the numbers of service users led to us securing additional immigration accommodation work that is expected to generate around £300m of revenue in 2024. We also successfully rebid our CMS contract where we support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges. The estimated total value to Serco, subject to workload volumes, is approximately $690m (£570m) over its term of just over four and a half years, if all option periods are exercised. Other notable retained work in the year included our driver examination services contract in Ontario, where we secured a three-year extension worth an estimated £220m, an agreement with the Australian Defence Force to continue to provide logistics and a full suite of base services for their locations in the Middle East, and our force protection work for the US Navy, with the new five-year contract expected to be worth approximately £160m.

Group Review continued

Order book

The order book remains strong at £13.6bn at the end of December (2022: £14.8bn). The reduction during the year primarily reflected book-to-bill being slightly below 1.0x. 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 £2.6bn (2022: £1.9bn) higher if option periods in our US business, which typically tend to be exercised, were included. If joint venture work was included this would add a further £1.9bn (2022: £2.0bn) to our order book.

Rebids

In our portfolio of existing work, we have around 85 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2026, with an aggregate annual revenue of £1.9bn. Contracts that will either need to be rebid or extended in 2024 have an annual contract value of around £0.7bn, including our immigration services work in Australia, which is currently contracted until December 2024. The annual value of rebids is approximately £0.6bn in both 2025 and in 2026.

New business pipeline

Our measure of pipeline 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 small proportion of the total universe of opportunities, as many opportunities have annual revenues less than £10m, are likely to be decided beyond the next 24 months or are rebids and extensions.

Our pipeline was £10.1bn at the end of December, 20% higher than the £8.4bn level at the end of 2022, an increase of nearly 30% since the end of June 2023, and is now more than double its pre-Covid level. The pipeline consists of around 45 bids with an ACV averaging around £40m and an average contract length of around six years. The pipeline of opportunities for new business with an estimated ACV of less than £10m totalled £2.6bn at the end of December, a 4% increase from the £2.5bn value at the end of 2022.

Acquisitions

We continue to view acquisitions as an important part of our strategic toolkit, which, if deployed correctly, can add significant value to the business. They should therefore supplement and be capable of delivering new opportunities for organic growth. Generally speaking, we regard acquisitions as higher risk than organic growth, so any potential opportunities have to meet our stringent criteria of being both financially and strategically compelling. We judge potential acquisitions against three criteria: do they add new, or strengthen existing, capability? Do they add scale which we can use to increase 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, the execution of all acquisitions is centrally managed by Group and follows the same rigorous process. Equal focus and discipline is applied to post-acquisition value drivers such as effective integration and value realisation from synergy and growth.

We announced two acquisitions in 2023:

- In December we agreed to acquire European Homecare (EHC), for consideration of €40m (£34m). EHC is a leading private provider of immigration services in Germany. In conjunction with ORS, the Swiss-based business we acquired in 2022, this strategic acquisition will create a strong partner for European governments in immigration services and complement the support we already provide to government customers in the UK and Australia. The acquisition has received competition clearance and completed in March 2024.
- We agreed in December and completed in January 2024, the acquisition of Climatize, for an initial cash consideration of AED 9m (£2m) and a contingent consideration of up to AED 51m (£11m), payable on achieving certain financial targets. Climatize is a small but fast-growing business that operates in the United Arab Emirates and Saudi Arabia offering 'zero-carbon' advisory and related engineering services. The business will significantly boost Serco's sustainability advisory capability in the Middle East with possible scalability to other markets.

We continue to seek out and evaluate new opportunities for acquisition which fit our criteria, and focus on delivering value from those acquisitions already executed.

Our market

The market for private sector delivery of government services is large and growing. Independent research has put low estimates of Serco's addressable market at around £715bn. Further growth is predicted as governments around the world are facing ever more complex challenges.

We believe that the 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 to access the skills, resources, innovation and agility of a partnership ecosystem. At the same time, the supply-side is fragmented and even Serco, as a leading international provider, has only a small market share. This gives us an opportunity to grow within, as well as with, the market.

Group Review continued

Strategy

We embark on the next stage of Serco's development from a strong position; our foundations are solid and the strategy is working as demonstrated by the results delivered over recent years. Our focus in the period ahead is on the execution of our strategy to make our business even better and achieve our medium-term growth goal to grow revenue faster than the market, profit faster than revenue and convert that profit into cash.

Last year we laid out three strategic enablers, Customers, Colleagues and Capabilities, where we see opportunity to create value by driving enhanced execution. We have made good progress in 2023.

Customers

Our power to drive innovation and support customers from service discovery through to delivery is underpinned by Serco's unique operating model, which features three components: Impact Pathway, Partnership, and Global data and insights.

Impact Pathway factors in the perspectives of citizens, communities, customers and operators – to inform service innovation and deliver measurable improvement in outcomes. Our highly collaborative approach to Partnership brings our people together with government, along with network partners – including start-ups, enterprise level technology companies, academia and third sector organisations – to design and deliver end-to-end solutions and learn collectively from our experience.

Finally, we draw on a global pool of data and insights, deep domain knowledge, and global operating experience to inform the design of solutions we know will work in the real world.

Bringing these together allows us to support our government customers with solving some of the most complex problems they face.

By way of example, we will continue to invest in our advisory-to-operate business in Saudi Arabia, which has shown early success and is focussed on supporting the country in its development of sustainable future cities. With more than 100 advisory colleagues already active on the giga projects during the planning and construction phases, we are working to build the trust of our customers to make a long-term contribution to delivery of the Kingdom's Vision 2030.

Colleagues

During 2023, our People and Culture function was reorganised to ensure that it is structured to confront the current and emerging workforce challenges impacting government service providers, while continuing our work to progress inclusivity, equity and diversity. Health, safety, and well-being feature as priorities in the development of a high-performance culture and will remain central to strategic decisions that affect our people including recruitment, development, digital inclusivity and compensation.

In the past year we have made key appointments to give us a stronger and more diverse executive team, and taken a data driven approach to addressing People and Culture challenges and opportunities. We have effectively resourced successful mobilisation of key contracts such as the newly built HMP Fosse Way, and pleasingly saw a reduction in employee attrition which has created operational challenges for our business in recent years. And we have proudly welcomed more than two thousand new colleagues in our growing immigration business in Europe.

As we press ahead, ongoing execution of our People and Culture strategy is crucial to our long-term success. Continually evolving our Employee Value Proposition from its purpose-led and values-driven foundations to remain relevant, attractive, and exciting is a key element to that execution.

Colleagues are, and have always been, at the heart of Serco.

Capabilities

We have begun to optimise existing IT platforms and align investment to business and growth needs such as selectively piloting AI systems, as outlined opposite. The appointment of a Chief Data and Technology Officer to the Group's Executive Committee will be a critical enabler to the next stage of developing and delivering our technology roadmap. As we explore the positive impacts AI can have on our operations, we are mindful that AI is also enabling an expanded cyber threat landscape that requires adaptive risk and response management, and continuous vigilance throughout the business and into our supply chain. We will continue to invest in technology pilots as well as strategic partnerships with technology companies to drive productivity and open new revenue opportunities.

Artificial intelligence pilot programs

Microsoft Partnership

In December 2023, we signed a strategic memorandum of understanding with Microsoft UK to drive Serco's digital transformation, leverage opportunities for co-innovation and joint business development. This includes a pilot project to use Microsoft's VisionAI products to automatically identify, classify, and retrieve prisoner property – this will potentially improve processing time as well as enable the identification of signs of bullying and potential gang activity. Once this product has been fully tested, Serco will aim to deploy it for similar use cases in its prison and immigration estate globally. This is an example of Serco partnering to impact a better future for our government customers globally.

AutogenAI

Serco's first technology pilot in 2023 with AutogenAI (a UK-based start-up) has already resulted in a global partnership agreement. Initial tests, during the pilot, have shown up to a very significant time saving when managing and collating knowledge about Serco's capabilities worldwide. If deployed at scale, Serco believes the technology could produce significant productivity improvements; increase global collaboration; and lead to more innovative solutions for Serco's customers. Serco has already used AutogenAI's technology over 6,000 times during the pilot phase in the UK & Europe Division. It will now be deployed globally to support better knowledge management across the Group.

Group Review continued

Guidance for 2024

Our guidance for 2024 is updated from our pre-close trading statement on 14 December 2023, to reflect the strong cash performance and share buyback announced on 29 February 2024. We expect revenue in 2024 to be slightly below 2023, underlying operating profit to grow by around 5% and the conversion of profit to cash to be consistent with our medium-term target of at least 80%.

Revenue: We expect revenue to be around £4.8bn, slightly below the £4.9bn outturn for 2023, with a 3% organic contraction, a 2% contribution from acquisitions and a 1% adverse impact of currency. Revenue is expected to be lower organically due to our CMS contract now being in its new five-year agreement, the annualisation of our previously announced exit from certain low-margin contracts, and contract mix change in immigration, as we support the UK Government's efforts to reduce the number of asylum seekers being accommodated in hotels. These factors will be partially offset by increased contribution from newer contracts ramping up, new business and growth in the existing portfolio. EHC, the leading provider of immigration services in Germany, completed in March 2024 and is expected to contribute revenue of around £100m.

Underlying operating profit: Underlying operating profit is expected to grow by around 5% to £260m, including an expected currency drag of £4m, with margins increasing by around 30 basis points. The year will benefit from new contracts ramping up, operational efficiency improvements across the existing portfolio and a contribution from acquisitions. We expect these to more than offset the mobilisation costs on new work, lower immigration volumes in the UK and Australia, and CMS operating in its new contract term. Following our success in winning the Functional Assessment Services and electronic monitoring contracts in the UK in the fourth quarter, we expect around £13m of mobilisation costs relating to these in 2024.

Net finance costs and tax: Net finance costs are expected to be around £35m. This is more than 2023 due to higher interest rates, increased volume of lease-related interest and acquisition spend. The underlying effective tax rate is expected to be 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 again expected to be strong at around £140m in the year, consistent with our ongoing expectation of converting at least 80% of profit into cash. This is below 2023, as this included the benefit of actions taken to structurally improve our working capital. We expect adjusted net debt to end the year at around £175m, including the acquisitions of EHC and Climatize, and the £140m share buyback announced on 29 February 2024.

	2023	2024	
	Actual	Initial guidance 14 December 2023	New guidance
Revenue	£4.9bn	~£4.8bn	~£4.8bn
Organic sales growth	4%	~(3)%	~(3)%
Underlying operating profit	£249m	~£260m	~£260m
Net finance costs	£25m	~£33m	~£35m
Underlying effective tax rate	23%	~25%	~25%
Free cash flow	£209m	~£140m	~£140m
Adjusted Net Debt	£109m	~£85m	~£175m

NB: The guidance uses an average GBP:USD exchange rate of 1.26 in 2024, GBP:AUD of 1.93 and GBP:EUR of 1.17[(8)]. We expect a weighted average number of shares in 2024 of 1,065m for basic EPS and 1,085m for diluted EPS.

Outlook for growth in the medium-term

Our medium-term targets remain unchanged. We expect to grow revenue at an average of 4-6% a year. Our focus on productivity and efficiency will help us increase our margins. At least 80% of our operating profit will be converted into cash.

Notes to financial results summary table and highlights

(1) Refers to non-UK underlying operating profit as a proportion of Group underlying operating profit before corporate costs. Our underlying operating profit before corporate costs in 2023 was £298.0m.

(2) 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 2023 into sterling at the average exchange rates for the prior year.

(3) Underlying operating profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition and exceptional items (and in the prior year other non-underlying items). Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. A reconciliation of underlying operating profit to reported operating profit is as follows:

Year ended 31 December £m	2023	2022
Underlying operating profit	**248.7**	**237.0**
Amortisation and impairment of intangibles arising on acquisition	(30.9)	(21.6)
Exceptional operating items	53.8	(2.4)
Other non-underlying items	–	4.2
Reported operating profit	**271.6**	**217.2**

(4) Underlying EPS is derived from the underlying operating profit measure after deducting pre-exceptional net finance costs and related tax effects.

(5) Free cash flow is the net cash flow from operating activities adjusted to remove the impact of non-underlying cash flows from operating activities, adding dividends we receive from joint ventures and associates and deducting net interest, net capital expenditure on tangible and intangible asset purchases and the purchase of own shares to satisfy share awards.

(6) Adjusted net debt is used by Serco as an additional non-IFRS Alternative Performance Measure (APM). 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 recognised under IFRS 16 Leases.

(7) Reported net debt includes all lease liabilities, including those recognised under IFRS 16 Leases. A reconciliation of adjusted net debt to reported net debt is as follows:

As at 31 December £m	2023	2022
Adjusted net debt	**108.7**	203.9
Include: all lease liabilities	**453.7**	446.0
Reported net debt	**562.4**	649.9

(8) The currency rates used for our 2024 outlook, along with their estimated impact on revenue and underlying operating profit are:

Year ended 31 December	2024 outlook	2023 actual	2022
Average FX rates			
US Dollar	1.26	1.24	1.24
Australian Dollar	1.93	1.87	1.78
Euro	1.17	1.15	1.18
Year-on-year impact			
Revenue	£(48)m	£(33)m	£175m
Underlying operating profit	£(4)m	£(0)m	£14m

Reconciliations and further detail of financial performance are included in the Finance Review on pages 76 to 87. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group.

Divisional Reviews

Serco's operations are reported as four regional divisions: North America; UK & Europe (UK&E); the Asia Pacific region; 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 operating profit.

Year ended 31 December 2023 £m	North America	UK&E	Asia Pacific	Middle East	Corporate costs	Total
Revenue	**1,362.8**	**2,439.5**	**845.1**	**226.4**	**–**	**4,873.8**
Change	**+7 %**	**+16 %**	**(11)%**	**+8 %**		**+7 %**
Change at constant currency	**+8 %**	**+16 %**	**(7)%**	**+9 %**		**+8 %**
Organic change at constant currency	**+8 %**	**+7 %**	**(7)%**	**+9 %**		**+4 %**
Underlying operating profit / (loss)	**138.2**	**120.8**	**23.7**	**15.3**	**(49.3)**	**248.7**
Margin	**10.1 %**	**5.0 %**	**2.8 %**	**6.8 %**	**(1.0)%**	**5.1 %**
Change	**+1 %**	**+68 %**	**(58)%**	**(4)%**	**+11 %**	**+5 %**
Amortisation of intangibles arising on acquisition	**(16.0)**	**(3.4)**	**(11.5)**	**–**	**–**	**(30.9)**
Exceptional operating items	**–**	**9.9**	**–**	**–**	**43.9**	**53.8**
Other non-underlying items	**–**	**–**	**–**	**–**	**–**	**0.0**
Reported operating profit / (loss)	**122.2**	**127.3**	**12.2**	**15.3**	**(5.4)**	**271.6**

Year ended 31 December 2022 £m	North America	UK&E	Asia Pacific	Middle East	Corporate costs	Total
Revenue	1,269.8	2,100.2	954.6	209.4	–	4,534.0
Underlying operating profit / (loss)	136.6	72.1	56.9	16.0	(44.6)	237.0
Margin	10.8 %	3.4 %	6.0 %	7.6 %	(1.0)%	5.2 %
Amortisation of intangibles arising on acquisition	(16.5)	(1.5)	(3.6)	–	–	(21.6)
Exceptional operating items	(1.2)	(1.2)	–	–	–	(2.4)
Other non-underlying items	0.1	4.1	–	–	–	4.2
Reported operating profit / (loss)	119.0	73.5	53.3	16.0	(44.6)	217.2

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 76 to 87. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The Consolidated Financial Statements and accompanying notes are on pages 155 to 219. 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.

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. Underlying corporate costs increased by £4.7m to £49.3m (2022: £44.6m). The higher level in 2023 was primarily related to an increase in audit fees and the transition of Group Chief Executive, as Rupert Soames, who stepped down as Group Chief Executive on 31 December 2022, acted as a strategic adviser to the Group in 2023 until his retirement in September 2023.

Divisional Reviews – North America continued

Working at Serco gives me the opportunity to work on many important programmes, whether in support of our national defence or in support of individual citizens. For me, impact means that we get to be part of something bigger than ourselves and to work on really important, meaningful programmes that have an impact on our citizens and our nations.

Tom Watson
Chief Executive Officer, Serco North America

Revenue
28%
2022: 28%

Underlying operating profit
46%
2022: 49%

Sectors we operate in: Defence Transport Citizen Services

Year ended 31 December £m	2023	2022	Growth
Revenue	**1,362.8**	**1,269.8**	7 %
Organic change	8 %	(1)%	
Acquisitions	– %	3%	
Currency	(1)%	11%	
Underlying operating profit	**138.2**	**136.6**	**1 %**
Organic change	1 %	6%	
Acquisitions	– %	– %	
Currency	– %	11%	
Margin	**10.1 %**	**10.8 %**	(62)bps

Revenue grew by 7% to £1,363m (2022: £1,270m), with organic growth of 8% and a 1% adverse translational effect of currency. The two main sectors for our North America business are Defence and Citizen Services, and both saw growth in the period. Our Defence business delivered organic revenue growth of 8% as the high level of new work secured in 2022 ramped up. Citizen Services also showed good progress with 7% organic revenue growth, driven by higher demand for our case management services and the start of our new employment services work in Canada. These contracts with the Government of Ontario were secured by leveraging the work we do in the UK for the Department of Work and Pensions.

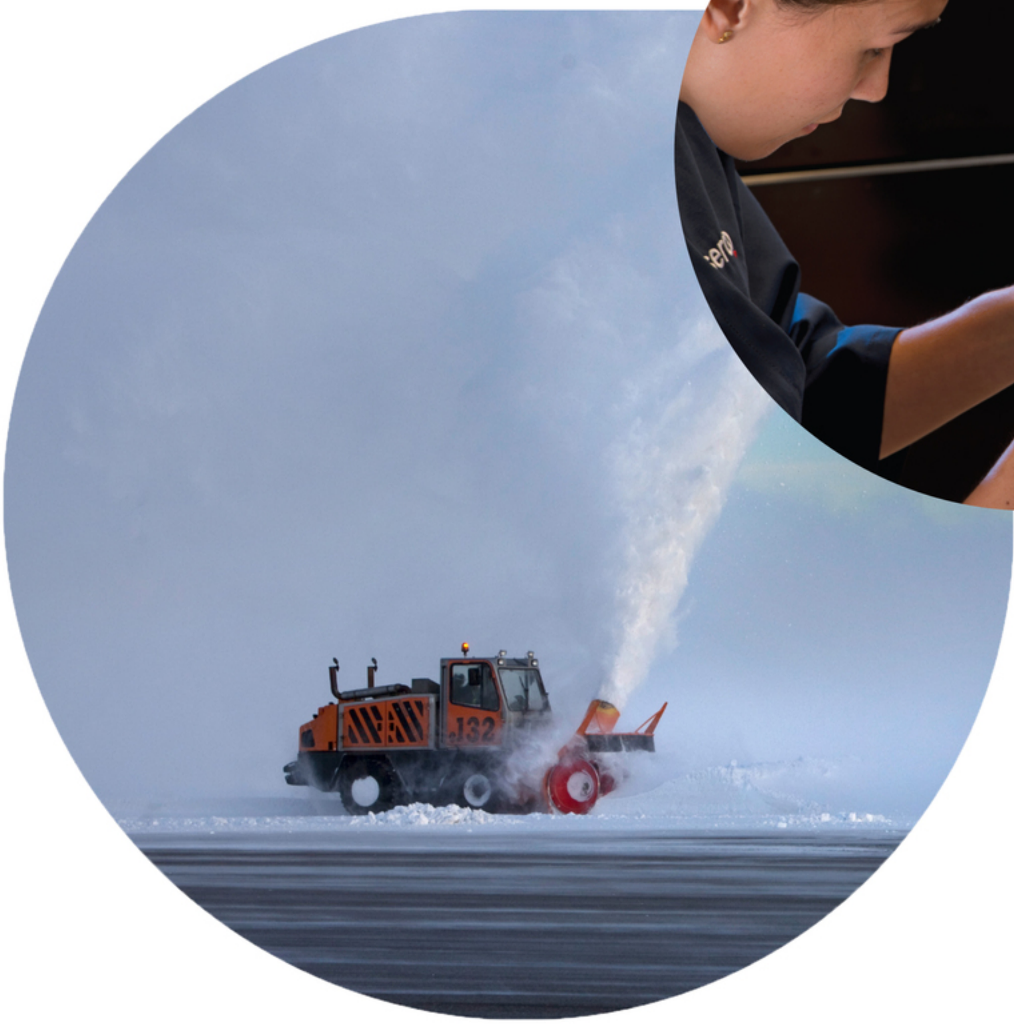
Underlying operating profit grew by 1% in the year to £138m (2022: £137m). Currency had a negligible impact, meaning underlying operating profit on a constant currency basis also grew by1%. The profit outcome was lower than revenue as good performance in case management was more than offset by new contracts being in a lower margin, mobilisation stage, and some defence IT management work transitioning from its more profitable installation phase to sustainment operations. Margins reduced from 10.8% to 10.1% as a result.
Order intake was strong at £2.1bn, around 45% of the total for the Group and a book-to-bill ratio of 1.5x. Of this, new business wins were around 25% of the order intake, continuing the strong momentum of 2022. The largest single new business win was in Canada. Following on from our success in 2022, we were again selected by the Government of Ontario to support part of their Employment Services Transformation program, which will help unemployed people back into work.

Divisional Reviews – North America continued

The contract signed this year is expected to be worth around £140m over five years. It was an active period for rebids and extensions, and we were pleased to achieve a win rate of around 95% on these, above our usual 80-90% range. This included the successful rebid of our Centers for Medicare & Medicaid Services (CMS) work, which sees us continue to support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges.

The new contract started on 1 July 2023 and has an estimated total value to Serco, subject to workload volumes, of approximately $690m (£570m), if all option periods are exercised over its term of just over four and a half years. Other notable retained work in the year included our driver examination services contract in Ontario, where we secured a three-year extension worth an estimated £220m and our force protection work for the US Navy, with the new five-year contract expected to be worth approximately £160m.

The pipeline of major new bid opportunities due for decision within the next 24 months in North America has increased from £2.5bn at the end of 2022 to £3.2bn at the end of 2023. It is pleasing to see the pipeline at such a healthy level given the high order intake in both 2022 and 2023. North America represents approximately 35% of the total Group pipeline. Defence makes up the largest proportion of the North American pipeline, with a broad spread of types of work. There are also significant opportunities in Citizen Services, where we have been actively seeking to grow.



Divisional Reviews – UK & Europe continued

Impact means doing the right thing all of the time because it's the right thing to do. Whether it's positively impacting our colleagues safety and well-being, the planet that we have the privilege of living on; or a positive outcome for citizens we deliver services to – any of these drives me to do the right thing for our customers, communities and our colleagues – everyday everywhere.

Anthony Kirby
Chief Executive Officer, Serco UK & Europe

Revenue
50%
2022: 46%

Underlying operating profit
41%
2022: 26%

Sectors we operate in: Defence | Justice & Immigration | Transport | Health & other Facilities Management | Citizen Services

Year ended 31 December £m	2023	2022	Growth
Revenue	**2,439.5**	**2,100.2**	16 %
Organic change	7 %	(5)%	
Acquisitions	8 %	3 %	
Currency	1 %	– %	
Underlying operating profit	**120.8**	**72.1**	68 %
Organic change	55 %	(27)%	
Acquisitions	12 %	2 %	
Currency	1 %	– %	
Margin	**5.0 %**	**3.4 %**	152bps

Revenue increased by 16% to £2,440 (2022: £2,100m), with 7% organic growth, an 8% contribution from acquisitions and a 1% favourable translational effect of currency. ORS, the business we acquired in September 2022 to enter the European immigration services market, traded ahead of expectations with robust underlying demand due to global migration patterns. Covid-related work, which fully concluded in the first half of 2022, was a drag of £79m, or 4%. This was more than offset by strong growth for our immigration services in both the UK and Europe, and good growth in our defence and justice businesses. We exclude the revenue from our joint ventures, however, our VIVO Defence Services work for the Defence Infrastructure Organisation, which when won in 2021 included one of the largest contracts ever secured by Serco, continued to ramp up. Were revenue from our joint ventures to be included, it would add a further 10% to organic revenue growth, as our VIVO work experienced robust demand.

Underlying operating profit increased by 68% to £121m (2022: £72m). Strong demand for immigration services, the ramp up of contracts signed in prior years, improved performance across a range of existing contracts and the ORS acquisition more than offset the drag from Covid-related work. The year also benefitted from a £6m one-off settlement of a dispute on a contract. The margin increased by around 150bps to 5.0% (2022: 3.4%) because of these factors.

Divisional Reviews – UK & Europe continued

Underlying operating 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 4.5% (2022: 3.2%). The joint venture and associate profit contribution increased to £29m (2022: £12m) due to our VIVO work continuing to ramp up, Merseyrail seeing improved performance and the one-off settlement mentioned above being included.

Order intake was around £1.9bn, a book-to-bill ratio of 0.8x and around 40% of the total intake for the Group. The low book-to-bill reflected 2023 being relatively quiet in terms of rebids and contract award decisions for new work. Our win rates, having dipped in the second half of 2022, rebounded in 2023. New business represented nearly 60% of the order intake and our win rate on new work was around 60%. Our win rate by value on rebids and extensions was more than 95%. Agreements signed included a £350m five-year contract to deliver functional health assessments in the south-west of England for the Department of Work and Pensions to determine disability benefits, a contract to deliver electronic monitoring services in England and Wales that is expected to be worth £200m over its initial six-year term, and a contract with the UK Home Office to run the Derwentside Immigration Removal Centre. The new contract has an estimated value of around £80m over the initial nine-year term. Also in the Justice & Immigration sector, increases in the numbers of service users led to us securing additional immigration accommodation work that is expected to generate around £300m of revenue in 2024.

The pipeline of new opportunities in the UK & Europe increased by around 30% to £4.8bn (December 2022: £3.7bn), with significant new opportunities across Justice & Immigration, Defence and Citizen Services.

Divisional Reviews – Asia Pacific

Impact is about generating, shaping and delivering services and activities that make a difference. What we do is bigger than the individual or oneself.

Andrew Head
Chief Executive Officer, Serco Asia Pacific

Revenue

17%
2022: 21%

Underlying operating profit

8%
2022: 20%

Sectors we operate in: Defence, Justice & Immigration, Transport, Health & other Facilities Management, Citizen Services

Asia Pacific

Year ended 31 December £m	2023	2022	Growth
Revenue	**845.1**	**954.6**	(11)%
Organic change	(7)%	– %	
Acquisitions	– %	2 %	
Currency	(4)%	3 %	
Underlying operating profit	**23.7**	**56.9**	(58)%
Organic change	(56)%	13 %	
Acquisitions	– %	(6)%	
Currency	(2)%	4 %	
Margin	**2.8 %**	**6.0 %**	(316)bps

Our Asia Pacific business had a difficult year. Volume-variable work, which as part of a portfolio we expect to ebb and flow, reduced in the period, tight labour markets created operational challenges and new business wins did not meet our expectations. We have appointed a new CEO for the business, Andrew Head, identified actions and designed what we believe to be an achievable plan to ensure the business is well positioned for the opportunities we expect in the coming years. Asia Pacific remains an important market for Serco. Revenue reduced by 11% to £845m (2022: £955m). The business contracted by 7% organically and adverse currency moves had a 4% impact.

Revenue fell because of lower volume-variable work in parts of the immigration network, reduced work in facilities management and a combination of tight labour markets and some lost work in the Citizen Services sector.

Underlying operating profit reduced by 58% to £24m (2022: £57m), representing a margin of 2.8% (2022: 6.0%). Profit fell more than revenue due to a negative mix impact from the lower immigration volumes, some initial stranded costs on lost contracts and labour market disruption making it difficult to recruit enough people to meet customer headcount targets.

Order intake was £0.3bn, continuing a recent record of low win rates on new work. Our investor pipeline for new business currently stands at £1.3bn in the year. Defence makes up around 90% of the pipeline with opportunities also in the transport and health sectors.

Our immigration services work in Australia, which is contracted until December 2024, and one of the largest contracts in the Group, is currently in a competitive rebid process. Serco has been providing immigration services as a partner to the Australian Government since October 2009, with our work having been successfully rebid and extended over this period. Our performance levels have been high on the current contract and we believe we have submitted a compelling bid. The final outcome of the tender process is expected before the end of the third quarter of 2024.

Divisional Reviews – Middle East

Impact is about making a difference and to me where I see that the most is when I visit our contracts. Our teams on the ground are making the biggest difference to our customers in the Middle East and bringing the national visions to life.

Phil Malem
Chief Executive Officer, Serco Middle East

Revenue
5%
2022: 5%

Underlying operating profit
5%
2022: 6%

Sectors we operate in: Defence, Transport, Health & other Facilities Management, Citizen Services

Middle East

Year ended 31 December £m	2023	2022	Growth
Revenue	**226.4**	**209.4**	8 %
Organic change	9 %	(28)%	
Acquisitions	– %	– %	
Currency	(1)%	8 %	
Underlying operating profit	**15.3**	**16.0**	(4)%
Organic change	(2)%	8 %	
Acquisitions	– %	– %	
Currency	(2)%	9 %	
Margin	**6.8 %**	**7.6 %**	(88)bps

Revenue grew by 8% to £226m (2022: £209m). The business grew by 9% organically and currency moves had a 1% adverse impact. Organic growth was driven by the Citizen Services sector, where our new advisory business unit is gaining traction. Underlying operating profit reduced to £15m (2022: £16m). Profit was negatively impacted by stopping services with a customer where we had debtor collection issues and by costs on some health and facilities management work we exited. These more than offset the higher margins being achieved on our advisory work. Margins decreased from 7.6% to 6.8% as a result. Order intake was around £0.3bn, or 7% of the total for the Group and a book-to-bill ratio of 1.5x. Around 60% of the order intake was new business.

The largest win was a contract to provide Fire Rescue, Emergency and Ambulatory Services in the NEOM economic zone in Saudi Arabia, which is estimated to be worth around £50m over eight years, and we also won a £40m, five-year, contract with Red Sea Global to act as the managing agent for their full suite of sustainable mobility services across Saudi Arabia's visionary new tourism destination. In addition, we secured a three-year contract worth approximately £30m to provide Customer Experience services within Terminal A of the newly opened Zayed International Airport in Abu Dhabi. Since the end of our contract to run the Dubai Metro, our Middle East business has been exploring new potential areas of demand and has invested in developing an advisory business in the region. The year saw this begin to pay off with several agreements being secured to advise customers in the region as they embark on ambitious new multi-year projects.

We were successful on all our key rebids in the period, including renewing our agreement with the Australian Defence Force to continue to provide logistics and a full suite of base services for their locations in the Middle East, which has an estimated value of approaching £60m over three years. We also secured a three-year extension to our contract for the delivery of integrated facilities and support services at the United Arab Emirates University in Al Ain, which is expected to be worth around £50m.

Our pipeline of major new bid opportunities in the Middle East totals around £0.8bn and includes increasing opportunities in Defence and potential work in the Citizen Service sector.

Our Market

Current trends

A large, growing market with high barriers to entry

From technology transformation to continuing conflicts, 2023 has been another year of significant global change. However, the fundamental features of our business-to-government (B2G) markets remain the same: large and growing with high barriers to entry for private providers.

Large

Serco commissioned independent research in 2021 which estimated our addressable market at around £715bn[1]. Our B2G focus gives us a defined market in which we are confident that there are significant opportunities for us to pursue and grow. Serco is in the majority of 'high-spending' countries - of the 16 countries that make up 77% of procurement spending globally[2], Serco operates in nine – and with an estimated market share in our existing segments of approximately 1-3%[1], the pipeline of opportunity is significant.

Growing

Macro-trends continue to point towards market growth – the Organisation for Economic Co-operation and Development (OECD) described increases in public procurement expenditure as a share of gross domestic product (GDP) as "significant" over the last decade or so, with their latest numbers showing it accounting for 11.8% in 2007 to 12.9% of GDP in 2021 across OECD countries[3].

High barriers to entry

Providing government services to citizens, funded by taxpayers, is tangibly different, and in many ways more demanding, than providing services to the private sector or consumers. Responsibility for public service delivery requires careful management of politics and the expectations of communities.

Alongside reputational risk, transparency, public procurement regulations, financial reporting standards, information standards, and other requirements also tend to be far more complex than those generally seen in the private sector.

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 are not apparent at first glance.

Our ingrained public service ethos, as exemplified in our purpose – 'to impact a better future' - means we can help deliver government services efficiently, but in a way that recognises the need for public accountability and trust.

The Four Forces model

We have a well-established model which describes the drivers of demand for our services - the 'Four Forces' - which continues to be relevant and indeed is amplified by recent market forces and world events.

1. Growing costs: there are growing costs for governments due to ageing populations and infrastructure.
2. Need to balance: governments continue to need to balance public income and expenditure as well as reduce debt.
3. Voter intolerance: there is a voter intolerance for higher taxation.
4. Rising expectations: citizens globally have rising expectations as regards public service quality.

These forces continue to drive fierce pressure on governments globally to deliver more and better, for less - irrespective of their ideologies.

Despite significant shifts in our wider operating environment as a result of technology, conflict and a range of other factors, the fundamental forces that shape our market remain relevant. This offers opportunity for Serco to continue to grow with our unique focus on supporting governments globally as their partner of choice, enabling us to outperform the competition in our chosen markets.

The Four Forces model

1. Market research by Renaissance Strategic Advisors and Oxford Economics commissioned by Serco, as cited in our Capital Markets Day 2021 presentation.
2. How governments spend: Opening up the value of global public procurement. Open Contracting Partnership, 2020.
3. 'Size of public procurement'. Government at a Glance 2023. OECD, 2023.

Our Market continued

Forward-look: five global themes for the future

1. Increased cost of public sector debt
The increased cost of public sector debt and significant labour market pressures have coloured the macroeconomic environment over the past 12 months. Globally, the outlook is improving; nonetheless, public sector debt remains at or near historic highs and administrations continue to face challenges as they look to balance their books. This drives opportunity for the private sector to partner with governments to offer 'more and better for less'[4].

2. Political change
Countries accounting for over 50% of global GDP will hold significant elections in the next 12 months[5] – including the US Presidential, EU Parliamentary and UK general elections. Regardless of electoral outcomes, the value of partnering with the private sector to manage economic pressures, deliver specialist services and leverage unique expertise, will remain a key tool for governments.

3. Geopolitics
We equally expect to see continued geopolitical issues, such as the conflicts in Ukraine and Israel-Gaza, driving increased government defence spending over the medium term, and over that period support services for defence, rather than simply equipment procurement, will likely see increased demand. Geopolitical uncertainty, amongst other complex factors, is also expected to influence global migration patterns.

4. Beyond price and capability
Customers globally have also shown a greater focus on matters beyond price and capability when developing and awarding bids. Although ESG is a well-established concept, its incorporation into government procurement has been varied in both pace and content. However, in all our markets we are seeing it becoming more formalised and growing in significance in one way or another. Perhaps the most comprehensive set of ESG procurement requirements is the Social Value regime in the UK, but equally we are seeing the increased inclusion of environmental matters in North American contracts, Indigenous procurement targets in Australia, and training and employment of Saudi nationals within the Kingdom of Saudi Arabia. As governments look to leverage procurement to meet wider environmental and social aims, the lowest price that is technically acceptable is often just one factor amongst many when it comes to bids. These developments align with our commitment to partner for impact.

5. Technology-enabled services
The growing interest in technological development including AI has driven citizen expectation for technology-enabled public services as well as a drive for governments to review how technological advancements can support them in managing the challenges they face. Governments will look to private providers to support them with their technology deficits and to understand how to implement new technologies. Both these factors will drive growth for the private provider market for public services.

Overall, we believe our strong customer relationships; refined operating model; robust financial and risk management approach; and refreshed strategy will see us continue to deliver a strong performance and meet the demands of the market.

Independent research estimates Serco's addressable market at around £715 billion[1]

The Serco Institute's research, conducted by independent economists, shows savings of 5-15% for outsourced services with quality maintained or improved[4]

Global public debt at a historic high of US$92 trillion in 2022[6]

Global defence spending reached historic high and continuing to grow[7]

4. Delivering Better Services for the Public: How competition and choice can improve public service delivery in the UK. Serco Institute, 2021.
5. 'Eight Key Elections to Watch in 2024.' Brunswick Group, 2023.
6. 'UN warns of soaring global public debt: a record $92 trillion in 2022.' United Nations, 2023.
7. 'World military expenditure reaches new record high as European spending surges.' Stockholm International Peace Research Institute, 2023.

Our Strategy

Aligning behind our purpose

> Impact for me is about delivering positive change. It's how we help and support our customers to solve some of toughest challenges that societies face.
>
> Ruth McGowan
> Group Chief Strategy and Growth Officer

The core principles of our strategy have served us well and we will build on those solid foundations.

We remain focused on B2G services and organised by geographic Division, allowing us to respond and adapt to the specific as well as localised needs of the governments that we serve. Furthermore, our strategic enablers (explored on pages 24 and 25) of customers, colleagues and capabilities continues to drive focus on how and where we add most value.

Fundamentally, we are building from a strong base with a diverse, adaptable and resilient portfolio. However, we must continue to innovate to stay ahead as our operating environment evolves.

This starts with a focus on delivering what matters most to the customers and citizens we serve. To this end, we have reframed our strategy, starting with a refreshed Purpose, Vision and Mission - creating clarity and direction for the whole business.

We are putting our Purpose - to impact a better future - front and centre. Aligned to this is our refreshed Vision, which defines 'what' we are aiming for, and Mission, the 'how' we will get there.

This creates the platform from which we will continue to deliver sustainable and profitable growth and create value for all our stakeholders.

Purpose, Vision, Mission and Values

Our Purpose
To impact a better future
Our success will be defined by creating positive impact for people, place and planet.

Our Vision
To be the partner of choice to governments globally
An international business, that works hand-in-hand with our customers to discover, design and deliver solutions to some of the government's most complex challenges.

Our Mission
Bringing together the right people, the right technology and the right partners to deliver positive impact
Empowering colleagues, harnessing technology and embracing partnership to enable service excellence.

Our Values
Trust, Care, Innovation, Pride
The principles that shape our behaviours and the culture we create to deliver on our ambitions.

Our Strategy continued

Three goals for the medium term

Our purpose, vision and mission cascade into three medium-term goals:

	Target
Customers Deliver market-leading positive impact on government outcomes	Customer Satisfaction
Growth Drive revenue growth through deliberate and sustainable portfolio choices	**4-6%** Growth
Profit Optimise productivity through world-class operations and a focus on efficiency	**5-6%** UOP

These three goals clearly define medium-term ambitions we believe are stretching but achievable.

The two financial targets will be familiar to stakeholders who will have seen them in our previous Annual Reports and our 2021 Capital Markets Day; however, we have promoted a third goal, to drive even more focus on our customers and their needs.

Driving delivery

A plan is nothing without execution. This is why we will have a focus on measuring what matters to drive the delivery of our strategy. In the short term, this means a renewed focus on six priority areas which we have identified as the most significant when it comes to driving value:

This simplified framework gives us Group-wide alignment to mobilise our execution efforts as well as clarity and unity. A foundation from which we can work together as a truly global business, ensuring that we benefit from collaboration and the sharing of best practice throughout our geographies.

Underpinning organic growth with strategic M&A

We continue to see M&A as a means to augment our organic growth, but we remain disciplined and cautious in our approach. More than £490m of capital has been deployed on acquisitions between 2018 and 2023, over £395m of which was allocated to the North American defence market - one of our highest strategic priorities in a large and liquid market. Most recently, we have undertaken a number of bolt-on acquisitions in Europe to build scale and capability.

Transaction	Date	Region	Sector
BTP	Feb 2018		Defence
Carillion Health (Salus)	Jun 2018		Health FM
NSBU (METS & SCM)	Aug 2019		Defence
FFA	Jan 2021		FM
WBB	Apr 2021		Defence
Clemaco	Jul 2021		Defence
Sapienza	Jul 2022		Space
ORS	Sept 2022		Immigration

Our approach to M&A will continue to focus on targeted, strategic acquisitions underpinned by one or more of three well-established criteria:

- **Capability – enhance or add to our offering**
- **Market Access – reach into new geographies, sectors or customers**
- **Scale – create economies of scale**

These three criteria act as effective guard-rails to our overarching approach to M&A, which is of course also informed by our wider strategy as well as the market conditions and available assets.

Note: as part of Serco's 2023 pre-close trading statement, it was confirmed that we had agreed to purchase European Homecare Group, a leading private provider of immigration services in Germany, and Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services. Both of these acquisitions will be formally concluded in 2024 and are therefore not included in the above.

Our Strategy continued

Our Progress

A focus on Customers, Colleagues and Capabilities.

1. Customers

We are working on building stronger and broader relationships with our customers, allowing us to be involved earlier and at all stages of their response from discovery through to design and delivery. We are currently piloting a new method for supporting governments with solving complex policy challenges through our 'Impact Pathway' which we are planning to expand from the UK to other regions in 2024.

Our unique methodology, Impact Pathway, embraces human centred design and systems thinking – factoring in the perspectives of citizens, communities, operators and customers – to inform service innovation, optimise efficiency, shape the service experience, and drive more effective results. This allows us to support our government customers with solving some of the most complex policy problems that they face and draws on Serco's convening power to bring diverse perspectives into the solution co-creation process with various partners from industry, academia, and the voluntary sectors.

We continue to build on the early success of our advisory business, particularly in the Kingdom of Saudi Arabia, which is focused on supporting the country in its development of sustainable future cities. With more than 100 advisory colleagues already active on the giga projects during the planning and construction phases, we are working to build the trust of our customers to contribute to delivery of the Kingdom's Vision 2030.

Case Study – Mumuration

In December 2023, we piloted Mumuration's (a French start-up) space-enabled environmental monitoring dashboard for the Abu Dhabi and Al Jubail regions in the UAE and Kingdom of Saudi Arabia respectively. The dashboards were presented by Serco at COP28 in Dubai – showcasing Serco's growing capability in environmental and sustainability advisory in the region.

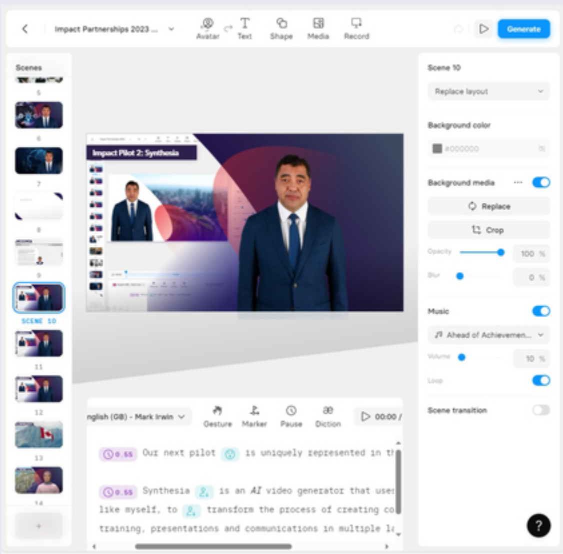
Our Strategy continued

2. Colleagues

We continue to evolve our employee value proposition, which is purpose-led, values-driven and underpinned by a genuine commitment to diversity, equity and inclusion. In 2023, we saw a reduction in employee attrition. Elevated attrition has created operational challenges for our business in recent years and, while reducing it further is a key focus, it was pleasing to see it moving in the right direction. We are also constantly exploring new and better ways to assure the physical and mental health and well-being of our colleagues. Although there was an improvement in safety outcomes for serious incidents in 2023, we are working hard on to improve our Lost Time Incident Frequency Rate, which is a key measure of management performance.

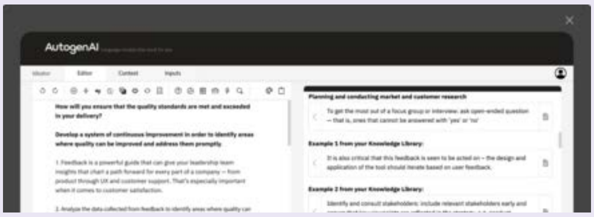
3. Capabilities

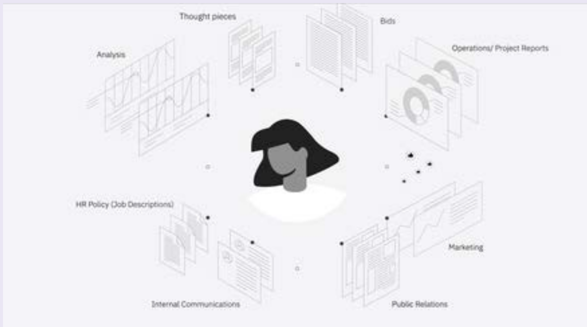
We have begun to optimise existing IT platforms as well as selectively piloting AI systems to enhance productivity. As we explore the positive impacts AI can have on our operations, we are mindful that AI is also enabling an expanded cyber threat landscape that requires adaptive risk and response management; and continuous vigilance throughout the business and into our supply chain. We will continue to invest in technology pilots as well as strategic partnerships with technology companies to drive productivity and open up new revenue opportunities.



Case Study – Synthesia

In July 2023, we launched a one-year global pilot with the platform Synthesia, using its text-to-video AI generation technology to create internal communications and training videos. This has included creating a custom Synthesia avatar of Serco's Group Chief Executive, Mark Irwin, for use in internal communications and converting text-based training content into more engaging visuals. We have already created 780 videos using the tool.





Case Study – AutogenAI

Serco's first technology pilot in 2023 with AutogenAI (a UK-based start-up) has already resulted in a global partnership agreement. Initial tests during the pilot have shown significant time savings when managing and collating knowledge about Serco's capabilities worldwide. If deployed at scale, Serco believes the technology could produce significant productivity improvements; increase global collaboration; and lead to more innovative solutions for Serco's customers. Serco has already used AutogenAI's technology over 6,000 times during the pilot phase in the UK & Europe Division. It will now be deployed globally to support better knowledge management across the Group.

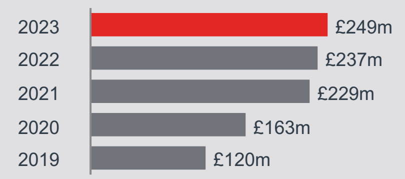
Key Performance Indicators

We use key performance indicators (KPIs) to monitor our performance, ensuring that 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 relevance to our strategy and the performance in 2023. As part of simplifying our profit measures, we renamed Underlying Trading Profit (UTP) to Underlying Operating Profit (UOP). This is explained in more detail in the Finance Review. All other KPIs are unchanged 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 the Our Impact section on pages 49 to 69. ESG performance and disclosure data can also be found on those pages, as well as in our complete 2023 ESG Databook available on www.serco.com/our-impact. Definitions for each KPI can be found in the Glossary on page 229.

1. Underlying operating profit (UOP)



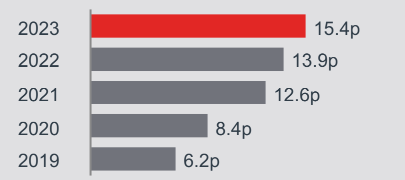
Relevance to strategy

The level of absolute UOP and the relationship of UOP with revenue – i.e. the margin we earn on what our customers pay us – is at the heart of our aspiration to be profitable and sustainable. We believe the delivery of strategic success has potential to support annual revenue growth of 4-6%, in the medium term, and trading margins of 5-6%.

Performance

Underlying operating profit increased by 5% to £249m. Ongoing demand for immigration services in the UK and Europe, operational improvement in our existing portfolio, as well as the successful ramp-up of new business signed in prior years, more than offset a 7% impact from Covid-related work as well as lower volumes in Asia Pacific.

2. Underlying earnings per share (EPS), diluted



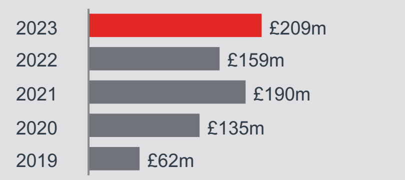
Relevance to strategy

EPS builds on the relevance of UOP, 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.

Performance

Diluted underlying earnings per share increased by 10% to 15.4p. The percentage improvement was higher than the increase in underlying operating profit as a 7% reduction in the weighted average number of shares, due to our share buybacks in 2022 and 2023, more than offset higher net finance costs.

3. Free cash flow (FCF)



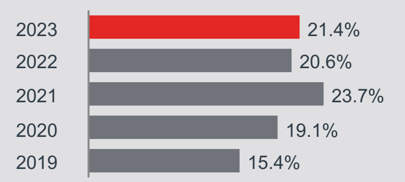
Relevance to strategy

FCF is a reflection of the sustainability of the business, by showing how much of our effort turns into cash to reinvest back into the business or to deploy in other ways. Our philosophy is we should only win business that generates appropriate cash returns, and 'executing well' includes appropriate management of our working capital cash flow cycles.

Performance

Free cash flow was very strong at £209m, representing a trading cash conversion of 111%. This has been achieved by an increased focus on the timeliness and accuracy of issuing sales invoices, which enables our customers to pay us on time.

4. Underlying return on invested capital (ROIC)



Relevance to strategy

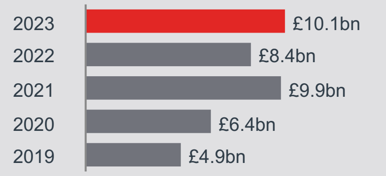
ROIC measures how efficiently the Group uses its capital to generate returns from its assets. To be a sufficiently profitable and sustainable business, a return must be achieved that is appropriately above a cost of capital hurdle reflective of the typical returns required by our weighting of equity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

Performance

ROIC increased by 80 basis points to 21.4%. The improvement reflected the increase in underlying operating profit, and only a relatively small increase in the average invested capital.

Key Performance Indicators continued

5. Pipeline of larger new bid opportunities



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 on the bids within it are at the heart of our strategy to grow the business.

Performance

Our pipeline was £10.1bn at the end of December, 20% higher than the £8.4bn level at the end of 2022 and more than double its pre-Covid level. The pipeline consists of around 45 bids with an ACV averaging around £40m and an average contract length of around six years.

6. Order book

Relevance to strategy

The order book reflects progress with winning good business, including retaining existing work 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 remains high at £13.6bn at the end of December. The reduction during the year primarily reflected book-to-bill being slightly below 100%. This amount excludes unsigned extension periods. Were we to include option periods in our US business, which typically tend to be exercised, the order book would be £2.6bn (2022: £1.9bn) higher.

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

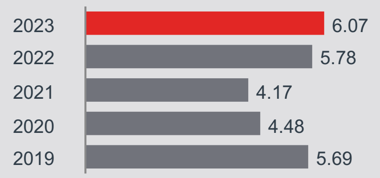
Relevance to strategy

Our vision of Zero Harm recognises executing brilliantly and includes striving to operate in the safest and healthiest way possible at all times. A positive, collaborative and open approach to safety and the continuous drive to improve our safety culture has a direct bearing on the commitment and engagement of our people and our overall performance.

Performance

Following a focus on reducing major injuries through 2023, especially those relating to violence and aggression, and associated with road risk, we saw a 24% decrease in incidents compared to 2022 and our 12-month MIFR of 0.35 was a 19% improvement.

8. Lost time incident frequency rate (LTIFR)



Relevance to strategy

Building on MIFR, focusing on reducing lost time incidents is an additional, more specific way of striving towards our Zero Harm vision, by ensuring our people are safe, healthy and able to thrive. This supports an open and honest culture of continuous safety improvement and incident reduction.

Performance

LTIFR for the year was 6.07. Following a concerted effort targeting individual incident reduction with initiatives including our Every Step Matters and Situational Awareness themes, we saw a 3% reduction in numbers of lost time incidents compared to 2022, however, our frequency rate increased by 5%.

9. Employee engagement

Relevance to strategy

Employee engagement reflects our aspiration to create 'a place people are proud to work'. This is crucial to delivering outstanding customer service and achieving our strategic aims.

Performance

Engagement was up one point to a score of 71 out of 100, a high absolute score and the first increase since 2020. Engagement held steady or increased across all regions, and there were notable improvements in key areas, including customer focus and career.

See Glossary on page 229 for KPI definitions

People and Culture

Our People and Culture

Our continued growth at Serco is testament to our people, whose hard work and commitment every day makes a difference throughout the world.

What does impact mean to me? Creating rewarding jobs in local communities and helping employees reach their potential in Serco.

Gillian Duggan
Group Chief People and Culture Officer

Often working in unique and challenging environments, our people are dedicated to helping some of the most vulnerable people in our society at times when their lives are in deep crisis. Our organisation is orientated to this purpose and our challenge is to ensure that Serco's promise to its customers is delivered safely, effectively and with human compassion.

As the world continues to endure turmoil, we recognise that this not only impacts the citizens that we support on behalf of our customers, but also our own people too. 2023 has been a year in which Serco has continued work on all aspects of its people-related ambitions, including keeping our people safe, addressing inequality, creating a more inclusive workplace and improving overall employee engagement.

As we strive towards improved outcomes in these areas and others, Serco has acted upon a need to invest in its global employee value proposition and bring renewed vision and action to the collective development and support of its people.

In taking that ambition forward, several strategic appointments were made in the first half of 2023, including the appointment of Gillian Duggan in a new role of Group Chief People and Culture Officer on the Group Executive Committee. The focus of this new role is to develop and drive a high-performance culture in Serco, ensuring continued alignment with the needs of its markets, customers and strategic growth objectives, each central to our evolving ESG story.

People and Culture continued

During 2023, the Group Human Resources function was reorganised to ensure that it is structured to confront the market and workforce challenges that are impacting government service providers today and in the future. In December, the global HR team came together to discuss and agree a range of people-orientated priorities to transform performance and culture in Serco. These priorities have been endorsed by the Group Executive Committee and will form the basis of performance-related objectives over the next three years.

The safety of our people

Protecting the health, safety and well-being of our people and those impacted by what we do is Serco's number one cultural and operational priority. Throughout the year, our teams have conducted a range of proactive initiatives designed to continuously promote awareness and manage risks. During 2023, the actual number of Lost Time Incidents (LTIs) fell by 3% compared to 2022. However, our Lost Time Incident Frequency Rate increased by 5%, remaining above the Group's threshold target of 5.14 for the year. Reflecting Serco's commitment to continuously strive to improve our safety performance, Group-level functional leadership for Health and Safety remains aligned to the strategic priorities of the Group Chief People and Culture Officer. This is to ensure that health, safety and well-being feature as priorities in the development of a high-performance culture, central to strategic decisions that affect our people, including recruitment, objective setting, performance management, development, training and compensation.

We approach 2024 with an ambitious vision to reduce the actual number of LTIs by 50% over the next three years, irrespective of how much Serco grows in the same period. To achieve this, we will continue with operationally led campaigns to focus on the areas where most LTIs occur. We are already collaborating with other providers in the sector, and specialists in human behaviour to help bring about the operational changes that will drive a meaningful reduction to this real human statistic.

Lost Time Incidents down 3%

LTIFR up from 5.78 to 6.07

Our people in the workplace

Since the global pandemic and full relaxation of multi-jurisdictional restrictions, Serco has experienced the common and significant challenges in recruitment and retention of people and the collaborative gap brought about through a lack of face-to-face, human, workplace connection. Serco recognises that retaining and developing people in their roles is a positive way to build collaborative engagement among its people and mitigate the elevated health and safety risks brought about through higher rates of employee churn.

In the latter part of 2023, employees throughout the organisation were invited to participate in our annual engagement survey. We saw a 70% response rate, and overall, a single-point improvement in our engagement score when compared to the previous year. Our people were able to recognise our core values of 'Care' and 'Pride' in their work and relate to how these translate into the operational environment as a high degree of customer care and focus. At the same time, our people took the opportunity to provide feedback on where they would like to see greater focus, which was primarily in the areas of career development and personal growth.

Overall engagement up from 70 to 71

Engagement response rate 70%

People and Culture continued

Improving our performance management

As we head into 2024, Serco is preparing to embark upon a programme to strengthen a high-performance culture grounded in its values, starting with clearer objective setting, a revised competency framework, robust performance management and a pathway to career development and growth. This programme builds upon the investment made during 2023 in which 151 leaders took part in three of our leading growth programmes – Advanced Leadership, Contract Manager and Women in Business. As newly-developed leaders, they will play a pivotal role in how Serco implements its strategy, influences the workforce and impacts a better future.

Programmes	Male	Female
Advanced Leadership	39	19
Contract Manager	23	5
Women in Business	N/A	65
	62	**89**

As leaders bring their newly-developed skills to our global operations, they will support the next tier of leaders and people managers through their development and ensure that we embed the right behaviours throughout our business to fully engage, lead and support our people, making the employment experience one in which our colleagues can thrive, develop, grow and reach their potential. This is a vital component in the evolution of our Employee Value Proposition and will help us attract and retain people, bringing greater stability to our frontline teams and operational service environments, which in 2023 suffered far higher levels of attrition than Serco is comfortable to accept. Whilst there are many external contributory factors beyond the organisation's control, it is in Serco's interest to ensure that once we recruit a new colleague, they experience the best of what Serco has to offer, which is; a place for them, a place to count on and a place where they can make a difference.

Evolving our culture

There has been considerable emphasis on the strategic work required to drive people and culture change in 2024, and as part of that, our global teams have continued in their efforts and ambitions to become more equal, diverse and inclusive.

With two female Executive appointments this year, Serco's Group Executive Committee has increased its female representation. At 31 December 2023, female representation within our senior leadership team including Board and Executive management stood at 34.3%, broadly matching the number of women who participated in Serco's Advanced Leadership Programme. This puts us in a strong position to deliver against a three-year commitment to see 50% of global leadership roles held by people from underrepresented groups.

Financial schemes

Building upon the successful launch of MyShareSave in the UK in 2022, we extended our offering in 2023 to include colleagues in Australia, Canada, the US and the UAE, representing approximately 95% of our global workforce. The invitation to participate in MyShareSave 2023 resulted in a further 2,066 colleagues participating, representing a global uptake of 5.4%. The increase in MyShareSave participation across all job bands is seen as a success in Serco's continued efforts to engage its global workforce.

Additionally, the Serco People Fund that launched successfully in the UK in 2021, was launched in Australia, the US and the Middle East this year. The People Fund is intended to provide financial assistance to colleagues who are facing extraordinary financial challenges. This may include situations such as crises, poor health, natural disasters, or other times when additional financial support is needed. Since inception, the fund has paid out a total of £616,506, with £406,117 paid out in 2023. This is one of the many ways in which Serco demonstrates that the well-being and care of our people is always at the heart of how we operate.

People and Culture continued

Diversity, equality and inclusion

In a bid to gain deeper insights into employee perceptions relating to diversity and inclusion, revisions were made to our Viewpoint Survey. The scores relating to the extent that employees felt a sense of belonging (regardless of age, gender or ethnicity), and the extent that Serco actively promotes diversity, scored favourably at 74 and 75 respectively. Perceptions relating to inclusivity and the extent that employees felt that leaders valued different perspectives, scored less favourably at 66. This is a clear indication of a need to go further, which is why a strategic objective has been set to see people from underrepresented groups particularly those from ethnically diverse backgrounds, play a more influential role in how Serco is led globally. To support this ambition, preparations were being made at the end of the 2023 to conduct a bespoke leadership culture survey to provide further insight and inform strategic planning for the organisation.

UK & Europe

In UK & Europe, there has been substantial commitment, progress and improvement in several areas relating to equality, diversity and inclusivity. Echoing our achievement of having secured gold status in the Inclusive Employers Standard, Serco maintained its commitment to deliver a gender pay gap below 10% by 2023, with 8.11% in 2022 and 8.54% this year. Building further upon that commitment, we are working to reduce diversity non-disclosure rates throughout the organisation.

Appreciating the value of bringing inclusive and collaborative networks together, our Embrace network is in the final shortlist for top Network Group (ERG) in the UK Ethnicity Awards, and we also launched two new networks, 'Serco Veterans & Armed Forces Community' and 'Parents & Carers'.

North America

In North America, Serco launched two new initiatives; 'Serco Unlimited' and 'Serco Rising'. The intention behind these new network initiatives is to enable a step change in our ability to make our workplace and organisation become increasingly inclusive and diverse. These initiatives do that by raising awareness, removing barriers and challenging perceptions in the areas of disability (both visible and non-visible conditions) and through early careers, specifically to support early-career talent, as part of a commitment to highlight and celebrate diverse perspectives at Serco. In the case of Serco Rising, it has helped to reduced attrition rates in the first twelve months of employment.

Serco in North America also received VETS Indexes 5 Star Employer for the third year running. The award recognises our continued commitment to recruiting, hiring, retaining, developing and supporting veteran employees; military spouses; and others in the military-connected community. This award builds upon Serco's global and ongoing commitment to military veterans.

Middle East

Our operations in the Middle East are going through a period of change in terms of geography focus and business lines and establishing a workforce during this transformation poses several challenges. As the team navigate the pressures of this, they are simultaneously taking the opportunity to lay the foundations of an equal, diverse and inclusive workplace culture. In the region, the size of our national workforce has almost doubled in the last year, with 58% being women. The results of the 2023 Viewpoint survey showed favourable results across these measures, with an increase of 10 points in the female engagement score, up from 74 to 84.

Asia Pacific

Our Asia Pacific Division has played a leading role in driving forward Serco's credibility on matters relating to equality, diversity and inclusivity and in 2023 broadly achieved its colleague representation targets across disability, Indigenous, veterans and women. It proudly accepted recognition from Reconciliation Australia for the significant progress made over the last 12 months in Indigenous outcomes, including the introduction of Sorry Business Leave and establishing an Indigenous colleague community - Kanyini; and receiving their endorsement to progress to the second highest level of Reconciliation Action Planning.

In looking towards 2024, the Asia Pacific team hosted a cross-business disability workshop with diverse representation identifying areas of opportunity leading to the development of 41 initiatives to be driven over the coming year and, underpinning a new Accessibility Action Plan.

Looking forward

Along with new Executive appointments, the winning of new business and the loss of others, overall, this has been a year in which the longer term and more resistant impacts of the pandemic could be seen and better assessed from a perspective of how much those impacts continue to challenge the company in achieving its objectives.

As we press ahead, the role of People and Culture is substantial. From recruitment and retention, better data, employee development, equality, diversity, inclusion, compensation and benefits and our overall Employee Value Proposition. These things matter because at Serco, we believe that people are the greatest asset in our business and whilst 2023 has been a year of progress and refreshing our strategy to reflect our growth ambition, 2024 will be a year of putting our People and Culture plans into action.

Risk Management

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 take risk management seriously and invest significant effort into identifying and managing risks.

Risk management process

The Board oversees the Group's risk management and internal control processes within an Enterprise Risk Management (ERM) framework, discharging its oversight responsibilities through the Risk Committee, supported by the Corporate Responsibility Committee (CRC), and the Group Audit Committee. The Serco Inc. Audit Committee and our Divisional Leadership teams also play a critical part in our risk management process. The Board has monitored and reviewed the effectiveness of risk management and internal control systems through these Committees and the processes outlined below.

Our ERM approach endeavours to identify, understand, mitigate and manage risks that might disrupt our ability to execute our strategy or deliver against our customer and contractual commitments, whilst recognising that we cannot capture and mitigate every potential risk scenario.

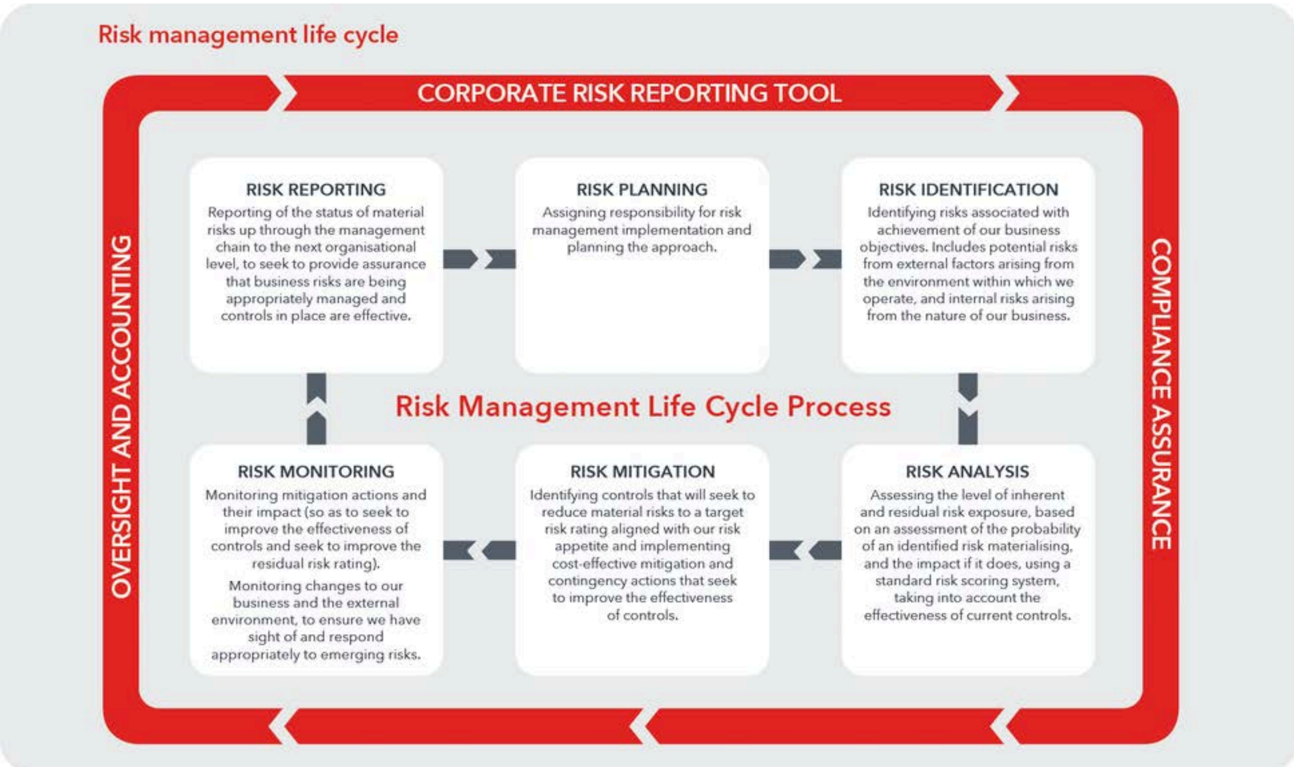
Our risk policy, including the risk management life cycle, is mandated throughout the Group to seek a consistent approach to identification, analysis, monitoring and reporting of risks and to provide further assurance that the risk mitigation in place is sufficiently effective and appropriate.

Risk management operates throughout the year and in all levels of the business with a 'bottom up/top down' approach emanating from risks identified at contract level and functions upwards through the Business Units and Divisions. Risks are formally reported from Divisions into Group on a quarterly basis focusing on the top 10 Divisional risks, associated controls and mitigation updates. These reports help inform updates to our principal risks.

Our principal risks, detailed on page 34, are those risks that we determine to be the most material when considered against our strategic ambition (as outlined on page 22) and that can materially affect the performance, prospects or reputation of our business. These risks are identified, assessed and monitored as part of our 'top-down' approach through discussions at a Divisional level, Group Executive Committee and at either the Risk Committee, Audit Committee or CRC depending on the type of risk being assessed. For each risk, we capture the inherent, residual and target position as 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 both a Subject Matter Expert (SME), who acts as the lead in overseeing risk updates and driving risk actions, and a nominated Group Executive Committee sponsor, (whose role is to advocate and oversee risk ownership), allocated to it.

A robust assessment of our principal risks and their mitigations is carried out by the Risk Committee every quarter through the Director of Enterprise Risk report which provides an update on each risk and any material changes, as well deep dives into each Division's risk profile.



Risk Management continued

Each of our principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept, which is unchanged from 2022. Risk appetite is set through discussion with the principal risk Group Executive Committee Sponsor and SME and ratified by the Risk Committee. The statements include one of four appetite categories – averse, cautious, moderate and flexible – that reflect the Board's tolerance to each risk. The Board's risk appetite associated with each principal risk is shown on page 34.

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 mapped against our principal risks, significant local risks, our Serco Management System and testing plans are reviewed annually by the Group Compliance Assurance team to identify and respond to any significant amendments in the control environment. While 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 well-being of our colleagues and service users and the prioritisation of maintaining integrity and a strong ethics culture. In addition to the work of our in-house Compliance Assurance teams, augmented by external partners in certain specialist areas, we are also subject to significant third line assurance activities and audits delivered through our in-house Internal Audit team, external third parties, certification standards and customer requirements in our varied service lines and business units. These external 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

We have an annual 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 robust assessment of emerging risks is completed through individual and group discussions with our Group Executive Committee members, via input from our Divisional risk teams and the Risk Committee; and through the monitoring of internal and external macro risk trends.

Examples of some of the current emerging risks discussed and being monitored via our quarterly risk process include continued political volatility and any associated ideology or significant policy change, geopolitical disruption, including the conflicts in Ukraine and Gaza, artificial intelligence and disruptive technology.

Other risk areas

While not considered as emerging risks, we also reviewed our approach to ESG (including climate change). We continue not to include ESG or climate change as standalone principal risks but instead continue to consider these as part of the emerging risk review.

- **ESG:** We continue to recognise ESG risks across the business. As a solutions provider to governments globally, we deliver on a range of ESG commitments where we can contribute to delivering public impact. We have recognised our corporate responsibilities for many years. However, as we have evolved our strategy and core purpose, we have refreshed our approach to ESG and are committed to measuring what matters – the positive impact we make to People, Place, and Planet. We have conducted a preliminary 'double materiality' analysis of risks and opportunities across our ESG landscape, through objective, AI-driven examination of evidence-based, global data.

  The results highlight areas where public service providers in all markets and geographies where we operate may experience, achieve, or otherwise cause the most material impacts. This has been reflected in our impact framework and provides a foundation for more detailed assessment and validation of double materiality in the future (see page 51).
- **Climate change:** 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. However, regardless of where we operate, we recognise the need to drive consistent positive environmental behaviours and performance improvements throughout our operations. We have chosen not to consider climate risk as a standalone principal risk and instead consider it as a scenario under several of our principal risks, including 'Catastrophic incident', and have embedded this more clearly in the narrative of our relevant principal risks. We will continue to monitor the profile of climate change matters as part of our ongoing quarterly risk reviews and it will remain a focus area for development throughout 2024. Further detail on our approach to environmental reporting and the Task Force on Climate-related Financial Disclosures (TCFD) can be found on page 70 and our commitment to climate change as part of our ESG agenda on pages 49 to 69.

Changes during the year

We continue to drive improvements in our ERM framework. A key focus throughout 2023 has been on the design and implementation of our new Governance, Risk and Compliance tool. The controls module, which supports financial controls testing was successfully deployed in three of our Divisions with implementation in North America nearing completion. In addition, we are in the design stages of implementation of the ERM module that aims to provide enhanced risk and controls functionality, transparency, and reporting. The ERM module is planned for implementation across the Group in 2024.

As indicated in last year's Annual Report and in response to the Corporate Governance Reform targets set out by the UK Government in the document entitled Restoring trust in audit and corporate governance, we launched the Integrated Assurance Framework programme (IAF), a global assurance programme to enhance our risk and assurance framework. This programme supports the changes recently confirmed by the Financial Reporting Council (FRC) in relation to internal controls. We are continuing with the development and implementation of the programme which aims to deliver, better focused, more consistent and standardised control environments and reporting capabilities.

Principal Risks and Uncertainties

Summary of principal risks and uncertainties

Principal risks, as described below, have been reviewed by the Group Executive Committee and either the Risk Committee, Corporate Responsibility Committee or Audit Committee and the Board. The risks are described on the following pages, together with the relevant strategic business objectives including: 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 26 with the strongest links highlighted as part of the commentary.

Our strategic objectives (outlined on page 22) consider the risks and opportunities associated with our existing market and services and did not highlight a need for a material shift in approach.

As outlined in the Group Chief Executive's Review on page 6 we are reporting strong financial performance and despite the macroeconomic volatility of the last 12 months we have not observed any material manifestation of risk that has caused significant operational or performance disruption. Our principal risks therefore remain valid with their definition and scope remaining largely unchanged. These risks continue to underpin our business model and mitigation of these risks links directly to our strategic priorities as described on pages 22 and 23.

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 47, 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 evolve to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

Risk description	Executive sponsor	Primary risk category	Annual trend as at 31 December	Risk appetite
Failure to grow profitably	Ruth McGowan Group Chief Strategy and Growth Officer	Strategic	Stable residual risk position reflecting a strong 2023 financial performance and confidence in the business pipeline and business plans as we enter 2024.	Cautious
Financial control failure	Nigel Crossley Group Chief Financial Officer	Financial	Reducing residual risk reflecting level of confidence in robustness of financial processes and controls.	Averse
Major information security breach or cyber attack	Mark Irwin Group Chief Executive	Operational	Despite recognition that the threat landscape is ever changing we retain the residual risk as previously assessed, recognising significant investment and implementation of strengthened IT controls and continued focus on good practice controls execution.	Averse
Contract non-compliance, non-performance or misreporting	Phil Malem Middle East CEO	Operational	Noting no material incidents, the stable risk trend is driven by acknowledgment of the scale and volume of contracts, the ongoing work to improve our controls and the low level of both Serco management and customer tolerance for any significant issues.	Averse
Significant failure of supply chain	Anthony Kirby UK&E CEO	Operational	Following an increase in residual risk in 2021, the risk remains elevated largely as a result of external macroeconomic pressures.	Moderate
Failure to act with integrity	Mark Irwin Group Chief Executive	People	Stable risk trend recognising the ongoing commitment to maintain high standards of integrity, reflected in this year's Viewpoint results, and a low customer tolerance for any issues.	Averse
Failure to attract, engage and retain key talent	Gillian Duggan Group Chief People and Culture Officer	People	Recognising the external challenges in the labour market and existing social and economic pressures, we are facing elevated attrition rates and therefore see this risk as increasing.	Cautious
Health, safety and well-being	Gillian Duggan Group Chief People and Culture Officer	People	The risk remains stable despite the fact that we missed our LTIFR threshold and we remain focused on the road to zero harm. Well-being is now inextricably linked within the strategy and approach to health, safety and well-being risk management.	Averse
Catastrophic incident	Tom Watson North America CEO	Hazard	A stable residual risk position reflects that, despite strong controls, the nature of the work we do exposes us to a degree of ongoing risk of a catastrophic event occurring.	Averse
Material legal and regulatory compliance failure	David Eveleigh Group General Counsel	Legal and Compliance	The risk remains stable notwithstanding the continued fast-moving and complex global legal and regulatory environment and diverse nature of our business.	Averse

Principal Risks and Uncertainties continued

Our updated strategy and new purpose, vision and mission are detailed on page 22. Each of our principal risks supports one or more of the focus areas that drive strategic delivery, namely;

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Appropriate consideration and management of the principal risks have a direct link to key Executive remuneration as outlined in the Directors Remuneration Report on page 115.

STRATEGIC RISKS

Failure to grow profitably

Risk Appetite: Cautious

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. Serco takes reasonable and considered risks to generate profitable growth, aiming to fulfil an ambitious growth plan. Serco's success is linked to changes in the economy, political changes/stability in each of our Divisions, our reputation, budget priorities and the attitude of governments and the wider public to the private sector delivering public services. This could result in decisions not to award contracts or lead to delays in placing work. Our success is also linked to the competitive landscape, our ability to efficiently deploy resources to develop and transact proposals and the use of technology to enhance our value proposition while delivering our ESG commitments. We carried out a comprehensive strategy review in 2023 that concluded that our markets remain robust with significant revenue opportunity in our chosen markets.

In 2023, we continued to be successful in securing good organic growth. Our immigration work in UK and Europe has continued to benefit from significant volumes and our marine defence business unit in the US secured critical rebids and extensions. Our Middle East business secured growth opportunities in the Kingdom of Saudi Arabia, and in the UK we have secured material contracts in Justice, Immigration and Citizen Services. Win rates overall have recovered from 2022 and we continue to improve our internal bidding and capture practices, using technology to support our proposal development and solution design. Our contract structures have largely protected us from inflationary pressures and, while tight employment markets and inflation are easing from 2022, Serco has the opportunity to improve its cost base efficiency. We continue to be exposed to challenges in our Asia Pacific Division, noting a decline in our volume-variable work and lower than expected win rates. The 2024 elections in the UK and US could present challenges and opportunities in terms of delayed decisions and policy shifts and our concentrated exposure to UK Immigration is posing less predictable risks.

Key risk drivers:	Material controls:	Mitigation priorities:
External factors reducing the pipeline of opportunities. **Failure to be competitive.** **Inability to meet customer and solution requirements during design, implementation and delivery.** **Ineffective business development leading to lower than expected win rates.**	– Serco Group and Divisional Strategy including periodic strategy reviews. – Investment Committees, Divisional-level Business Lifecycle Review Teams (BLRTs). – Pipeline and Business Development spend reviews. – Regular Growth Forum reviews. – Divisional Performance Reporting process and tracking key strategy commitments.	– Re-energise pipeline, seeking new attractive organic expansion. – Deliberate approach to capability acquisitions where these complement our competitiveness. – Strengthen our customer focus and interactions to better anticipate and shape markets and opportunities. – 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. – Embrace technology to improve bid effectiveness and solutions. – Rigorous corporate focus on growth and associated metrics including win rates and pipeline conversion. – Re-energise the growth culture across the business.

Principal Risks and Uncertainties continued

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FINANCIAL RISKS

Financial control failure

Risk Appetite: Averse

Serco operates a number of financial systems and processes and there is an inherent risk that these may fail if appropriate oversight is not in place. Such failures may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a 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 26. 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 and forecasting.

The Group believes that its financial processes and systems have operated effectively throughout the period and any areas of weakness have been mitigated through additional controls and reviews.

Over the last 12 months, the Group has continued to improve its financial control environment. The Group has continued to deliver its programme of work to improve the financial controls framework. The objectives of this programme endeavour to meet the changes to the UK Corporate Governance Code recently confirmed by the Financial Controls Committee (FRC) following the consultation document issued by the UK Government, entitled 'Restoring trust in audit and corporate governance'. The Group is conscious of the impact of this programme and has been mindful of additional costs and administration placed on its operations.

Key risk drivers:	Material controls:	Mitigation priorities:
Not setting the right tone from the top. **Poor financial processes.** **Inadequate financial controls within the business.** **Loss of critical people and/or systems.** **Poorly skilled and resourced finance teams to address complex finance standards.**	– Group Governance and Finance strategy. – Board oversight via the Audit Committee. – 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 partners. – Skilled and adequately trained Finance staff. – Disaster recovery plans and testing. – Monthly Divisional performance reviews. – Dedicated Financial Assurance team.	– Agree future operations for financial processes operated by third-party suppliers. – Continue to develop the financial controls and assurance framework including work under our Control Framework Improvement Programme (CFIP). – Continue to embed effective financial reporting. – Continuously improve forecasting and reporting processes and data analysis. – Deliver global finance process improvement and efficiency through automation and robotics. – Continue to improve the Group-wide training curriculum. – Effectiveness reviews of disaster recovery plans. – Ensure talent is retained within the Finance function.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

OPERATIONAL RISKS

Major information security breach (including cyber attack and data protection)

Risk Appetite: Averse

An information security breach, resulting in the loss or compromise of information (including personal or customer data) or wilful damage, is a key risk for us. A successful attack or significant control failure may result in regulatory fines, loss of customer or data subject confidence and follow on civil claims. We operate an averse risk appetite to any major information security breaches and cyber attacks. We accept that, due to the complicated and diverse nature of our business and the services we provide, we will continue to face ever evolving threats from both internal scenarios and external threat actors and that there therefore remains an inherent risk of data loss or loss of service as a result of an incident. We recognise we cannot eradicate this risk and are cognisant and focused on the importance of reducing our attack vectors and improving our data management processes and controls. We endeavour to mitigate the likelihood and impact of any breach and carry out prompt remedial actions.

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. In most of our jurisdictions, this additionally includes accreditation or assessment against relevant government security standards. These include the Information Security Management System covering our UK corporate environment that is certified to ISO 27001, Cyber Essentials Plus in the UK and PCI-DSS globally where required. Our certifications are generally publicly available on the relevant accreditors' websites or can be requested from the Company directly.

An ongoing programme of IT investment is maintained to address the changing threat landscape and seeks to ensure we comply with our own SMS standards and all external standards required to meet our contract obligations. Regular security patching and operating on supported versions of hardware and software greatly reduces the risk of exploitation or data loss for both Serco and its clients (any operational exemptions require a full risk assessment and compensating mitigating controls). Serco regularly reviews how we protect and secure information in our custody. This year, we have commenced the phased deployment globally of Microsoft Defender's Extended Detection and Response security tooling.

As custodians that care for personal data held on behalf of our customers, suppliers, business partners, employees and data subjects, we have adopted a risk-based approach to implement a data protection framework that is integrated into our management system and our customer requirements. It aims to strengthen our operating culture and to seek to ensure that we operate and continuously improve our business in a compliant, ethical and responsible way. This year, our data protection programme focused on data privacy rights through work on data minimisation and retention, handling data subject requests, implementing privacy by design, boosting transparency, understanding data hosting and technology use, as well as implementing training and awareness programmes. We have a Data Protection Champion (DPC) network with over 250 DPCs across UK&E and the Middle East who are trained and supported by the Data Protection Office/Officer.

We continue to invest in our human shield, with data protection and security training material regularly refreshed. Staff training remains a key mitigant to this risk and 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 many of our sub-contracted 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, Division or Function, together with regular campaigns and awareness tests such as protecting against phishing threats.

Principal Risks and Uncertainties continued

Key risk drivers:	Material controls:	Mitigation priorities:
Non-compliant or obsolescent systems. **Non-compliance or misconfiguration with policies and standards.** **Vulnerability of systems and information.** **Unauthorised use of systems.** **Inadequate incident monitoring and response.** **Increased regulatory scrutiny.** **Human factors leading to data breach.** **Failure to follow Data Protection laws and Customer requirements.** **Poor data mapping and retention.**	– Global Technology Governance Board and 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. – Third-party supplier cyber assessment due diligence. – Data Protection training and awareness campaigns. – Data Protection Officer programme and Data Protection Champions network. – Monitoring Data protection laws and Customer requirements. – One Trust data inventory mapping and data retention programme.	– Perform market appraisals of technology when bidding for new contracts and review existing technology at renewal points to ensure that we maintain our defences as threats change and develop in sophistication. – Ongoing continuous strategic improvement programmes to maintain our cyber defences (for example the investment in improved cyber tooling) as described in the section above. – 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. – Leveraging Cloud adoption to ensure standardised control mechanisms. – A focus on behavioural aspects controls. – Maintaining compliance with government security standards. – Ongoing Data Protection training. – Monitoring the Global changes in law including international transfer laws and customer requirements. – Build a stronger consistent data protection framework of sharing information and knowledge. – Gold IAPP Membership and data protection champions.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

Contract non-compliance, non-performance or misreporting

Risk Appetite: Averse

With more than 50,000 colleagues delivering services under circa 500 services contracts there is considerable scope for missed contract obligations or performance thresholds or inaccurately compiled performance reports. In the normal course of service provision, we do experience failures that are considered minor, such that they are fixable and often allowed for in the contracts we sign via defined tolerance levels and penalties. These are not the focus of this risk.

This risk is instead concerned with levels of failure that are unacceptable to Serco and its customers, especially deliberate misreporting of contractual performance or material contracts being taken away from Serco due to non-performance or non-compliance.

We have had no instances of a material failure throughout the past year, but have at times seen near misses, particularly where high levels of performance-related financial penalties have been incurred. In some instances, this will lead to a rectification plan agreed with the relevant customer.

Our approach is to continue to strengthen the controls across each stage of the business cycle, including: improving focus on understanding and clarity of contract commitments at bid stages; a focus on risk and opportunities in the Divisional Performance Reviews; communication and handover processes when transitioning to live operations; consistent processes for measuring performance and maintaining clear and agreed contract documentation; and increased focus on enhanced oversight, reporting and assurance.

Underpinning these initiatives, the enhancements to the SMS brings greater clarity to what is expected by each persona throughout the business cycle. This will bring greater visibility of the controls we do or do not have in place, allowing them to be challenged and strengthened throughout the year. The IAF programme will seek to further help validate the key controls we rely on.

Key risk drivers:	Material controls:	Mitigation priorities:
Not setting the right tone from the top. **Unclear contract requirements/obligations.** **Human error (deliberate or unintentional).** **Operational delivery or reporting failures.**	– 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.	– Strengthen processes related to agreeing clear contracts, change management, bid to contract handover and KPI reporting, more formalised through the enhanced application of the Serco Management System. – Roll-out of Contract Management training (Global and Divisional). – Greater visibility of performance through our contract performance dashboard 'Gauge'. – Continued focus on consistent approach to risk assessment. – Operational excellence improvement plans. – Ongoing ethics, business conduct and compliance training. – Improvements to assurance framework and activities.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

Significant failure of the supply chain

Risk Appetite: Moderate

As a result of a significant failure in Serco's supply chain to perform to the required standard, Serco may be exposed to risks that mean it 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 encompasses the following risk exposures: supplier performance and resilience; cyber/information security and data protection; business integrity and ethics; legal and regulatory compliance; and health, safety and environment.

Over recent years, we have seen heightened potential for supply chain risk due to the volatility in the external environment through macroeconomic and geopolitical events, increasing environmental and social regulation and Serco's increasing reliance on suppliers through more complex outsourcing and supplier arrangements.

Serco uses thousands of suppliers globally each year and accepts that it is not feasible to monitor and manage the performance of every supplier. A Supplier Risk Management Framework is being progressively implemented. It applies a risk-based approach to supplier segmentation across the range of supplier risk exposures and strengthens our controls over minimum standards, due diligence, contract terms and conditions and supplier management through the supplier life cycle. Serco's risk tolerance for this risk remains moderate. The Group-level risk remains elevated given macroeconomic circumstances, considerable continued inflationary pressures and consequent supply chain challenges and the need to evolve risk controls. Although there continues to be a risk of disruption in all Divisions, the highest perceived risk continues to be in our UK&E Division.

Major achievements this year have included a comprehensive refresh of our business critical supplier list against a tightened definition, alongside the development of procedures and guidance on the improved management of business critical suppliers. Our Supplier Management activities have been strengthened through development of user-friendly guidance and training which we expect to roll out in 2024.

Key risk drivers:	Material controls:	Mitigation priorities:
Inadequate procurement standards, operating procedures and controls. **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.** **Inadequate/lack of monitoring – and management of supplier performance and risks.** **High volume of suppliers/ complexity of supply chain.**	– SMS Procurement Policy, Standards and Procedure including Supplier Code of Conduct. – Supplier checks (pre-qualification/onboarding). – Serco standard contracts where possible including appropriate obligations, Key Performance Indicators and Service Level Agreements. – Supplier Management Programme for most business-critical suppliers including performance, contract compliance and risk management. – Annual procurement review process of business-critical suppliers.	– Phased and proportionate implementation of the Supplier Risk Management Framework, including supplier triage and assessment. – Continued enhancement of the Procurement and Supply Chain Group Standard improving clarity and understanding of policy requirements, processes, controls and responsibilities. – Ongoing risk assessment and mitigation plans incorporating actions to improve effective implementation of key risk controls for all material risk-rated business-critical suppliers. – Ongoing review of supplier management programme, aligning to the Supplier Risk Management Framework, taking a tiered approach relative to risk. Review tools and guidance for contract-level supplier management aligned to needs of the business.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

PEOPLE RISKS

Failure to act with integrity
Risk Appetite: Averse

We recognise that there is an inherent risk of corrupt, illegal, or dishonest acts by rogue employees, or because of pressure/culture that impacts the retention and winning of business; colleague engagement and retention; legal action and fines; and investor and shareholder confidence in Serco. We are committed to operating with integrity and are averse to behaviours and actions that might compromise this. We recognise that, as a provider of frontline public services, we are subject to public scrutiny and challenge and that there will be occasions where 'things go wrong'. In such situations we seek to minimise the impact of any failure, accept responsibility and take action. We have no tolerance for any significant breach resulting in risk of prosecution, regulatory or government censure.

Emerging risk considerations include increasing legislation, such as individual country interpretation of the EU Whistleblowing directive, modern slavery regulations and failure to prevent fraud in the UK. These not only require process changes but also demand greater transparency in our processes, controls and reporting of performance. Geopolitical tensions impact sanctions and focus for the governments we serve. Potential pressures which might drive inappropriate behaviour can be caused by inflationary and economic challenges, increasing mental health risk and higher medium-term levels of colleague attrition.

Our positive journey in establishing an effective ethics and compliance programme has strengthened our controls and oversight. We continue to clarify the SMS and Group Internal Audit have supported us in a review of our fraud controls. Transparency International has completed a review of our procedures against bribery. We monitor changes in legislation and refine our policies and processes to ensure compliance. We completed a review of our Speak Up provider. We are embedding mycode following its launch in 2022 and have relaunched our supplier code of conduct this year. We continue to refine and refresh training on mycode and specific areas such as safety, data protection and financial crime.

Key risk drivers:	Material controls:	Mitigation priorities:
Not setting the right tone from the top. **Weak values and culture.** **Increased pressure to deliver.** **Ineffective systems and processes.** **Weak diligence on where we work and who we work with.**	– Strong, meaningful and understood Values and required behaviours, which are defined in mycode, role modelled by leaders and included in bonus assessments for those that are eligible. – Robust governance (Corporate Responsibility Committee; Group Executive Committee; Investment Committee; Divisional Executive Management etc.) exercising oversight of decisions within delegated authorities. – Clear policy and procedures, including financial controls and processes defined within the SMS, which has been subject to a comprehensive review and refresh, supported by mycode. – Independent Speak Up process supported by corporate investigations. – Mandated Serco Essentials training. – Non Executive Directors only session at the CRC Committee. – Second and third line assurance reviews and third-party audits.	– Continue to drive leadership ownership and accountability for a strong ethical culture. – Roll out the supplier code of conduct. – Ongoing review of the effectiveness of due diligence processes for all third parties. – Deliver a specific speak up campaign to raise awareness, understanding and confidence in Speak Up. – Continue to strengthen Ethics Compliance resource and competency supported by robust data dashboards to inform management decisions. – Continue to drive a programme of assurance including focusing on Ethics Compliance controls.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

Failure to attract, engage and retain key talent

Risk Appetite: Cautious

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 while driving employee pride in the organisation. ESG is an implicit consideration in this risk and influences the achievement of our Employee Engagement KPI as outlined on page 27. 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 and continually track turnover and vacancy rates.

Post the Covid-19 pandemic, we are experiencing considerable turbulence in recruitment and have had to monitor and adapt more quickly to mitigate the challenges of bulk recruitment into key service roles. With higher levels of employment market vacancies, candidates have more options available, which intensifies the need to ensure greater quality of hire. Our recruitment teams have worked to adapt their approach to the market, and through enhancements to our Employee Value Proposition and use of innovative technology solutions, we have seen global vacancies fall from a quarter one peak of 6,325, to a quarter four low of 2,180.

Managing attrition globally has become a key issue within the market generally and presents challenges for each of our four Divisions. The drivers of attrition vary geographically, demographically and contract to contract. Recruitment teams have built closer working relationships with operations to help withstand volatility and, over the course of 2023, has brought global aggregated rolling voluntary attrition down by more than four percentage points which equates to approximately 1,300 people.

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. Several new senior leadership roles were recruited into Group HR during 2023, including the appointment of a new Group Chief People and Culture Officer. A key aspect of their focus is to build better leadership capability throughout the organisation and build an elevated level of intrinsic motivation into the organisation's Employee Value Proposition. The organisation sees this as the most effective way to mitigate the issues associated with this key risk.

The Board continues to ensure effective succession planning, both for Group Executive Committee and other senior roles noting the successful Board and Group Executive Committee changes made this year as detailed in the Chair's Statement on pages 4 and 5.

Key risk drivers:	Material controls:	Mitigation priorities:
Lack of staff development. **Poor talent management and succession planning.** **Low employee engagement.** **Unsatisfactory reward framework.** **Recruitment failings.** **Inability to attract appropriate new hires.**	– Talent Management and Succession processes. – Leadership capability development. – Targeted retention arrangements. – Localised attrition planning. – Critical Resource Planning. – Tracking of turnover and vacancy rates. – Annual Performance Management process. – Exit interview surveys. – Annual Viewpoint survey. – Focus on colleague health and well-being.	– 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 employees and attraction of new talent. – Continue with detailed review of succession plans and mitigation strategies as part of the Talent Review process. – Ensure ongoing use and analysis of exit interview survey results. – Follow up and action on themes identified as a result of annual people survey. – Further roll-out of ISO 45003 Psychological Health and Safety at Work across Divisions.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

Health, safety and well-being

Risk Appetite: Averse

The diversity of services provided by Serco exposes our employees, customers and third parties to a wide range of health, safety and well-being risks inherent to our operations in both work and public environments. It also includes elements of risks related to environmental concerns recognising that extreme heat, flooding or other extreme weather events may impact the safety and well-being of our employees, the employees of our customers and suppliers and those we look after. 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 well-being risk and aim to ensure that working for Serco does not impose any additional well-being challenges on our employees. This is a wide-reaching risk that directly supports the KPI target for Lost Time Incident (LTI) and Major Incident frequency rate as described on page 27 and other HSE related metrics outlined in the Our Impact section on page 59. We have an averse risk appetite for actions/failures that would cause loss of life. We cannot eradicate this risk entirely while maintaining operational delivery so we prioritise prevention of major injuries and threats to well-being while accepting that minor injuries will occur on occasion but are minimised by training, risk assessment, safe systems of work, operating procedures, PPE, site supervision, audit and inspection, and a positive safety cultural approach.

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 an equitable and positive 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 well-being and the prevention of ill health, increasing focus on mitigating risks associated with psychological harm and creating a continuously improving environment where people can thrive. We understand that healthier, happier employees go hand-in-hand with strong business performance, enhanced productivity, a 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, regulatory and reputational costs.

These broader risks can be labelled as crossover risks due to their potential for impact across several risk areas, from this risk, to Legal and Regulatory, Compliance, Attraction and Retention of Talent and Catastrophic Incident risks. Our Health, Safety and Well-being teams continue to support our organisational response across the business through key mitigations, including enhanced risk assessments, financial well-being support and updated training resources and our well-being ecosystem is strong and well structured.

We continue to engage our people with this work and, through Viewpoint and other consultation and engagement surveys and interactions, can demonstrate that the controls and mitigations in place are more effective and well received. Notably the LTI reduction planning and the ISO 45003 accreditation are key markers of our continued focus on risk mitigation in these areas.

As the current societal challenges are predicted to increase, we anticipate that these crossover risks will increase, largely driven by financial pressures which will disproportionately impact our frontline workforce. Continuing to meet these developing people and compliance needs and mitigating their impact will be a key challenge for the organisation over the coming months. This includes recognition of increasing costs associated with workers compensation compliance.

Principal Risks and Uncertainties continued

Key risk drivers:	Material controls:	Mitigation priorities:
Failure of the Serco Safety Management System. **Insufficient communication of key issues, risks and changes.** **Lack of/out-of-date task-specific competence.** **Human factors impact on behaviour.** **Occupational well-being risks including psychosocial risks. Public Health and well-being risks.** **Behavioural failures/human error resulting in injury or incident.** **Global economic challenges manifesting in colleague safety and well-being issues and incidents.** **Future impact of cross-cutting risks for example Catastrophic Incident, Legal and Regulatory etc.** **Extreme weather events such as fire and flooding.**	– Serco Health, Safety, Environmental and Well-being (HSEW) Strategies and Safety Management System (policies and procedures) underpinned by our Impact framework. – Safety and well-being training, communications, and guidance (including Serco Essentials) and individual development plans and processes based on role and operational risk. – Spontaneous and planned preventative, maintenance, audit, inspection and repair programmes. – Effective incident/near-miss observations reporting and investigations and effective use of ASSURE (independent reporting and compliance system). – A programme of first, second and third line assurance. – Risk assessments and supporting safe systems of work for activities.	– Continue to further embed the Serco Health, Safety, Environment and Well-being strategies and Safety Management System (policies and procedures) and an open, positive and equitable culture. – Increase safety observation, Zero Harm Engagement and Safety Moment activity across the regions. – Continue to drive the well-being agenda and ensure appropriate focus at a corporate level. – Continuing first, second and third line assurance activities and ensuring understanding of appropriate levels of ownership, accountability, and responsibility. – Continuously drive focus in key risk areas and global reduction initiatives. – Further development and maturity of our approach to ESG and programme of improvements to meet best practice and evolving stakeholder expectations. – Continued review and sharing of lessons learnt throughout the global organisation. – Continued oversight and review from the CRC, Board, Group Executive Committee and relevant global oversight forums.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

HAZARD RISKS

Catastrophic incident
Risk Appetite: Averse

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, amongst others, the KPI target for Major Incident Frequency Rate as described on page 27. We are also exposed to the inherent risk of an external catastrophic incident such as a fire, flood or black swan event. We aim to provide safe services, places to work and to operate a resilient organisation and have an averse risk appetite for this risk.

Throughout 2023, we have continued to utilise our five-step Catastrophic Risk plan to ensure each Division continues to assess risks at a contract level. The five-step plan's purpose is therefore to ensure that relevant material risks have been identified and to assess and seek to assure mitigations, including insurance cover, are appropriate and have been embedded. We have also tested our Group Crisis Management plan. 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 73. The former Health, Safety and Well-being elements of this risk have been moved to the Health, Safety and Well-being principal risk.

Given our average contract length, there tend not to be large fluctuations in this risk. That being said, we are working with some of our key insurance brokers to leverage climate change impact scenario analyses they have conducted, to see what potential risk quantification changes they project. This work will allow us to cross reference the insurance limits purchased and ensure that they remain adequate, given insurance is one of the key mitigants for this risk.

Key risk drivers:	Material controls:	Mitigation priorities:
Factors resulting in unsafe conditions. **Ineffective or inadequate policies, standards and procedures.** **Lack of capability and experience.** **Lack of safety cultural alignment.** **Insufficient safety management oversight.** **Inadequate planning or response to a catastrophic event, including extreme weather or a climate change-related event.** **Inadequate assurance and performance.** **Inadequate insurance cover.**	– Regular reviews of high-risk contracts. – HSE&W Strategies and Safety Management System (policies and procedures) underpinned by our Impact 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). – Second and third line assurance reviews. – Business continuity, crisis and incident emergency response plans and testing. – Risk transfer via insurance where appropriate.	– Continue to embed updated HSE&W strategies and a positive and equitable culture. – Ongoing work within Divisions to identify and assess contract-specific risks and liabilities. – Continued training in insurance and contractual risk management. – Continued optimisation of the insurance programme and captive structure. – Review levels and adequacy of compliance assurance. – Continuing first, second and third line assurance activities and ensuring understanding of appropriate levels of ownership, accountability, and responsibility. – Continued focus on maintenance and testing of robust business continuity, incident management and disaster recovery plans across each Division and function.

Principal Risks and Uncertainties continued

People Brand Growth Operations Efficiency Technology

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Risk Appetite: Averse

Serco operates in complex legal and regulatory environments across multiple industries and geographies and there is a risk that the Company might not comply with all relevant laws and regulations. Failure to comply with laws and regulations may 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 demand processes that seek to minimise regulatory and legal action, as well as targeted and selected assurance activity.

We remain subject to a fast-moving and complex global legal and regulatory environment and Serco is subject to investigations and potential claims which involve legal proceedings. We concluded two key Health and Safety prosecution cases brought by the UK Health and Safety Executive in 2023 but we continue to be subject to heightened regulatory supervision and challenge in most Divisions with coronial reviews and investigations ongoing in our Asia Pacific immigration centres.
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, sanctions and trade compliance, competition and antitrust, human rights, modern slavery and employment laws.

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

Key risk drivers:	Material controls:	Mitigation priorities:
Lack of governance and oversight. **Failure to comply with the SMS and contractual obligations.** **Failure to identify and respond to material changes in legal and regulatory requirements, including fast-moving new and changing laws.** **Lack of awareness by employees of the legal and regulatory requirements placed upon them and the business.** **Inadequate provision of systems and tools.** **Legal or regulatory compliance failure by a third party.** **Class action litigation and increasing regulatory fines.**	– Externally appointed legal specialists and internal legal team monitoring and horizon scanning on legal and regulatory obligations and changes. – Legal and contract subject matter experts aligned to functions and operations across the business supported by mandatory and bespoke training. – Investment Committee and Business Lifecycle Review Team (BLRT) bid process and governance supported by Trading Principles. – Third-party due diligence on customers, suppliers and high risk third parties. – Targeted compliance and assurance reviews. – Speak Up process and systems and corporate investigation case management system. – Group-led ethics and compliance tools, frameworks and platforms, including anti-bribery and corruption. – SMS policies and procedures. – Serco Essentials training. – Strong defence and focus on any legal proceedings and investigations.	– Maturing legislation tracking and horizon scanning on key new laws and regulations across global stakeholder map. – Greater use of data and trend analysis. – Embedding risk-based third-party due diligence including modern slavery and sanctions risk assessment. – Continuing development of Serco Essentials training programmes, including Code of Conduct training. – SMS refresh and implementation, including new governance policy. – Supplier review and improvements to various key tools such as Speak Up and onboarding.

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in July 2018 and the FRC Guidance on Risk Management and Business Reporting, the Directors have assessed the prospects of the Group over the three-year period to 31 December 2026.

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 50% (2022: 57%) of the current year revenue relates to contracts where the contract term potentially comes to an end within three years.

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 future cash flows are derived from the latest Board approved five-year plan, with the key assumptions being revenue growth which is sensitive to known and unknown pipeline opportunities, which is common within the industry, win rates for rebids and new business, margins on existing and new business, and cash conversion rates, all of which drive short-term growth rates. The Board approved five-year plan has an element of contingency to take into consideration potential risks within these assumptions. Given the nature of the assumptions used in the latter years of the five-year plan it is appropriate to forecast the future performance of the business, however, given the assumptions used and the items noted above, is not of definitive certainty against which a statement of viability can be assessed against.

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 which have been approved by the Board are based on a bottom-up Budget exercise for 2024 and 2025, and an extrapolation of key assumptions to 2026 such as local market growth rates and identified opportunities.

The Group's covenant net debt balance at 31 December 2023 is £137.6m. The Group's base projections indicate that debt facilities and projected headroom are adequate to support the Group over the period to 31 December 2026. 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.

As noted in post balance sheet events within note 37 of the notes to the financial statements, subsequent to the balance sheet date the Group issued a further £118m ($150m) of US Private Placement (USPP) notes which have been included in the Directors liquidity forecast supporting this assessment.

Funding facilities

At 31 December 2023, the Group's principal debt facilities comprised a £350m revolving credit facility maturing in November 2027 (of which £nil was drawn), and £208.8m of USPP notes. The principal financial covenant ratios are consistent across the USPP notes and revolving credit facility and are outlined on page 85.

During the period of assessment, £91m of the Group's USPP notes mature. The long-term forecasts supporting this statement show that, on the assumption that these are repaid and no further refinancing occurs after the date of the approval of these financial statements, 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.

Risks

The Board and the 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 sensitivities to assess the future viability of the Group. The Group's risk review is set out on pages 34 to 46 and outlines the Group's principal risks and mitigating controls that are in place.

Severe but plausible scenarios

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 a major information security breach or a material legal and regulatory compliance failure.

Viability Statement continued

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 combined with a profit margin 60 basis points below the Group's forecast, and the Group will still have sufficient liquidity available throughout the assessment period, on the assumption that all USPPs 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 50% 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 by volume, 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.

The Group will rebid one significant contract in 2024; its Immigration Services contract in Australia which was retained when previously rebid and a 12-month extension agreed in 2023. We have modelled a severe but plausible scenario in which the outcome of the rebid is unsuccessful, with the analysis demonstrating that the Group would remain viable over the assessment period.

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:

- 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.

Our Impact

Delivering positive impact across People, Place and Planet.

> Impact is about really listening to our customers. It's describing the impact we have beyond KPIs such as our impact on the community, our impact on employment and these can be a real differentiator.
>
> David Eveleigh
> Group General Counsel

Societal and global challenges are increasingly complex. Governments alone cannot solve the world's most difficult problems, including climate change and social dislocation. Increasingly, partnering and collaboration between Governments, the private sector and civic society is necessary to solve these challenges to reorient towards a sustainable world.

As a partner of choice to governments globally, we deliver on a range of Environmental, Social and Governance (ESG) commitments where we can contribute to delivering positive impact to:

- governments around the world, by supporting them to achieve their desired outcomes;
- local communities, through economic development;
- the planet, by committing to science-based targets, among other things, for achieving Net Zero emissions by 2050;
- our colleagues, through offering a safe and rewarding work environment; and
- our shareholders, by realising financial opportunities.

Our Impact continued

Our purpose is to 'impact a better future'. That's why we are committed to measuring what matters – the positive impact we make to People, Place and Planet.

We have recognised our corporate responsibilities for many years. However, as we have evolved our strategy and purpose, we have refreshed our approach to ESG - introducing a new way to measure the positive impacts we make. We will also continue to be focused on strong governance and transparency, which are fundamental to managing risk and running our business in a responsible way.

Our new approach to measuring impact takes our Environmental, Social and Governance reporting a step further, giving real substance to our purpose. Our intent is that our impact measures are aligned to relevant United Nations Sustainable Development Goals (UN SDGs) given our government customers are firmly committed to delivering the UN SDGs.

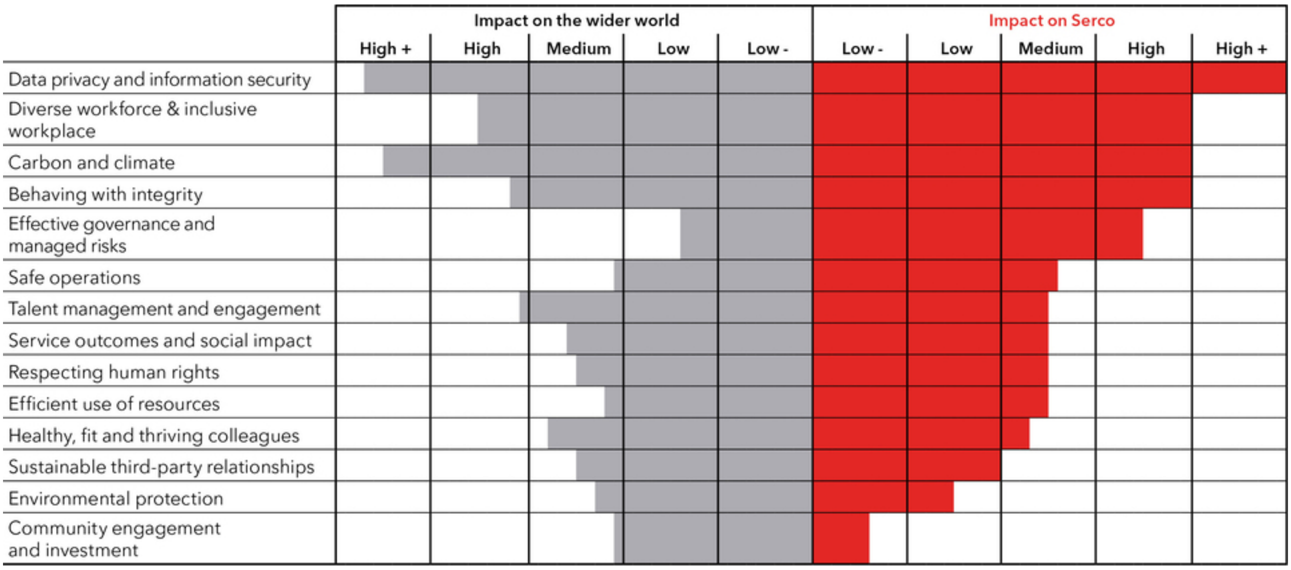
We recognise that the breadth of the services we deliver and the various customers we serve means that our operations and ESG initiatives impact many aspects of the UN SDGs. An overview of how our impact agenda contributes to the UN SDGs can be found in Our Impact hub on our website.

However, in recognising our commitment to People, Place and Planet we have identified some specific UN SDGs which we believe are important to our business, and are areas we can impact across all our Divisions. These are:

- **People:** As a people business, we will focus on SDG 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work.
- **Place:** As a partner of choice to governments globally, we recognise the importance of SDG 16 to promote peaceful and inclusive societies for sustainable development, provide access to justice and build effective, accountable and inclusive institutions. We also recognise that as a company we can have a positive impact on the communities we serve, be that through donations, sponsorship, volunteering or resources. These activities will be specific to each Serco Division.
- **Planet:** In line with our commitments to Net Zero by 2050 across Scope 1, 2 and 3 emissions, our focus is on SDG 13 to take urgent action to combat climate change and its impacts.
- **Governance:** This activity is underpinned by our governance structures and processes, which ensure that we are the partner of choice to governments globally.

Our Impact continued

Initial double materiality assessment



We seek to understand where we can make the biggest difference to the impact we have as a business through our colleagues and those we work with 'People', the services we deliver and the communities we work in 'Place', and the carbon and resources we use 'Planet'. This needs to be delivered through effective oversight and risk management 'Governance'.

To help us focus on what matters to us and our stakeholders we complete a materiality assessment. In our 2022 materiality assessment (reported in our 2022 Annual Report and Accounts (page 43)) internal and external stakeholder groups identified a set of priorities from a comprehensive range of ESG topics based on multiple international standards. We supplemented their feedback with evidence-based, global data from our peers and competitors, regulators and policymakers; and public opinion.

Building on this and recognising future reporting requirements, we have conducted a preliminary 'double materiality' analysis of risks and opportunities across our ESG landscape, through objective, AI-driven examination of evidence-based, global data. In addition to the data sources cited above, we included metrics from the Sustainability Accounting Standards Board (SASB) relating to ESG impacts on financial performance.

As with our previous materiality assessment, the results indicate that all stakeholders inside and outside of Serco are broadly aligned in what they believe are those elements and their severity that may impact the delivery of public services for Serco.

As seen in our initial double materiality assessment, the top three areas are:

- Data privacy and information security (Governance) - Serco handles significant quantities of information about our operations, customers, colleagues, business partners and service users. Much of it is sensitive. We seek to protect Serco and data subjects against attack resulting in loss of service or a data breach (see Governance page 58).
- Diversity and inclusion (People) - One of our greatest strengths is the huge diversity of people that make up the Serco community. It is a strength because different ways of thinking give us the wider insight to find new ways of meeting the needs of those we serve (see People and Culture on page 28 and Our Impact: People page 52).
- Carbon and climate (Planet) - Climate change is a global emergency. We are committed to addressing the environmental and climate emergencies and supporting the Net Zero carbon ambitions of our clients and wider society (see Our Impact: Planet page 56 and TCFD pages 70 to 75).

While these sit at the top, all the elements are important to our approach to People, Place and Planet. We will continue to review and challenge our approach across all elements. However, the results from the assessment have helped focus our plans. It also provides a foundation for more detailed assessment and validation of double materiality in the future and our approach to measuring our impact.

The following provides a small selection of activities and impacts in our response to these areas and broader ESG initiatives.

Full details on our performance and plans is available in Our Impact hub on our website. We also explore the human face of impact in our 2023 Impact Report that can be downloaded from Our Impact hub on our website.

Our Impact continued

People

We measure impact through equitable, meaningful, and safe employment.

Areas:
Health, safety and well-being; Diversity and inclusion; Human rights; Skills and development; Culture.

How we have performed

- 2023 Viewpoint engagement survey saw a one-point improvement to 71, generating over 63,000 comments.
- Health and safety and well-being engagement through Viewpoint both remained strong at 77 (our joint second highest scoring questions in the survey).
- We saw a 3% reduction in numbers of lost time incidents (601); however, our frequency rate is up 5% at 6.07 falling short against the threshold we had set of 5.14. Of these, 35 (6%) were major injuries (down 24% on 2022) which resulted in a 18.6% improvement in frequency rate (0.35) better than 2023 threshold (0.41). These incidents resulted in 13,786 days lost, down 5.2% on 2022; and severity rate of 22.94 (down 2% on 2022) and above our 2023 threshold of 22.06.
- It is with great sadness we report that we lost three colleagues due to fatalities at work. Two due to natural causes and one resulted from a road traffic accident. None were as a result of workplace safety failings.
- We were subject to two safety prosecutions related to historical events resulting in fines (£2,490k) being paid in 2023. Both incidents have been subject to full investigation resulting in additional measures put in place to improve health and safety generally and to reduce the likelihood of re-occurrence.
- Initiatives implemented through divisional safety strategies saw a 40% increase in safety observations and 80% increase in zero harm engagement initiatives. An area of focus has been on road risk where we are implementing telematics, vehicle-borne three-point cameras, speed limiters, personal beacons, incapacity spray and de-escalation and defensive driving training.
- Both our physical assault (up 2%) and serious physical assault (up 32%) rates saw increases against 2022, primarily in three of our more challenging prisons in the UK, falling short against thresholds set for 2023. Analysis suggests this can be attributed to the nature of intent of the assault as well as the resulting injuries. Levels of spitting, potting and biting have increased significantly compared to 2022. We continue to monitor the risk of assaults associated with our operations, particularly in justice and immigration. In order to combat violence and aggression, we have introduced incapacitant spray and conflict resolution training and are piloting Safe Cell automating observation cell monitoring and facial recognition to improve security and safety.
- We delivered four masters-level research projects in partnership with Sheffield University Business School. One project on compassion fatigue within detention custody officers has already been built into development work within our immigration contracts across UK&E and Asia Pacific.
- We introduced a new leadership bulletin targeting diversity, internal promotion and global mobility.
- Since 2021, we have improved female representation within our senior leadership team including Board and Executive management to 34.3%.
- We established a sponsored partnership with Slave Free Alliance who completed a gap analysis and made suggestions to improve our solid foundations in managing modern slavery risks which are being actioned.
- We are a founding member of UK Business Services Association 'Modern Slavery Council' and supported the development of a new national toolkit: 'Tackling Modern Slavery in Facilities Management and Construction'.
- Viewpoint engagement: 'I never feel under pressure to compromise our ethical standards' is up two to 76; and 'I can report unethical behaviour or practices without the fear of retaliation' remains steady at 74.
- We took part in Transparency International UK's Corporate Anti-Corruption Benchmark. We are pleased with the results, especially as a first-time participant.

Find out more in Our Impact hub on our website.

What next – our plans include:

- Reinvigorate our Values aligning clearly with our refreshed purpose and continue to monitor our culture through annual and pulse Viewpoint surveys.
- Increase alignment of Group health, safety and well-being 'people-focused' approach to Group health, safety and well-being principal risk, policies, oversight and assurance activities.
- We approach 2024 with an ambitious vision to reduce the actual number of lost time incidents by 50% over the next three years. Our safety thresholds, defining the journey and direction for continuous improvement for 2024 are Major Incident Frequency Rate 0.31; Lost Time Incident Frequency Rate 5.52; Working days lost per worker 0.22; Physical Assault Rate 5.66; and Serious Physical Assault Rate 0.66.
- Our core safety theme remains situational awareness with a focus on slips, trips and falls, avoidable incidents, road risk, and violence and aggression.
- By the end of 2026, to achieve at least 6% utilisation of our Employee Assistance Programmes and train 500 well-being allies.
- Drive internal promotions beyond 50% and reduce voluntary turnover by 50% over three years.
- Achieve engagement score of 73 with over 70% response rate in 2024.

Our Impact continued

> **Every day our colleagues positively impact the delivery of public services. We strive to employ engaged colleagues, who reflect local communities and have opportunities to develop. We seek to protect the safety, dignity and human rights of colleagues and everyone we deal with.**

<1 North America maintained its Experience Modification Rating under 1.

(used to gauge past cost of workers' compensation claims and the future probability of claim costs)

50 50 safety videos on high frequency tasks developed in Australia.

78% 78% reduction in subcontractor incidents following 16 contractor forums in Middle East.

UK & Europe retained CCLA mental health benchmark Tier 1 status as one of only four in the UK's top 100 companies to gain this ranking and one of only two to retain it from 2022.

North America was awarded the VETS Indexes 5 Star Employer for the third year, and silver as 2023 Military Friendly Employer.

Asia Pacific, in partnership with Soldier On, introduced a pre-employment programme for veterans and reservists, highlighting their value, building skills and offering support.

In the Middle East, we provide a comprehensive suite of development programmes that support the progression of national employees throughout their career journey.

814 In the UK, 814 apprentices engaged with the programme, of which 137 completed in 2023.

Our Impact continued

Place

We measure impact through the quality of the public services we deliver and the community investment that we make.

Areas:
Service impacts; Community impacts; Sustainable procurement.

How we have performed

- We have engaged across the business and made significant progress in developing our processes to consistently measure our impact through the services we deliver and are identifying those UN SDGs that are relevant to our operations.
- As we become the partner of choice to governments globally, to impact a better future now drives our operations within all our markets. The following are a few examples of where we are having an impact.
- In Asia Pacific, Clarence Correctional Centre supported the creation of a new book, The Sun Still Shines, written by fathers in custody at the centre, to support children affected by parental incarceration; our clinical workforce comprises more than 2,500 health professionals and clinical support staff across 45 role types. Each year, in Hong Kong, we clean 1.5 million square metres of hospital spaces, serve 10.9 million meals, undertake 2.2 million patient movements and respond to 5.1 million switchboard calls; and we handle more than 100,000 cars daily through the Cross Harbour Tunnel.
- In the Middle East we support over 27,000 university students in the UAE; at the Galleria in Dubai we support around 3m visitors per month; 32 UAE colleagues helped collect over 10 tonnes of waste at a 'Clean UAE' event; and we scaled up our health checks in KSA and UAE bringing professional testing and consultation to colleagues and client teams including remote sites.
- In North America we support the Federal Emergency Management Agency with environmental disaster recovery services throughout the United States; we operate and maintain ground-based telescopes monitoring man-made objects in deep space for the US Space Force. We process, analyse and classify 175,000 patent applications a year. In Texas and Louisiana our Highway Safety Operations manage over 28k traffic incidents per year, keeping highways safe and regularly saving lives; and in Canada we administer over 1.2 million road tests and over 2.3 million counter transactions per year.
- In UK&E we helped 29,885 jobseekers into work and pledged £1.4m through apprenticeship levy gifting to 29 small/mid-sized companies; we care for more than 5,500 prisoners in five adult prisons; we support 38,000 asylum seekers every month; we recycle 336,000 tonnes of waste each year; we test and monitor 1,984 train axles every year to ensure they are safe when in public service; and NorthLink Ferries have increased local employment by 29%, providing £11.7 million in gross wages to the local economy.
- To meet UK Government requirements around delivery of Social Value, we are using the Social Value Portal and the National Themes Outcomes and Measures (TOMs) Framework to attribute proxy financial values[1] for key Social Value activities. The National TOMs system is underpinned with extensive research and evidence, calculating values from publicly accessible data, backed by 15 economists and data analysts. To date, 19 contracts have delivered over £43 million proxy value of social impact, totalling 5.6% Social Value added (Social Value delivered relative to total contract value).
- The Serco Foundation supported 35 charities with grants totalling £184,569.
- The Serco People Fund has helped 270 colleagues with grants totalling £406,117.
- UK&E sponsored the Black Talent awards, held the Black Talent conference in our offices and worked to develop the winners.
- In the UK, SMEs accounted for 33% of our total addressable spend in 2023. In the Middle East, we achieved 38.8% for our In Country Value Program compared to 37.55% for 2022. In Asia Pacific, we spent 4.67% with indigenous suppliers. In North America, Serco meets Federal Acquisition Regulations Part 19, providing practicable opportunities to Small Business concerns. In 2023, Serco exceeded statutory goals for socioeconomic categories including small disadvantaged business, women, veteran, service-disabled owned small businesses and historically underutilised business zone small businesses.
- We introduced EcoVadis, a provider of sustainability ratings, and have live scorecards on 227 suppliers representing 47% of total supplier spend. We have set score thresholds to assess our suppliers and encourage those who fall short to achieve our standard.
- To support supplier diversity, we have developed a supplier registration portal which includes supplier diversity characteristics to identify new and diverse suppliers for consideration.
- We have updated our Supplier Code of Conduct. The new code, available online in over 100 languages, is aligned with our Sustainability Procurement Charter and supplier onboarding question set.

Find out more in Our Impact hub on our website.

What next – our plans include:

- Continue the UK rollout of the Social Value Portal and look at similar systems for other Divisions.
- Maintain upper quartile performance for on time supplier payments.
- Align our Sustainable Procurement Charter with our revised People, Place and Planet Impact Strategy.
- Monitor compliance with Sustainable Procurement EcoVadis standards, recognising those that achieve or exceed the KPIs set.
- Build on the capability acquired through our acquisition of the Climatize business in the Middle East.
- Further develop programmes and employment of indigenous populations in Middle East, Canada and Australia.

1. Financial proxy is a reasoned approximation expressed in monetary terms of the benefits created by the activity relating to a particular measure. Proxies are generalised unit values designed to be robust and conservative, follow best practice for socioeconomic evaluation and analysis and are consistent with key government guidance documents.

Our Impact continued

We deliver public services at the heart of the communities we serve, employing local people, using local businesses and supporting fundraising and volunteering efforts, strengthening the social and economic well-being of the communities we serve.

2030 Middle East Advisory with Purpose is developing a portfolio of projects in support of Saudi Vision 2030.

We are leading the launch of EmployNext, an outcomes-based employment service for jobseekers and employers across the Kingston-Pembroke region of Ontario, Canada.

Acacia Prison in Australia, in partnership with BuddyUp Australia, is supporting ex-servicemen in their care.

14 UK Customer Service teams supporting Peterborough City Council retained their 'Customer Service Excellence' accreditation for the 14th year.

142 142 colleagues from UAE-Serco/ Mubadala joint venture, Khadamat Facilities Management, fully renovated Al-Mutarid Tolerance School, which helps disadvantaged families gain access to quality education.

160k US colleagues donated c.160,000 particulate masks to the Hawaiian Way Fund in support of the Maui wildfire recovery efforts.

50k We partnered in 2023 with the Australian Clontarf Foundation, which works to improve the prospects of young First Nations people, including AUD50,000 for Clontarf Academies.

1.4m In the UK, we pledged £1.4 million through apprenticeship levy gifting to help 29 SMEs give opportunities to 162 people to complete learning programmes.

Our Impact continued

Planet

We measure impact through reducing carbon emissions in line with the Science Based Targets initiative.

Areas:
Net Zero; Resources; Protection

How we have performed

- We have restated our base year Scope 1 and 2 emissions from 38,762 to 34,360 tCO_2e for 2022 in accordance with our base year emissions recalculation policy. Significant changes included carbon intensive contract losses, asset ownership updates, as well as smaller data, methodology and emission factor updates and errors. Our Scope 1 and 2 emissions for 2023 are 28,027 which is a reduction of 18% versus 2022. Reductions are a consequence of a focus on operational and energy efficiency, increased proportion of renewable sourced electricity, 27% to 47%, downsizing our property portfolio to account for increased flexible working, organic decline, increased data quality and ongoing transition to lower emission vehicles where possible.
- Based on the updated Science Based Targets initiative (SBTi) methodology, we have worked with an external partner to review our targets, resulting in an increase to our near-term Scope 1 and 2 target to 42% by 2030 (previously 34%) and expansion of our Scope 3 engagement target to include customers and suppliers. Targets have been submitted to SBTi for validation in 2024.
- We have aligned and updated our Net Zero transition planning to the latest UK Government guidance. Increased usage of renewable sourced electricity, low carbon fuels and vehicles are vital elements of our planning requiring collaboration with customers and wider stakeholders. Therefore, we have more clearly articulated our assumptions and planned dependencies.
- We continue to support the decarbonisation journeys of our customers and wider society, from installation of a ground source heat pump, solar panels and wider energy efficiency upgrades at UK leisure centres, to supporting delivery of the European CO_2 monitoring satellite mission, measuring the release of carbon dioxide through human activity using satellite data.
- We have been through a procurement exercise to bring a Scope 3 supply chain carbon accounting technology platform on board in 2024 to gain better precision in carbon measurement, transparency and to identify carbon hotspots.
- Our non-hazardous tonnage has decreased 6% in 2023; however, the diversion from landfill rate has also decreased from 67% to 65% resulting in a 10% increase in associated tCO_2e. This is mainly down to customer waste streams we manage but have no control over. We are considering separate waste reporting in future. Our IT waste tonnage has increased significantly, however, fluctuations are expected with the infrequent and cyclical nature of IT equipment life cycle changes. Corresponding carbon emissions have reduced by 32% due to a larger proportion of equipment being refurbished for reuse rather than recycled. Our water consumption is up 11% in 2023 versus 2022; again it is not always in our control on customer sites and can fluctuate for example, on the number of people in our care, therefore we will consider separate reporting in future as per waste reporting.
- We continue to work with suppliers to eliminate single use plastics, maximise our procurement of secondary goods and materials, use water more efficiently and procure goods and services that comply with appropriate ethical and environmental standards.
- We continue to find ways to lower fleet vehicle emissions, including increasing the availability of lower emissions company cars; upgrading light commercial vehicles with electric alternatives where possible; and increasing the use of Hydrogenated Vegetable Oil (HVO) fuel by proactively influencing customers to consider it as an interim fuel ahead of full fleet electrification.
- We have established new partnerships with environmental organisations to support ecosystem restoration and increase biodiversity, including planting more than 1,000 mangrove trees in the Jebel Ali Marine Reserve in the United Arab Emirates; in the UK, supporting the Canal and River Trust and Lincolnshire Wildlife Trust on habitat restoration and protection; in Australia, we are working with One Tree Planted to support reforestation initiatives.
- We continue to deliver a range of services which directly support environmental protection. We support the European Union (EU) on marine environmental monitoring as well as a host of other earth observation activities. In the Middle East, our Advisory with Purpose business, is supporting the full suite of sustainable mobility services across The Red Sea, the Kingdom of Saudi Arabia's visionary new tourism destination. In Asia Pacific and the UK, we deliver maritime services which support pollution response, often in high risk areas with designated environmental protection status. In North America, we perform analysis that supports the US Environmental Protection Agency to complete assessments of contaminated sites and how to manage them.
- We continue to mature our green ambassador network which supports behavioural and cultural change.

Find out more in Our Impact hub on our website.

What next – our plans include:

- Net Zero targets to be validated through the Science Based Targets initiative in 2024, currently anticipated to be:
  Near-term targets: reduce absolute Scope 1 and 2 GHG emissions 42% by 2030 from a 2022 base year; 80% of suppliers and 100% of customer (contracts we report upstream leased emissions) by emissions to have science-based targets by 2028.
- Net Zero across Scopes 1, 2 and 3 by 2050.
- Select and implement a Scope 3 supply chain carbon accounting technology platform in 2024.
- Consider reporting customer managed waste and water separately from Serco owned/leased sites in 2024.
- Work with the new Taskforce on Nature-related Financial Disclosures (TNFD) framework in preparation for assessing, reporting and acting on nature-related dependencies, impacts, risks and opportunities to meet future sustainability reporting standards.
- Explore more air pollution reporting through the Air Pollution Footprint Network.

Our Impact continued

We strive to address the environmental and climate emergencies, supporting our customers by reducing emissions, decarbonising our services, preventing pollution and protecting and enhancing biodiversity and the natural world which sustains us.

18% We reduced Scope 1 and 2 carbon emissions by 18% from 2022.

Listed in Financial Times 2023 Europe's Climate Leaders.

CDP Recognised as supply chain engagement leader by CDP.

Gold standard green tourism award achieved by our UK NorthLink Ferries contract.

2,000 Donated over 2,000 plants to local community gardens from a display created by our Melbourne Parks & Gardens contract team.

37.5 During demobilisation of our services to Dubai Metro, 37.5kg of obsolete uniforms were recycled through our partnership with Ecyclex.

All electricity sourced in the Middle East in 2023 was from renewable sources for the first time as well as 25% of electricity in the United States.

North America joined forces with CakeBoxx Technologies to address 'thermal runaway' safety issues with shipping lithium-ion batteries on ships and aircrafts.

Our Impact continued

Governance

Our impact framework is embedded in our strategy with regular Board oversight and scrutiny. The specific elements of our framework are reviewed through the Corporate Responsibility Committee. Management oversight is delivered through the Group Executive Committee. An Executive Sponsor and subject matter expert are identified for and take a lead on each element of our framework. A full guide to how we manage our impact framework and meet ESG responsibilities is available on Our Impact hub on our website.

Our impact framework is embedded in the Serco Management System (SMS), our framework of policy statements, responsibilities and procedures which we refreshed in 2023. All Divisions submit biannual compliance statements covering compliance with key SMS policies and contracts complete an Annual Risk and Controls Self-Assessment. Compliance is further assured through divisional compliance assurance programmes and internal audit.

During 2023, we reviewed our internal governance of large bids improving the collateral used at gate reviews to assess proposals, so that investment decisions are made based on better and more focused information. In 2024, we will re-appraise our operational review process (Gate 8) to better inform the veracity of bidding assumptions and improve estimates made in tenders built from lessons learnt in live operations. We continue to improve our financial controls environment (see Financial Control Failure risk page 36).

We have implemented the Controls Management module of the Governance, Risk and Compliance tool covering key financial controls in UK&E, Middle East and Asia Pacific, helping to improve process efficiency and effectiveness. The implementation in North America is planned for 2024. The design and configuration of the Enterprise Risk Management (ERM) module is underway with implementation planned in 2024. Supporting our commitment to improve ERM and to support changes in corporate governance requirements, we are reviewing our risk and assurance approach.

During 2023, Group Internal Audit (GIA) delivered a full programme of audits making recommendations to Management for improvements to risk, governance and controls. The GIA strategy and approach was reviewed with recommendations to consider the balance between contract thematic, and functional audits. The 2024 Internal Audit plan reflects these recommendations.

GIA completed a Fraud Risk Framework Maturity Assessment, using a third-party/external benchmark, which found standalone good practices but recognised a more holistic approach to fraud risk management and assessment would be beneficial. Recommendations are being implemented.

We seek to protect the organisation and data subjects against data breaches (including personal or customer data). In the US, we have had no significant data breaches, but were impacted by a cyber attack involving one of our US suppliers. Globally, we have had four substantiated complaints from data protection regulators; two in the UK relating to minor data breaches; and two in Australia which the Australian Information Commissioner determined were privacy breaches.

In driving data protection our focus has been on 'back to basics'. We have a new manager hub to support sharing of best practice and held a Data Protection Conference and roadshows on data governance. We seek to monitor changes to data protection laws globally with enhanced training on changes in laws in Switzerland and the Kingdom of Saudi Arabia; developed and deployed specialised data protection training in UK&E; deployed enhanced training, processes and awareness to relevant UK groups on subject matter data requests to improve how we manage customer rights; deployed training and raised awareness on data inventory and Data Protection Impact Assessment processes; and introduced a monthly Data Protection Officer newsletter to foster a culture of organisational privacy and good data governance.

We completed four global phishing simulation campaigns using a variety of email templates and sophistication levels. Results show that those who click on or interact with the simulated website have remained at expected levels consistent with prior years. We saw a decrease in the repeat 'click link' average in our simulations compared to 2022. Our reporting rate for credentials entering phishing simulations dropped slightly below our threshold in the second half of 2023. While this is likely to be attributable to the type of simulation, enhanced training and communications on colleagues reporting all suspicious emails will be a focus in 2024.

We have substantially completed the roll-out of new enhanced detection and security vulnerability mitigation tooling for our endpoint assets that forms the basis of the global security improvement programme. This will complete in 2024.

Over the coming months, we should complete the transfer of all legacy SMS documents into a new SMS hierarchy; implement the Controls Module of the Riskonnect system in North America; implement the ERM module of Riskonnect in all Divisions and embed new reporting and risk and assurance approaches; and enhance our fraud compliance programme based on a 2023 fraud framework review. We aim to maintain our threshold of no significant data breaches, and 75% phishing simulation reporting rate. We seek to enhance data protection due diligence in the supply chain and ongoing monitoring; and enhance security awareness education and training, addressing any new techniques being observed and maintaining our global employee awareness campaigns, live events and more.

Transparency and tracking performance

Our reporting, information and data is designed to meet regulatory requirements, but also to support internal awareness and for use by Management to inform decisions and track progress against our strategy and business plans. For example, our robust safety data highlights areas for attention which resulted in deep dives being completed on driving and physical assaults by the Corporate Responsibility Committee. We also seek to track the requests for information from analysts and investors and comments received through direct engagement with them. This has helped identify data points important to them, that we need to capture to address their concerns. The data in our 2023 data book is publicly available through Our Impact hub on our website. Finally, we recognise broader stakeholder groups, our customers, partners and suppliers who are increasingly interested in our ESG performance. For example, the UK Government's reporting requirements for Social Value. The output of our materiality assessment, which has involved all these stakeholder groups has helped us review our data and information included in this report and our website. We have also considered requirements for both Global Reporting Initiative (GRI) and Sustainable Finance Disclosure Regulations (SFDR) reporting in formalising our final data set.

The Subject Matter Leads for each element in our impact framework produce management reports on initiatives, progress against targets and strategic objectives that are reported to the Group Executive Committee and Corporate Responsibility Committee. This narrative and data reporting enables trends to be identified and analysis against targets to help inform risk reviews, strategic decisions and remuneration decisions.

Our Impact continued

Impact performance and data disclosure 2023

Here we share select impact data points covering People, Place and Planet. Statements on data assurance are provided on page 66 Other indicators relating to governance feature elsewhere in this document. A full suite of publicly available impact data points with notes and commentary is available in our 2023 data book. The data book combines existing ESG reporting requirements with relevant GRI reporting requirements. The data book is available on Our Impact hub on our website.

The data book is supported by two basis of reporting documents. One covers the scope of our 'Planet' indicators; the second covers the scope of our 'People', 'Place', and 'Governance' indicators. Both set out the reporting approach and criteria we apply to our non-financial reporting and can be found on Our Impact hub on our website.

We also publish GRI and SFDR Content Indexes to enhance our ESG reporting and transparency and help stakeholders navigate our disclosures more quickly and easily. These can be found on Our Impact hub on our website.

Trend key: ● Positive ● Steady ● Negative ○ New (no comparison)/non-indicator (statement)

Externally assured: **GT** = Grant Thornton UK LLP **Acc** = Accenture (see page 66)

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
People								
Safe operations								
Colleague engagement: Safety	Avg. score	78	77	-1	-1.3	Negative	GT	
Lost Time Incident Frequency Rate (LTIFR)	Per 1m hours worked	5.78	6.07	0.29	5.0	Negative	GT	
Lost Time Incident Severity Rate (LTISR)	Avg. days	23.5	22.94	-0.56	-2.4	Positive	GT	
Major Incident Frequency Rate (MIFR)	Per 1m hours worked	0.43	0.35	-0.08	-18.6	Positive	GT	
Fatalities at work	Number	1	3	2	200	Negative	GT	1
Fatal Incident Frequency Rate (FIFR)	Per 1m hours worked	0.01	0.03	0.02	200	Negative	GT	
Physical Assault Frequency Rate (PAFR)	Per 1m hours worked	6.12	6.26	0.14	2.3	Negative	GT	
Serious Physical Assault Frequency Rate (SPAFR)	Per 1m hours worked	0.59	0.78	0.19	32.2	Negative	GT	
Health and Safety prosecutions	Number	2	0	-2	-100.0	Positive	GT	
Health and Safety fines paid	£'000	0	2,490	2,490	-	Negative	GT	2
Improvement/Enforcement notices	Number	0	5	5	-	Negative	GT	
Health and well-being								
Colleague engagement: Wellbeing	Avg. score	76	77	1	1.3	Positive	GT	
Absence due to sickness	Avg. days per emp.	7.1	6.9	-0.2	-2.3	Positive	GT	

Safety and well-being - notes and commentary

1. In 2023, we sadly saw three fatalities (one fatal road traffic accident, two from natural causes) and whilst none were a result of workplace safety failings, such cases can have a significant impact on colleagues. Learnings from such events supports our desire to create and maintain an environment where colleagues are safe, healthy and can thrive.
2. Fines resulting from prosecutions against Serco in 2022, whilst prosecutions concluded in 2022 and were stated in the 2022 ARA, the sentencing hearings did not take place until 2023 hence reported this year.

We saw mixed performance in 2023 across safety KPIs. We saw reductions in the number of major injuries incidents, lost time incidents and physical assault incidents compared to 2022; however, we also saw a significant reduction in the number of hours worked adversely impacting our incident frequency rates, which meant several of our thresholds were not achieved. The major incident frequency rate, representing the most serious injuries, reduced from 0.43 to 0.35 outperforming our 2023 threshold of 0.41. However, the lost time incident frequency rate increased from 5.78 to 6.07 missing our 2023 threshold of 5.14.

A strong focus on seeking to reduce levels of violence and aggression led to a reduction in the number of physical assault incidents, however, the physical assault frequency rate increased from 6.12 to 6.26 (threshold 5.41). More serious assaults became more prevalent in 2023 increasing our serious physical assault rate from 0.59 to 0.78 (threshold 0.55).

Our Impact continued

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
People (continued)								
Diversity and inclusion								1
Colleague engagement: All areas	Avg. score	70	**71**	1	1.4	●	GT	
Colleague engagement: Diversity & Inclusion	Avg. score	73	**74**	1	1.4	●	GT	
Age profile – Serco Group plc Board								
16-24	%	0	**0**	–	–	○	GT	
25-40	%	0	**0**	–	–	○	GT	
41-54	%	22.0	**11.1**	-10.9	-49.5	○	GT	
55-64	%	56.0	**55.6**	-0.4	-0.7	○	GT	
64+	%	22.0	**33.3**	11.3	51.4	○	GT	
Undisclosed	%	0	**0**	–	–	○	GT	

Board and executive sex/ gender representation	Number of Board members		Percentage of the Board		Number of senior positions on the Board (CEO, CFO, SID and Chair)		Number in Executive Management		Percentage of Executive Management	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Men	l	**5**	55.6	**55.6**	3	**3**	8	**7**	88.9	**70.0**
Women	4	**4**	44.4	**44.4**	1	**1**	1	**3**	11.1	**30.0**
Other Categories	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**
Not Specified / Prefer not to say	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
Gender diversity - Serco Group all employee levels - women	%	–	42.9	–	–	○	GT	
Gender diversity - Global Leadership Team - women	%	34.5	**33.8**	-0.7	-2.0	●	GT	2
Gender diversity - Global Executive Committee and direct reports - women	%	33.3	**32.3**	-1.0	-3.0	●	GT	
Gender diversity - All other employee levels - women	%	44.0	**42.9**	-1.1	-2.5	●	GT	
Gender diversity - All other employee levels - women	Number	26,984	**18,958**	-8,026	-29.7	○	GT	
Gender diversity - All other employee levels - men	Number	21,222	**25,153**	3,931	18.5	○	GT	
Gender diversity - All other employee levels - Not disclosed	Number	37	**37**	–	–	○	GT	

Our Impact continued

Board and executive ethnicity representation	Number of Board members		Percentage of the Board		Number of senior positions on the Board (CEO, CFO, SID and Chair)		Number in Executive Management		Percentage of Executive Management	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
People (continued)										
White British or other White (including minority-white groups)	7	**6**	77.8	**66.7**	4	**3**	7	**8**	77.8	**70.0**
Mixed/Multiple Ethnic groups	1	**2**	11.1	**22.2**	0	**1**	1	**1**	11.1	**20.0**
Asian/Asian British	1	**1**	11.1	**11.1**	0	**0**	0	**0**	0	**0**
Black/African/Caribbean/Black British	0	**0**	0	**0**	0	**0**	0	**1**	0	**10.0**
Other ethnic group, including Arab	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**
Not specified/ prefer not to say	0	**0**	0	**0**	0	**0**	1	**0**	11.1	**0**

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
New hires	Number	14,920	16,294	1,374	9.2		GT	
Staff turnover	%	30.5	**32.8**	2.3	7.5		GT	3
Staff turnover - voluntary	%	23.5	**23.5**	–	–		GT	3
Redundancies	Number	680	**733**	53	7.8		GT	
Colleagues covered by collective bargaining agreements	%	46.9	**42.7**	-4.2	-9.0		GT	3
Human rights								
Prosecutions for human rights violations (incl. indigenous, modern slavery, etc.)	Number	0	**0**	–	–		GT	
Case rate substantiated human rights and modern slavery Speak Up cases	Per 100 employees	0	**0**	–	–		GT	
Skills and development								
Colleague engagement: Learning and Development	Avg. score	64	**66**	2	3.1		GT	
Culture, ethics and values								
Colleague engagement: Ethical Standards	Avg. score	74	**76**	2	2.7		GT	
Colleague engagement: Reporting Unethical Conduct	Avg. score	74	**74**	–	–		GT	
Speak Up case rate	Per 100 employees	1.18	**1.02**	-0.16	-13.6		GT	4
Speak Up cases reported anonymously	%	61.0	**61.0**	–	–		GT	5
Speak Up cases investigated	%	97.0	**95.0**	-2.0	-2.1		GT	
Speak Up cases average days to close	Number	45	**52.7**	7.7	17.1		GT	6
People (continued)								
Speak Up cases closed within three months of case being raised	%	86	**82**	-4	-4.7		GT	
Speak Up closed case substantiation rate	%	27	**22**	-5	-18.5		GT	7
Substantiated Speak Up cases with corrective action taken	%	98	**99**	1	1.0		GT	
Substantiated Speak Up cases with disciplinary action taken	%	32	**41**	9	28.1		GT	
Substantiated Speak Up cases where one or more individual(s) were dismissed	%	13	**19**	6	46.2		GT	

Our Impact continued

People - notes and commentary

1. Gender diversity across Serco at all employee levels is influenced by contract wins and losses.
2. Serco's representation of women in senior global leadership roles was 33.8%. This excludes Boards and the Group Executive Committee, which, if included would increase representation to 34.3%. UK&E has 186 global leadership roles, of which 32% are held by women. As the largest Division, this has a significant overall effect on representation statistics.
3. Increase in voluntary staff turnover due to Covid and Services Australia contracts ending. Outflow of colleagues from Government contracts often reduces the number of colleagues covered by collective bargaining agreements.
4. After an increase during Covid the Speak Up case rate per 100 employees has returned to pre-Covid levels at 1.02.
5. Anonymous reports remain at 61%. To understand employee sentiments on anonymity in reports and get further views on our Speak Up system we have created an automatic user satisfaction survey for web and phone reporters.
6. The average days taken to close a Speak Up case has increased in 2023, whilst we monitor closely and try to contain the investigation period to a minimum, complex or high risk cases do require more extensive investigation involving multiple parties which can impact the average. Comparatively the Median days to close Speak Up cases sits at 18 days for 2023.
7. Substantiation rates are down from 27% in 2022, though still on the same level as 2020 and 2021.
8. 2022 Board ethnicity corrected for 'Mixed/Multiple Ethnic Groups'. Board diversity data is at 31 December 2023.

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
Place								
Service and community impact								
Serco Foundation - grants made	£ Number	220,114	**184,569**	-35,545	-16.1	●	GT	1
Serco Foundation - charities supported	Number	15	**35**	20	133.3	●	GT	1
Serco People Fund - grants made	£ Number	203,504	**406,117**	202,613	99.6	●	GT	2
Serco People Fund - colleagues supported	Number	253	**270**	17	6.7	●	GT	2
Sustainable Procurement								
On time payment	%	83.5	**83.6**	0.1	0.1	●	GT	
Agent payments	£'000	1,666	**2,342**	676	40.6	○	GT	3
Lobbying payments	£'000	250	**267**	17	6.8	○	GT	3

Place - notes and commentary

1. For more information on the Serco Foundation, go to www.sercofoundation.org
2. For more information on the Serco People Fund, go to www.sercopeoplefund.org
3. We use agents across the Group to provide strategic advice, connect us with other parties and obtain or promote business for Serco. We pay agents either fixed fees for their time or success fees. We use lobbyists to perform advocacy or interact with Public Officials on behalf of Serco. All agents and lobbyists are subject to due diligence prior to bring engaged. They operate to an agreed contract in line with local laws, including standard clauses covering a range of compliance matters, and stating services and fees. Payments are reviewed to ensure compliance with contracts. Arrangements are monitored and periodically reviewed.

Our Impact continued

Indicator/Disclosure	Units	2022 Restated (Original)	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
Planet								
Net Zero								
Carbon dioxide equivalent (Scope 1 and 2) market-based Scope 2 - Total Group	tCO_2e	34,360 (38,762)	**28,027**	-6,333	-18.4	Dark	Acc	1, 5
Total UK	tCO_2e	18,482 (25,829)	**15,897**	-2,585	-14.0	Dark	Acc	1
Total Rest of World	tCO_2e	15,878 (12,933)	**12,130**	-3,748	-23.6	Dark	Acc	1
Carbon dioxide equivalent (Scope 1 and 2) location-based Scope 2 - Total Group	tCO_2e	36,200 (40,438)	**30,676**	-5,524	-15.3	Dark	Acc	1
Total UK	tCO_2e	19,662 (27,029)	**17,054**	-2,608	-13.3	Dark	Acc	1
Total Rest of World	tCO_2e	16,539 (13,409)	**13,621**	-2,918	-17.6	Dark	Acc	1
Combustion of fuels and operation of facilities (Scope 1) - Total Group (all fuel types)	tCO_2e	26,566 (31,894)	**24,033**	-2,533	-9.5	Dark	Acc	1
Total UK (all fuel types)	tCO_2e	18,342 (25,688)	**15,728**	-2,614	-14.3	Dark	Acc	1
Total Rest of World (all fuel types)	tCO_2e	8,224 (6,206)	**8,305**	81	1.0	Red	Acc	1
Combustion of fuels and operation of facilities (Scope 1) - Total Group (all fuel types)	MWH	126,969 (145,618)	**118,315**	-8,654	-6.8	Dark	Acc	1
Total UK (all fuel types)	MWH	75,390 (108,387)	**66,501**	-8,889	-11.8	Dark	Acc	1
Total Rest of World (all fuel types)	MWH	51,579 (37,231)	**51,814**	235	0.5	Red	Acc	1
Scope 2 – Grid electricity purchased/ acquired for own use (market-based) - Total Group	tCO_2e	7,793 (6,868)	**3,993**	-3,800	-48.8	Dark	Acc	1
Total UK	tCO_2e	140 (140)	**169**	29	20.7	Red	Acc	1
Total Rest of World	tCO_2e	7,653 (6,728)	**3,824**	-3,829	-50.0	Dark	Acc	1
Scope 2 – Grid electricity purchased/ acquired for own use (location-based) - Total Group	tCO_2e	9,634 (8,544)	**6,643**	-2,991	-31.1	Dark	Acc	1
Total UK	tCO_2e	1,320 (1,340)	**1,326**	6	0.5	Red	Acc	1
Total Rest of World	tCO_2e	8,313 (7,204)	**5,317**	-2,996	-36.0	Dark	Acc	1
Scope 2 – Grid electricity purchased / acquired for own use - Total Group	MWH	24,953 (21,518)	**19,103**	-5,850	-23.4	Dark	Acc	1
Total UK	MWH	6,749 (6,853)	**6,243**	-506	-7.5	Dark	Acc	1
Total Rest of World	MWH	18,203 (14,665)	**12,860**	-5,343	-29.4	Dark	Acc	1
Headcount intensity (Scope 1 and 2) market-based Scope 2	tCO_2e/FTE	0.61 (0.68)	**0.53**	-0.08	-13.1	Dark	Acc	1
Headcount intensity (Scope 1 and 2) location-based Scope 2	tCO_2e/FTE	0.64 (0.71)	**0.58**	-0.06	-9.4	Dark	Acc	1
Financial intensity (Scope 1 and 2) market-based Scope 2	tCO_2e/per £m revenue	7.58 (8.55)	**5.75**	-1.83	-24.1	Dark		1
Financial intensity (Scope 1 and 2) location-based Scope 2	tCO_2e/per £m revenue	7.98 (8.92)	**6.29**	-1.69	-21.2	Dark		1

Our Impact continued

Indicator/Disclosure	Units	2022 Restated (Original)	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
Planet (continued)								
Total Scope 3 (market based)	tCO_2e	1,025,291 (968,126)	**1,168,064**	142,773	13.9		Acc	1
Total Scope 3 (location based)	tCO_2e	1,031,904 (97,5321)	**1,175,102**	143,198	13.9		Acc	1
Owned / leased road fleet fuel consumption	tCO_2e	22,174 (28,474)	**19,706**	-2,468	-11.1			1
Specialist marine fuel (Scope 3) - Total Group	tCO_2e	111,312	**111,235**	-77	-0.1		Acc	
Total UK	tCO_2e	111,312	**111,235**	-77	-0.1		Acc	
Scope 3 purchased goods & services using hybrid approach - Total Group	tCO_2e	668,252 (687,779)	**811,696**	143,444	21.5		Acc	1, 2, 3
Scope 3 Capital goods category - Total Group	tCO_2e	2,638 (2,638)	**3,225**	587	22.3		Acc	
Scope 3 Upstream transport and distribution - Total Group	tCO_2e	26,752	**26,501**	-251	-0.9		Acc	2
Scope 3 purchased goods & services proportion of Scopes 1 to 3	%	63.1 (68.6)	**67.9**	4.8	7.6			1, 3
CDP	Score	A-	**B**	-	-			6
Total energy consumption Scope 1 and 2 - Total Group	MWH	151,922 (167,136)	**137,418**	-14,504	-9.6		Acc	1
Total UK	MWH	82,139 (115,240)	**72,744**	-9,395	-11.4		Acc	1
Electricity consumption, renewable sources	%	27 (32)	**47.0**	20	74.1		Acc	1
Electricity consumption, renewable sources	MWH	6,692 (6,795)	**8,938**	2,246	33.6		Acc	1
Electricity consumption, non-renewable sources	MWH	18,261 (14,273)	**10,165**	-8,096	-44.3		Acc	1
Fuel consumption, renewable sources	%	2.3 (4.8)	**1.2**	-1.1	-47.4		Acc	1
Fuel consumption, renewable sources	MWH	2,867 (6,912)	**1,431**	-1,436	-50.1		Acc	1
Fuel consumption, non-renewable sources	MWH	124,102 (138,705)	**116,884**	-7,218	-5.8		Acc	1
Resources								
Total water consumption	Megalitres	895	**994**	99	11.1		Acc	
Non-hazardous waste generated	Metric tonnes	11,654	**10,988**	-666	-5.7		Acc	
Hazardous IT waste generated	Metric tonnes	21.8	**54.1**	32.3	148.6		Acc	
Protection								
Operations covered by certified ISO 14001 EMS - by revenue	%	28 (30)	**28**	0	0			4
Operations covered by certified ISO 50001 EMS - by revenue	%	0.5	**0.5**	0	0			4
Prosecutions	Number	0	**0**	–	–			
Fines paid	£'000	0	**0**	–	–			
Enforcement notices	Number	0	**0**	–	–			

Planet - notes and commentary

Our reporting year for greenhouse gas (GHG) emissions is one quarter behind our financial year, namely 1 Oct 2022 to 30 Sept 2023.

See our Planet Basis of Reporting Supplement for information on our reporting boundary and methodologies, available on Our Impact hub on our website. We quantify and report GHG emissions using the financial control approach in line with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. We report all material emission sources for which we consider ourselves responsible and have set our materiality threshold at 5%.

We have recalculated and restated emissions and associated energy data for 2022 to account for structural changes and changes to GHG calculation methodologies, in line with our base year emissions recalculation policy and best practice to ensure a meaningful and accurate comparison of emissions data over time.

Our Impact continued

2022 is the base year for our Net Zero targets which we have submitted to the Science Based Targets initiative for external validation in 2024.
For the first time, we have reported emissions in the Scope 3 reporting category for upstream transport and distribution. These emissions were previously embedded in our purchased goods and services category data, we have also recalculated and restated these emissions for 2022.

1. 2022 data recalculated and restated in line with our base year emissions recalculation policy and best practice. Significant changes included carbon intensive contract losses, asset ownership updates, as well as smaller data, methodology and emission factor updates and errors.
2. New reporting category with historic data provided.
3. For many companies Scope 3 emissions form the majority of emissions with purchased goods and services the most significant. In 2023, we used a hybrid approach to quantify emissions, the Quantis tool methodology, updated to address for inflation, along with supplier specific sourced Scope 1 and 2 and upstream Scope 3 emissions where available. In 2024, we are aiming to increase the precision of this reporting category by introducing a carbon accounting technology partner and will look to restate previous years if possible.
4. All contracts are required to comply with our SMS and environmental requirements, which align with ISO 14001. At many of our contracts we also operate within customer ISO 14001 certified management systems. A smaller proportion of our contracts have certified ISO 50001 management systems, as only our more energy-intensive operations benefit from this standard. 2022 figure restated due to inclusion of one contract in error.
5. In 2023, we achieved an 18% reduction against 2022 with reductions resulting from a focus on operational and energy efficiency, increased proportion of renewable sourced electricity, 27% to 47%, downsizing our property portfolio to account for increased flexible working, organic decline, increased data quality and ongoing transition to lower emission vehicles where possible.
6. We are disappointed to have dropped from an A- to a B for our 2023 CDP score and recognise an element of this was down to the change from operational to financial control approach and the resetting of our base year to 2022 meaning that year-on-year reductions and comparisons in performance were not possible.

Streamlined energy and carbon reporting commentary

We continue to support energy-saving activity across our customers and our own assets. For example, where we deliver facilities management services; we continue to seek to embed no, low and capital cost energy-saving measures.

In 2023, our UK leisure business supported the installation of a ground source heat pump, solar panels and new equipment to improve circulation at Mansfield District Council's leisure sites following the commitment of funding for energy and carbon reduction.

At our NorthLink Ferries contract, best practice initiatives are reviewed and regularly implemented. Our bespoke monitoring systems continue to drive energy and emission reduction activity whilst also assisting current and future reporting requirements. In 2023, energy efficiency initiatives included operational changes following monitoring system analysis as well as upgrades such as engine management systems, boiler burner units, fuel pumps and hull cleaning/coatings. We have prepared the Aberdeen vessels to accept shore power from a renewable energy tariff following the commitment of funding from Caledonian Maritime Assets Limited (CMAL) and the Port of Aberdeen to install shore power facilities for the two passenger ferries. This initiative is expected to be operational in late 2024 and removes the need to run oil-fired generators to power the vessels when docked, mitigating around 1,300 tonnes of CO_2 equivalent per year, improving air quality and reducing noise. Preliminary discussions have also been held with relevant stakeholders on alternative low carbon fuels for use later in the life of the vessels; we will continue to review these options in future.

Indicator/Disclosure	Units	2022	2023	2022 vs. 2023	Var %	Trend	Externally Assured	Notes
Governance								
Data protection and information security								
Substantiated complaints received from data protection regulators	Number	3	**4**	1	33.3	●	GT	1
Significant data breaches	Number	0	**1**	1	0	●	GT	
Managed risk and effective controls								
Prosecutions for corrupt behaviour	Number	0	**0**	0	0	●	GT	
Prosecutions for anti-competitive behaviour	Number	0	**0**	0	0	●	GT	
Annual SMS self-assessments completed	%	98.9	**99.7**	0.8	0.8	●	GT	
Annual Compliance Assurance plan delivered	%	94.3	**98.1**	3.8	4.0	●	GT	
Annual Audit plan delivered	%	98	**100**	2	2.0	●	GT	

Governance – notes and commentary

1. Globally, in 2023, we have had four substantiated complaints from data protection regulators; two in the UK relating to minor data breaches; and two in Australia which the Australian Information Commissioner determined were privacy breaches.

Our Impact continued

Assurance statement

The data reported is captured through a range of systems. These are detailed in the introduction tab of the 2023 data book available on Our Impact hub on our website. We recognise the potential risk to the accuracy and completeness of data that multiple systems can raise and are seeking where possible to consolidate through single systems.

To provide assurance of the data reported, we engage Grant Thornton UK LLP (GT) to provide independent limited assurance over selected 'People', 'Place' and 'Governance' KPIs in accordance with ISAE 3000 (Revised) for the year ending 31 December 2023. Selected assured data points are noted in the 2023 data book. Grant Thornton has issued an unqualified opinion over the KPIs covered and the full assurance report is available on Our Impact hub on our website.

For our 'Planet' data, we engage Accenture (Acc) to provide independent reasonable assurance over our Environmental KPIs in accordance with ISO 14064-3:2019 for the period 1 October 2022 to 30 September 2023. Accenture's full assurance statement is available on Our Impact hub on our website.

Non-Financial and Sustainability information statement

We have complied with the requirements of sections 414CA and 414 CB of the Companies Act (as amended by the Companies (strategic Report) (Climate-related Financial Disclosures) Regulations 2022) through the information in the table below and other disclosures throughout the Strategic Report.

Non-financial information	Related policy	Principal locations in this Annual Report	Page
Climate change and sustainability	– Environment policy – mycode	– Our Impact – Planet – Net Zero – Our Impact performance data: Planet – TCFD compliance statement	56 63 70
Environmental matters	– Environment policy – mycode	– Our Impact – Planet – Our Impact performance data: Planet – TCFD compliance statement – Principal risks – Our policies – Governance (S414C2A) a – Risks and impacts (S414C2A) b-f – Targets & KPIs (S414CA2A) g-h	56 63 70 34 67 72, 94, 114 32, 33, 72, 114, 173 74, 75
Colleagues	– People policy – mycode	– Our Impact – People – Our Impact performance data: People – Principal risks – People and Culture – Our policies	52 59 34 28 67
Human rights	– Human rights policy – mycode	– Our Impact – People – Human rights – Our Impact performance data: People – Our policies	52 61 67
Social matters	– People policy – mycode	– Our Impact – Place – Our Impact performance data: Place – Our policies	54 62 67
Anti-corruption and anti-bribery	– Business Conduct and Ethics policy – mycode	– Our Impact – People – Our Impact - Governance – Our Impact performance data: People – Principal risks – Our policies	52 58 61 34 67
Our strategy	– Business Conduct and Ethics policy – Business Development policy – Customer and contract policy – mycode	– Our Strategy – Our policies	22 67
Our market	– Business Development policy – mycode	– Our Markets – Our policies	20 67
Non-financial principal risks	– Risk Management and Insurance policy	– Principal Risks	34
Non-financial key performance indicators		– Key Performance Indicators	59
Corporate Governance	– Governance, Legal and Assurance policy	– Directors Report	94

Our Impact continued

Further information is included in the ESG Governance and Oversight section of Our Impact hub on our website. This provides a guide to how we manage and govern ESG.

An index of all our Impact reports and resources available online, including public third-party reports on Serco operations and an overview of ESG queries received from investors and analysts can be found in Our Impact hub on our website.

Our policies

How we manage the business is set out in the Serco Management System (SMS). It defines the rules which govern the way we operate, deliver our strategy and the way we behave. At the heart of the SMS are a set of Group policy statements (detailed below and available on our website) supported by a set of requirements (available to all colleagues through the Company's intranet) that define the minimum, mandatory standards expected of all employees, enabling us to assure good governance and behave consistently across our business. It is global in application and all Divisional and local management systems are incorporated into it. The SMS is applied in the context of our Values and endorsed by the Board. We have a clear governance process to authorise our policies and procedures and any regional or market enhancements to them. We provide mandated training on core elements of the SMS through annual Serco Essentials training. All colleagues, contractors and third parties are encouraged to report any circumstances where they believe the SMS, applicable laws, or the standards we have set in mycode are being breached, either through their manager, human resources or our independent confidential 'Speak Up' helpline. Issues raised are promptly and thoroughly investigated.

Policy	Description
Code of Conduct 'mycode'	'mycode' outlines rules, procedures and expected behaviours reflecting our ethical standards and Values and how to Speak Up should these be breached. All colleagues are provided with a copy when they join and receive annual training on it. A separate Supplier Code of Conduct applies to all third parties we do business with. This was updated in 2023. The online versions of both Codes are available on our website in over 100 different languages through the sites accessibility tool.
Business Conduct and Ethics	We are sensitive to local customs, traditions and cultures. Our policies reflect compliance with local laws and regulatory requirements including the principles of OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, UN Convention against Corruption and Declaration Against Corruption and Bribery in International Commercial Transactions; we seek to compete fairly and openly; report accurate information; commit to zero tolerance of any form of bribery or corrupt practices including fraud, money laundering and tax evasion; manage conflicts of interest; comply with all legitimate restrictions on exports/imports, trade sanctions and boycotts and are impartial about party politics.
Business Development	We provide commercial rigour to seek to ensure that we compete successfully for those contracts that are most valued by our customers and provide a fair return. Governance and due diligence processes, covering the business life cycle of a contract, determine with whom we are prepared to do business, how we deliver the contract and how we manage risks. Control is through a series of mandatory governance gates requiring formal assessment and approval, which includes material legal, ethical and human rights risks; health, safety and environmental risks; and other salient adverse impact risks from an ESG perspective.
Customer and contract	We seek to deliver services that reflect customers' business needs, meet our objectives and a collective responsibility to wider stakeholders and the environment. We strive to be meticulous in delivering what we have contracted for, and to develop trusted relationships with our customers. In addition to the management of stakeholder relationships, it addresses the need for accurate and timely reporting and the regular review of operations so that they continue to deliver customers' requirements.
Data Privacy	We collect, store and process large amounts of personal and customer data and seek to ensure that such personal data is kept secure, handled with care and in compliance with applicable data protection and privacy laws. We operate within a set of Data Protection Principles to seek to ensure we process personal information fairly and lawfully, obtain it only for legitimate purposes, ensure that it is accurate, kept secure and only held for as long as necessary. We apply local procedures to comply with the statutory rights of data subjects in relevant jurisdictions.

Our Impact continued

Policy	Description
Environment	We define and communicate strategy, management systems, policy and procedures to seek to protect the environment, prevent pollution, mitigate adverse impacts and continuously improve our performance. We identify, assess, manage and report on the environmental and climate risks and opportunities from our activities and services. We seek to address the environmental and climate emergencies and support the Net Zero carbon ambitions of our clients and wider society. We support and advise our people to be carbon conscious, resource efficient and to limit their impact on the environment.
Finance	We implement a finance operating model with clearly defined roles and responsibilities which seeks to ensure we report accurate financial information and comply with relevant laws and regulations. We operate an annual budgeting and monthly forecasting process to ensure that the Group has visibility over future performance, can measure progress against financial targets and allocate scarce resources effectively. Our financial processes are underpinned by strong financial controls and operate an assurance process which validates the effectiveness and operation of these controls.
Governance, Legal and Assurance	Our governance, legal and assurance framework seeks to ensure that the best interests of our stakeholders are considered, and legal and regulatory obligations are met. We apply a corporate governance framework comprising appropriate boards, committees and delegated authorities to effectively direct and control the business. We seek to manage subsidiaries, joint ventures and other legal entities in accordance with applicable laws and regional regulations. We seek to follow a governance framework across our business life cycle, from bidding to the operation and eventual closure of contracts. We implement audit and assurance programmes to monitor the effectiveness of management systems and controls.
Health, safety and well-being	Our policy sets out the requirements to assess and manage health, safety and well-being risks; encourage the engagement and input of employees and others to identify, control and manage risk, and meet and, where appropriate and possible, exceed legal and other requirements that apply. It includes a commitment to promote, support and assess the health and well-being of our people. We have processes to capture the reporting and investigation of incidents to identify root causes, prevent recurrence, and to act on investigation findings, ensuring that people are treated fairly. We regularly review the suitability and effectiveness of our management systems and identify improvements to enable us to grow a positive, engaged, psychologically safe environment that actively encourages good health, safety and well-being practices that support our Zero Harm vision.
Human Rights	We seek to assess potential adverse human rights impacts related to our work and use international human rights standards to guide decision-making. Recruitment to Serco should be fair and free; colleagues have a contract or agreement in a language they understand; any housing provided is within defined standards; we seek to not use nor be complicit in, forced or compulsory labour nor engage in human trafficking or subject individuals to involuntary servitude, debt bondage or slavery. We respect the rights of children and young workers. We seek not to cause or contribute to torture and other cruel, inhumane, or degrading treatment or punishment and we take all reasonable steps to avoid the use of force in relation to those who are in facilities we manage or benefit from services we provide, and if used, it is proportionate to the threat; appropriate to the situation; and limited to what is strictly necessary. We seek to consider human rights impacts in our due diligence processes when considering new business opportunities, partners and suppliers. We have training and guidance for colleagues to understand red flags and how to consider human rights impacts. We endeavour to remedy or cooperate in the remediation of any substantiated adverse human rights impacts and have procedures for modern slavery response and remediation.
People	We seek to meet legal and regulatory requirements to protect our people and ongoing resource requirements. We have a set of core values that shape our behaviours. We seek to adhere to local legislation when working with colleague representative bodies and unions who, where appropriate, are recognised through local agreements. We are certificated to ISO45003 structuring how we support the mental health and well-being of colleagues. We monitor engagement through regular Viewpoint engagement surveys. We are committed to a diverse workforce and to rewarding our colleagues fairly, offering where possible compelling total reward above minimum local legislative requirements. We have disciplinary and grievance procedures. We engage contractor and temporary worker colleagues through Serco-approved agencies who are obligated to comply with relevant local laws and regulations and are subject to the Serco Supplier Code of Conduct, and other requirements such as worker access to mechanisms by which to report potential misconduct, such as the Serco Speak Up system.

Our Impact continued

Policy	Description
Procurement	We recognise the importance of the relationships we have with our suppliers in achieving our business goals. These relationships will be mutually beneficial and create value for all parties involved. We have delegated levels of authority to ensure appropriate control and governance and manage supply chain risk. We carry out risk-based due diligence checks on relevant suppliers and maintain ongoing monitoring to ensure maintenance of minimum standards and compliance with our Supplier Code of Conduct. We source competitively through tenders and make fair, objective and transparent supplier selection decisions. We endeavour to enter into supplier contracts that are fair and ethical and share risks appropriately.
Quality	Embedded within the delivery of our services and products is a commitment to quality and continuous improvement. It gives the Company and its customers the confidence that the provision of services and products will be delivered effectively and consistently to the standards required. We regularly review the suitability and effectiveness of our management systems which includes independent auditing to endeavour to ensure that the right people, the right processes and the right technology are all in place and routinely review and improve our ways of working.
Risk Management and Insurance	Our risk management approach seeks to safeguard stakeholder interests, Company assets and reputation whilst supporting informed risk taking that promotes business growth and success. This is done through a system of internal controls, risk management and internal audit. We manage risks through a risk management life cycle process. We seek to maintain documented and tested crisis management, business continuity and incident management plans to ensure we can respond effectively to an emergency or crisis to minimise impact or disruption to our people and operation. We maintain appropriate insurance cover in line with our risk appetite and statutory and contractual obligations.
Security and IT	We seek to protect and preserve our human, information and physical assets and resources from all threats, whether internal or external, deliberate, or accidental, that might have an adverse impact on individuals, our customers, our activities and our reputation. We endeavour to have security and information technology processes and procedures that meet our business objectives and customer needs, reduce risks and protect the confidentiality, accuracy and availability of information. We seek to ensure that our third-party supply chain meet and maintain our IT and Security standards. We check how well the policy is met through independent compliance assurance reviews and audits.

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

Disclosure overview

Here we provide an overview of our 'Task Force on Climate-related Financial Disclosures compliance statement 2023' which is available on our website and is consistent with all recommendations and disclosures, having considered the four TCFD recommendations and the eleven recommended disclosures as well as the 'Guidance for all sectors' as set out in section C of 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021.

We have opted to publish a standalone TCFD compliance statement this year, partly due to the size of the document and the level of detail it contains. We anticipate that our future compliance statements will increasingly need to outline more region specific disclosures and contextual information to meet growing customer and legislative requirements, rather than solely a consolidated group view. Furthermore, it is a key document to have located on Our Impact hub on our website, in order to understand our approach to assessing and managing climate-related risks and opportunities.

Despite opting to provide a standalone document all climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures are included here. The table on page 71 outlines the location of disclosures in this document as well as the location within our 'Task Force on Climate-related Financial Disclosures compliance statement 2023'.

Task Force on Climate-related Financial Disclosures (TCFD) compliance statement continued

Recommendation	Recommended disclosures	Annual Report and Accounts	Standalone compliance statement
Governance: Disclose the organisation's governance around climate-related risks and opportunities.	(a) Describe the Board's oversight of climate-related risks and opportunities.	Fully consistent Page 72 Corporate Governance section pages 94 to 104 Corporate Responsibility Committee Report page 114	Fully consistent TCFD compliance statement pages 3 to 8
	(b) Describe Management's role in assessing and managing climate-related risks and opportunities.	Fully consistent Page 72 Corporate Governance section pages 94 to 104 Corporate Responsibility Committee Report page 114	Fully consistent TCFD compliance statement pages 3 to 8
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Fully consistent Pages 72 and 73	Fully consistent TCFD compliance statement pages 8 to 18
	(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Fully consistent Pages 72 to 75 Critical accounting judgements climate risk page 173	Fully consistent TCFD compliance statement pages 11 to 18
	(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Fully consistent Pages 72 to 75 Critical accounting judgements climate risk page 173	Fully consistent TCFD compliance statement page 17
Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks.	(a) Describe the organisation's processes for identifying and assessing climate-related risks.	Fully consistent Risk management section pages 32 and 33 Pages 72 and 73	Fully consistent TCFD compliance statement pages 8 to 10
	(b) Describe the organisation's processes for managing climate-related risks.	Fully consistent Risk management section pages 32 and 33 Pages 72 to 75	Fully consistent TCFD compliance statement pages 4 to 17
	(c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Fully consistent Risk management section pages 32 and 33 Pages 72 to 75	Fully consistent TCFD compliance statement pages 8 to 10
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Fully consistent Pages 72 to 75	Fully consistent TCFD compliance statement pages 19 to 20
	(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Fully consistent Our Impact section pages 63 to 65 Pages 72 to 75	Fully consistent TCFD compliance statement pages 19 to 22
	(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Fully consistent Pages 72 to 75	Fully consistent TCFD compliance statement pages 19 to 23

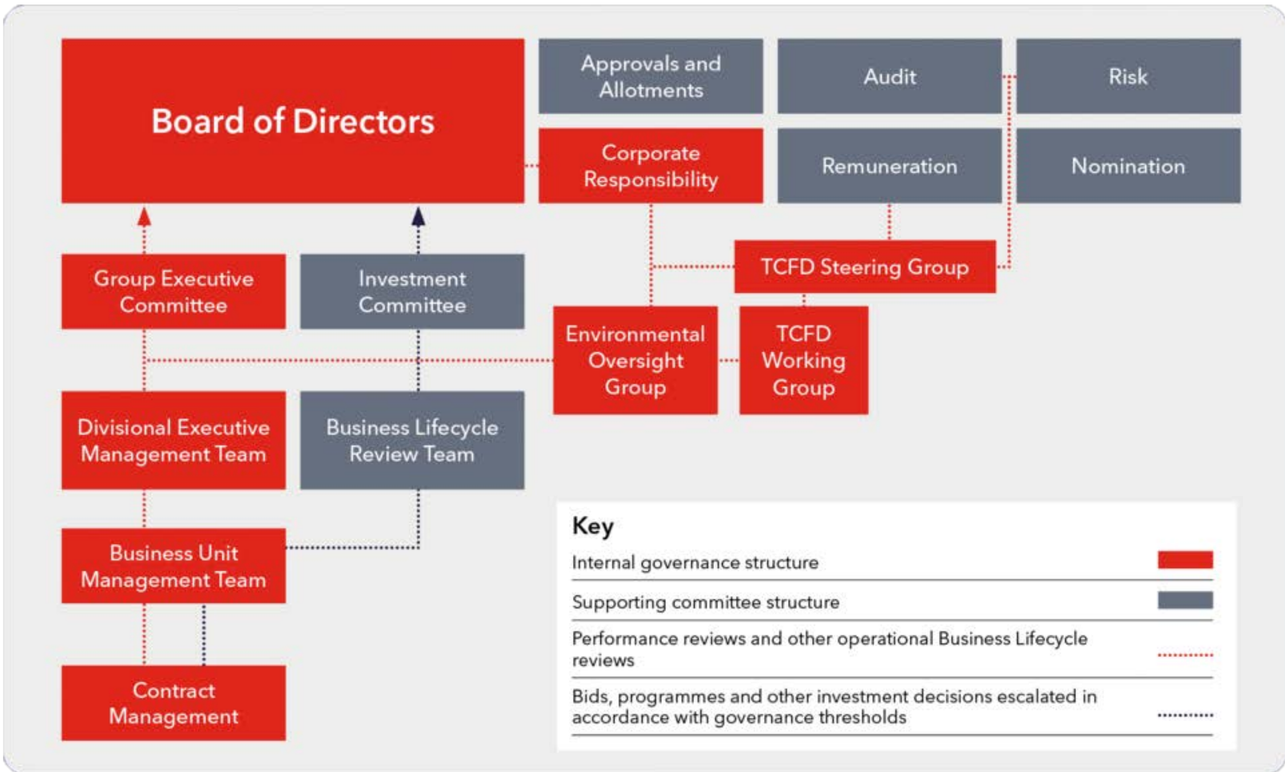
Task Force on Climate-related Financial Disclosures (TCFD) compliance statement continued

Governance

Responsibility for ESG matters is embedded in our corporate governance through the Corporate Responsibility Committee, providing oversight of TCFD activities which includes the review of our Net Zero strategy, targets, and transition planning.

We have embedded responsibilities and roles for the assessment and management of climate-related risks and opportunities, by committee, group and wider management function. Further details can be found in our Corporate Governance section on pages 94 to 104 and Corporate Responsibility Committee Report on page 114.

Organisational and reporting structure for climate governance



Risk

We recognise that the climate and wider environmental emergencies present significant risks to society and the planet. As an impact partner operating across multiple sectors and geographies, the ways in which climate change may impact our own and our customers' assets (where we deliver most of our services), supply chains and operations are diverse. We do not currently consider climate risk as a standalone principal risk, instead we consider it under several of our principal risks. We generally operate in short to medium-term contract-driven sectors, therefore we do not hold long-term assets which can be as adversely affected by climate and risks from a valuation perspective, which is a challenge faced by many other sectors.

In considering our climate risks and opportunities we have considered short-term risks to be between 0-3 years in line with how we assess our principal risks and viability statement. Medium-term risks are between 3-5 years, in line with our medium-term contracts. Long-term risks are between 5-30 years, in line with some longer-term contracts, our Group Environment Strategy, and the Net Zero transition plans, visions and commitments of the governments we serve. Severe Risks and Significant Opportunities are our most material based on our scoring matrix and are considered our principal climate related risks and opportunities. They were identified using our Group standard risk assessment process and scoring matrix. Global stakeholders reviewed our long list of climate risk and opportunities, taking into account relevant scenarios, and scored risks as minor, moderate, major or severe or opportunities as minor, moderate, major or significant.

Strategy

Our risks and opportunities draw upon some of the most recently updated and recognised climate scenarios and models, consistent with 2°C and lower, with a focus on 2030 and beyond. As a consequence, our assumptions take into account a medium to longer-term timeframe. For transitional risks, we used the International Energy Agency's Global Energy and Climate Model, the Announced Pledges Scenario (APS) and the Net Zero Emissions (NZE) Scenario. For physical risks, we used the Intergovernmental Panel on Climate Change (IPCC) shared economic pathway models IPCC SSP 1 – 2.6 (<2 degree) and IPCC 2 – 4.5 (>4 degree). We have matured our understanding of all risks and opportunities and identified the following severe risks and significant opportunity for disclosure, summarised in the table on page 73.

Task Force on Climate-related Financial Disclosures (TCFD) compliance statement continued

Severe risk	Time period, assumptions, scenarios and potential annual financial impact
Transitional risk: Carbon pricing including taxes and levies (direct and indirect)	**Long term:** Range of £2.2m (APS scenario) – 3.5m (NZE scenario) direct costs per annum by 2030 based on forecast Scope 1 and 2 carbon emissions and the level of success in meeting our Net Zero targets. Note reduction from 2022 due to base year emissions recalculation. We would expect some of these costs to pass through to customers as outlined for indirect costs below. **Minimum range:** Assumes no growth in carbon through additional contract wins and that our 42% reduction target is met using the APS scenario carbon cost of £109 per tonne by 2030. **Maximum range:** Assumes 20% growth in carbon through additional contract wins and that our 42% reduction target is not met, only 25%, using NZE scenario carbon cost of £113 per tonne by 2030. **Net Zero transition costs 2030:** We do not expect the direct costs of achieving our Net Zero targets up to 2030 to be significant as we do not expect to fund significant changes to infrastructure or assets given they are largely owned by our customers or landlords, as such, these are estimated to be c£1-2m per annum and largely relate to the cost of the climate team within the Group and specialist consultants and technology. The majority is built into existing budgets and our 5 year plan, which underpins any impairment assessment, for the elements within our control. In some contracts, we are also dependent on our customers investing in Net Zero infrastructure and assets to support us in meeting our Net Zero targets. Circa £1.5m of the costs are not currently budgeted and will be informed by external consultancy support as required and the ability to influence customers to invest. We are focussed on supporting them in introducing the right partners and the right technologies. **Short to long term:** An indicative £5.5m indirect carbon costs per annum is embedded in our current supply chain (Scope 3 carbon) costs, which is forecast to potentially increase to £60m by 2030 using PwC's hidden cost of carbon tool. Current carbon cost is estimated using world bank carbon pricing and PwC model (which uses data from 2014) and 2030 carbon prices implied by the NZE scenario. Based on a steady state procurement spend, UK & Europe is estimated to increase by £25m (included within the overall £60m), an element of this is due to the impact of the EU and UK carbon border adjustment mechanisms (CBAM) which will introduce tariffs on carbon intensive products which are imported and filter down supply chains. Should these costs materialise, these are not expected to be fully funded by the Group as some would pass through to our customers through indexation mechanisms, pricing of new contracts or legislative changes. In order to mitigate this risk, it is vital that we measure our supply chain carbon more precisely, more fully understand the risks, and work with suppliers on decarbonisation and future carbon pricing impacts.
Transitional risk: Reputation	**Short to medium term:** Minimum range £0 assuming our environmental strategy and Net Zero transition planning ensures that we do not suffer reputational damage/contract losses and our customers invest in decarbonisation. **Long term:** Maximum range >1% of profit before tax = £2.5m per annum by 2030 it is assumed that this will be more substantive at the top end of the risk if we fail to meet increasing stakeholder expectations on climate.
Physical risk: Extreme weather	**Long term**: Flood and wind impacts causing building and contents damage and causing downtime across 52 sites were modelled for 2030 and 2050 using a climate analytics firm. The output highlighted a substantive level of financial risk for both the <2 degrees scenario and >4 degrees scenario, however, we have deemed these amounts not to be decision useful for disclosure for the following reasons: – Serco operates a contract-based model and therefore we may no longer be operating at the sites with the potential to be severely impacted by climate change in 2030 and 2050, long-term modelling is therefore less insightful. – Modelled costs suggest that impacts would occur uniformly across all locations at the same time and crucially do not take account of mitigation measures such as business continuity planning or flood defence infrastructure which would significantly reduce modelled numbers. – Buildings, contents and business interruption insurance would be in place to cover any costs incurred; noting that, given the critical nature of most of the Group's services, should business interruption be continuous or prohibitively high, then we would expect our customer to consider the location of the site and where services are provided. We will continue to explore climate analytics support from external advisers and the best approach to disclosing decision useful financial impacts.

Significant opportunity	Time period and potential annual financial impact
Net Zero and sustainability enabling services	**Minimum range:** £22m per annum assumed by 2030 based on modest growth and meeting green taxonomy criteria. **Maximum range:** £44m assumed by 2030 based on targeted growth and meeting green taxonomy criteria.

Task Force on Climate-related Financial Disclosures (TCFD) compliance statement continued

Business strategy and resilience to climate risks and opportunities

Considering the above climate risks and opportunities from a business strategy perspective, we are focused on providing the right people, the right technology and the right partners to create innovative solutions that make a positive impact and address some of the most urgent and complex challenges facing the modern world. This includes supporting our customers and communities on climate change and wider environmental emergencies such as nature loss where practicable.

- We will continue to provide services that support government-led policies and for the majority of time we will operate on customer assets and in the locations the services are required, supporting and aligning with customer-led Net Zero policies, supply chain and climate resilience approaches.
- Both direct and indirect carbon pricing impacts will be an area of focus. We will seek to measure carbon hotspots with more precision, engage our supply chain on decarbonisation and further understand future carbon pricing risks and how this will affect both our customers and Serco.
- Extreme weather events are anticipated to increase under all the scenarios considered and we will continue to work with our value chain to develop a greater understanding of these risks, as well as chronic physical risks, noting that we have experienced limited material impacts to date on operations and insurance claims. However, this could change in future and could lead to potential changes to where properties are leased and the need to increase engagement with customers on climate resilience as impacts become more material.
- We recognise that we must continue to support customer requirements and challenges where we have influence, bringing focus and innovation through our service provision and supply chain. Our strategy is already capitalising on the climate-related opportunities. Our significant opportunity disclosure focusing on Net Zero and sustainability-enabling services details the potential increased revenue streams and expansion of current and new service lines which we will continue to implement, explore and assess.
- As an asset light organisation, we do not expect to have issues around redeploying and repurposing existing assets. For example, the net book value of our owned land and buildings is £1.2m at 31 December 2023. On the majority of our contracts we lease assets in line with the contract terms and the majority of these expire within five years.

Our critical accounting judgement on climate risk on page 173 sets out how climate impact has been considered within the financial statements. It does not yet identify significant risks induced by climate change that could negatively and materially affect the Group over the shorter term. However, Management regularly assesses the impact of climate-related matters. Assumptions will likely change in the future in response to maturing our understanding of risks and opportunities; forthcoming environmental regulations; enhanced supply chain measurement and management; climate change impacts; any future sustainability focused acquisitions and increasing customer Net Zero requirements. These changes, if not anticipated and assessed, could have an impact on the Group's future cash flows, financial performance and financial position. In 2023, we have also started to review the requirements of the Taskforce for Nature-Related Financial Disclosures and related European Sustainability Reporting Standards, noting the need to assess, report and act on nature-related dependencies, impacts, risks and opportunities.

Metrics and targets

We have set a range of metrics and targets in our Group environmental strategy against our Planet theme. Specific metrics to assess climate-related risks and opportunities, associated targets and key performance indicators are outlined in the table below.

Metric/KPI category	Unit of measure	Metric / KPI	Group targets set and/or reported as KPI?	Example linkage to identified risks and opportunities
***Green House Gas (GHG) emissions** Absolute Scope 1, 2 and 3 emissions	tCO_2e	Absolute Scope 1, 2 and 3 emissions (market-based)	Targets set and reported as key performance indicators, awaiting external validation of targets in 2024*** – 42% reduction of Scope 1 and 2 emissions (market-based) by 2030 – Net Zero greenhouse gas emissions across the value chain by 2050	Impact of carbon pricing including taxes and levies Reputational impact on stakeholders
GHG emissions Emissions intensity	tCO_2e per full time equivalent (FTE) & £m revenue	Scope 1 and 2 emissions per FTE* & £m revenue (market-based)	No targets set, reported as key performance indicator	Impact of carbon pricing including 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 target set, reported as key performance indicator for sites selected for modelling, to be expanded in future with support from external partners	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 target set, reported as key performance indicator	Impact of carbon pricing including taxes and levies

Task Force on Climate-related Financial Disclosures (TCFD) compliance statement continued

Metric/KPI category	Unit of measure	Metric / KPI	Group targets set and/or reported as KPI?	Example linkage to identified risks and opportunities
***Climate-related opportunity** Transition to renewable electricity	% & Megawatt hour (MWh)	% and MWh of electricity consumption sourced from green tariffs and/or energy attribute certificates (renewable energy certificates)	No targets set, reported as key performance indicator, targets to be considered in Net Zero transition planning	Impact of carbon pricing including taxes and levies Reputational impact on stakeholders
Climate-related opportunity Transition to greener fleet	%	% of vehicles by fuel type	No targets set, reported as key performance indicator, targets to be considered in Net Zero transition planning, however much of this is the decision of the customer	Impact of carbon pricing including taxes and levies Reputational impact on stakeholders
Climate-related opportunity ISO Management System certification	%	% of operations covered by relevant ISO certified management systems	No targets set, reported as key performance indicator	Contract risk
Climate-related opportunity Suppliers / customers with Science-based targets	%	% of suppliers/clients by emissions who have set science-based targets by 2028	Targets set and % of suppliers reported as key performance indicator, awaiting external validation of targets in 2024*** – 80% of suppliers by emissions – 100% of customers by emissions	Net Zero and sustainability-enabling services Impact of carbon pricing including taxes and levies
Climate-related opportunity Suppliers rated on EcoVadis	%	% of addressable spend	No target set, reported as key performance indicator	Net Zero and sustainability-enabling services Impact of carbon pricing including taxes and levies

* Independently assured by Accenture
** We cannot yet report fully on this proportion but can report on 52 sites sampled
*** External validation via the Science Based Targets initiative

See Our Impact pages 56 to 65 for our Planet metrics, KPIs and performance. The full suite of our environmental and climate-related metrics and KPIs can be viewed on Our Impact hub on our website.

Net Zero transition planning and targets

We have formally committed to Net Zero and are listed on the Science Based Targets initiative (SBTi) website as a company taking action. We use a financial control reporting boundary and over 2023 we have further refined our Net Zero targets, supported by external advisors. Our proposed targets which have been submitted to SBTi for validation in 2024 are currently anticipated to be:

- Near-term target: reduce absolute Scope 1 and 2 GHG emissions 42% by 2030 from a 2022 base year.
- Near-term target: 80% of suppliers by emissions will have science-based targets by 2028.
- Near-term target: 100% of customers by emissions will have science-based targets by 2028 (on contracts we report Scope 3 upstream leased emissions).
- Net Zero across Scopes 1, 2 and 3 by 2050.

Serco defines Net Zero as per the SBTi Corporate Net Zero standard (October 2021), which provides companies with a clearly defined path to reduce emissions in line with the Paris Agreement goal, aligning with our government customers.

Our latest Net Zero transition planning can be found on Our Impact hub on our website and has considered elements of the final guidance published from the Transition Plan Taskforce which was announced at COP26 to develop the gold standard for transition plans. In order to meet our Net Zero targets, we are reliant on factors which we do not control but can influence, such as our customers investing in Net Zero infrastructure and assets on certain contracts, proactive government policy and investment in areas such as low carbon fuels and EV infrastructure. We have used an internal shadow carbon price range of £20-£25 tCO_2e previously to highlight the opportunity of investing in projects which support nature restoration whilst also providing the benefit of supporting carbon removals for any unavoidable carbon emissions we will have to meet our Net Zero target in 2050 and beyond (once at least 90% of emissions from Scopes 1 to 3 are reduced).

Finance Review

Highlights

- Revenue up 7% to £4.9bn, with organic growth of 4%.
- Underlying Operating Profit of £249m, the sixth consecutive year of growth.
- Free cash flow of £209m, trading cash conversion of 111%, covenant net debt: EBITDA at the year-end of 0.50x.
- Order intake of £4.6bn.
- Growing returns to shareholders, with recommended ordinary dividend up 19%, a share buyback of £90m in 2023 and further £140m in 2024.

Nigel Crossley
Group Chief Financial Officer

Serco impacting a better future means partnering with Governments to continuously strive to improve the critical services they provide to citizens everywhere.

Finance Review continued

For the year ended 31 December	Underlying 2023 £m	Non Underlying items 2023 £m	Reported 2023 £m	Underlying 2022 £m	Non Underlying items 2022 £m	Reported 2022 £m
Revenue	4,873.8	–	4,873.8	4,534.0	–	4,534.0
Cost of sales	(4,378.3)	–	(4,378.3)	(4,044.7)	4.2	(4,040.5)
Gross profit	495.5	–	495.5	489.3	4.2	493.5
Administrative expenses	(275.8)	–	(275.8)	(264.3)	–	(264.3)
Exceptional operating items	–	53.8	53.8	–	(2.4)	(2.4)
Amortisation and impairment of intangibles arising on acquisition	–	(30.9)	(30.9)	–	(21.6)	(21.6)
Share of results of joint ventures and associates, net of interest and tax	29.0	–	29.0	12.0	–	12.0
Operating profit / (loss)	248.7	22.9	271.6	237.0	(19.8)	217.2
Margin	5.1 %		5.6 %	5.2 %		4.8 %
Net finance costs	(24.6)	–	(24.6)	(20.4)	–	(20.4)
Profit before tax	224.1	22.9	247.0	216.6	(19.8)	196.8
Tax (charge)/credit	(50.8)	6.2	(44.6)	(47.9)	6.1	(41.8)
Effective tax rate	22.7 %		18.1 %	22.1 %		21.2 %
Profit for the period	173.3	29.1	202.4	168.7	(13.7)	155.0
Attributable to:						
Equity attributable to owners of the Company	173.3	29.1	202.4	169.1	(13.7)	155.4
Non-controlling interest	–	–	–	(0.4)	–	(0.4)
Earnings per share (EPS)						
Basic EPS	15.61p		18.23p	14.18p		13.03p
Diluted EPS	15.36p		17.93p	13.92p		12.79p

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 income or expense are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual income or expense 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 this announcement, 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.

Finance Review continued

Consolidation of profit measures

The Group is simplifying its profit measures by removing Trading Profit and renaming underlying trading profit (UTP) to underlying operating profit (UOP). The historic UOP presented is consistent with the equivalent reported UTP in that period.

The UTP definition was introduced in 2015 to exclude onerous contract provision (OCP) releases or charges, other Contract and Balance Sheet Review adjustments, depreciation and amortisation of assets held for sale, and some other one-time items. It was maintained to ensure there was transparency outside the underlying results of large charges and releases from the portfolio of onerous contracts recorded in 2014. These definitions are no longer required as the Contract and Balance Sheet Review Adjustments recorded in 2014 are now at an insignificant level. In the future, no items will be recorded between UTP and Trading Profit, meaning the additional measure no longer adds any value.

Items excluded from UOP will be the amortisation and impairment of intangibles arising on acquisition and exceptional operating items (and in the prior year other non-underlying items), which is consistent with the items previously excluded from Trading Profit. The methodology applied to calculating other APMs has not changed since 31 December 2022.

Alternative revenue measures

For the year ended 31 December	2023 £m	2022 £m
Reported revenue at constant currency[1]	**4,906.3**	4,534.0
Foreign exchange differences	**(32.5)**	–
Reported revenue at reported currency	**4,873.8**	4,534.0

1 In order to provide a comparable movement on the previous year's results, reported revenue is recalculated by translating non-Sterling values into Sterling at the average exchange rates for the year ended 31 December 2022.

For the year ended 31 December	Organic Revenue[1] 2023 £m	Organic Revenue[1] 2022 £m	Revenue plus share of joint ventures and associates[2] 2023 £m	Revenue plus share of joint ventures and associates[2] 2022 £m
Alternative revenue measure at constant currency[3]	**4,663.9**	4,465.1	**5,379.7**	4,771.9
Foreign exchange differences	**(43.5)**	–	**(32.5)**	–
Alternative revenue measure at reported currency	**4,620.4**	4,465.1	**5,347.2**	4,771.9
Impact of relevant acquisitions or disposals	**253.4**	68.9	**–**	–
Share of joint venture and associates	**–**	–	**(473.4)**	(237.9)
Reported revenue at reported currency	**4,873.8**	4,534.0	**4,873.8**	4,534.0

1 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 relevant acquisitions or disposals. There are two acquisitions excluded for the calculation of organic revenue in the year to 31 December 2023 being the acquisitions of OXZ Holdings AG (ORS) and Sapienza Consulting Holdings BV (Sapienza). The prior year figure is recalculated on a consistent basis to the acquisitions or disposals removed in the current year and therefore may not agree to the organic revenue previously reported.

2 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.

3 In order to provide a comparable movement on the previous period's results, the alternative revenue measures are recalculated by translating non-Sterling values into Sterling at the average exchange rates for the year ended 31 December 2022.

Finance Review continued

Alternative profit measures

For the year ended 31 December	2023 £m	2022 £m
Underlying operating profit at constant currency[1]	**248.9**	237.0
Foreign exchange differences[1]	**(0.2)**	–
Underlying operating profit at reported currency[2]	**248.7**	237.0
Non-underlying items:		
Amortisation and impairment of intangibles arising on acquisition[3]	**(30.9)**	(21.6)
Exceptional operating items[4]	**53.8**	(2.4)
Other non-underlying items[4]	**–**	4.2
Reported operating profit	**271.6**	217.2

1 In order to provide a comparable movement on the previous period's results, reported UOP is recalculated by translating non-Sterling values into Sterling at the average exchange rates for the year ended 31 December 2022.

2 The Group uses an alternative measure, UOP, to make adjustments for items considered material and outside of the normal operating practice of the Group to be suitable for separate presentation and detailed explanation.

3 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.

4 Exceptional operating items (and in the prior year other non-underlying items) are those items considered material and outside of the normal operating practice of the Group to be suitable for separate presentation and detailed explanation. Where items are not material, their inclusion is to ensure they are treated consistently with prior periods.

Alternative Earnings per share (EPS) measures

For the year ended 31 December	2023 basic pence	2022 basic pence	2023 diluted pence	2022 diluted pence
Underlying EPS[1]	**15.61**	14.18	**15.36**	13.92
Non-underlying items:				
Net impact of non-underlying operating items, non underlying tax and amortisation and impairment of intangibles arising on acquisition	**(2.02)**	(0.97)	**(1.99)**	(0.95)
Exceptional operating items, net of tax	**4.64**	(0.18)	**4.56**	(0.18)
Reported EPS	**18.23**	13.03	**17.93**	12.79

1 Reflecting the same adjustments made to operating profit to calculate UOP 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 one-time effects described above.

Alternative cash flow and Net Debt measures

Free cash flow (FCF)

For the year ended 31 December	2023 £m	2022 £m
Free cash flow[1]	**209.2**	159.1
Exclude dividends from joint ventures and associates	**(21.1)**	(9.1)
Exclude net interest paid	**26.5**	22.5
Exclude capitalised finance costs paid	**–**	2.6
Exclude capital element of lease repayments	**124.4**	120.5
Exclude proceeds received from exercise of share options	**–**	(0.1)
Exclude purchase of own shares to satisfy share awards	**22.9**	15.9
Exclude purchase of intangible and tangible assets net of proceeds from disposal	**21.9**	18.7
Net cash inflow from underlying operating activities	**383.8**	330.1
Non-underlying cash flows from operating activities	**9.3**	(2.9)
Net cash inflow from operating activities	**393.1**	327.2

1 Free cash flow is the net cash flow from operating activities adjusted to remove the impact of non-underlying cash flows from operating activities, adding dividends we receive from joint ventures and associates and deducting net interest, net capital expenditure on tangible and intangible asset purchases and the purchase of own shares to satisfy share awards.

Finance Review continued

Trading cash conversion

For the year ended 31 December	2023 £m	2022 £m
Free cash flow[1]	**209.2**	**159.1**
Add back:		
Tax paid	**41.1**	**44.2**
Non-cash R&D expenditure	**0.4**	**0.4**
Net interest paid	**26.5**	**22.5**
Capitalised finance costs paid	**–**	**2.6**
Trading cash flow	**277.2**	**228.8**
Underlying operating profit	**248.7**	**237.0**
Trading cash conversion[1]	**111%**	**97%**

1 In order to calculate an appropriate cash conversion metric equivalent to UOP, trading cash flow is derived from FCF by excluding capitalised finance costs, interest, non-cash R&D expenditure and tax items. Trading 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 capitalised finance costs, interest, non-cash R&D expenditure, tax and non-underlying items.

Net Debt and Adjusted Net Debt

As at 31 December	2023 £m	2022 £m
Cash and cash equivalents	**94.4**	57.2
Loans payable	**(206.2)**	(262.9)
Lease liabilities	**(453.7)**	(446.0)
Derivatives relating to Net debt	**3.1**	1.8
Net debt[1]	**(562.4)**	(649.9)
Add back: Lease liabilities	**453.7**	446.0
Adjusted net debt[2]	**(108.7)**	(203.9)

1 Alternative measures bring together the various funding sources that are included on the Group's Consolidated Balance Sheet and 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.

2 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.

Finance Review continued

Return on invested capital (ROIC)

For the year ended 31 December	2023 £m	2022 £m
ROIC excluding right of use assets		
Non current assets		
Goodwill	**906.7**	945.0
Other intangible assets - owned	**115.6**	158.0
Property, plant and equipment - owned	**44.3**	48.1
Interest in joint ventures	**32.1**	23.3
Loans to joint ventures	**–**	10.0
Contract assets, trade and other receivables	**14.8**	16.1
Current assets		
Inventory	**24.1**	22.4
Loans to joint ventures	**10.0**	–
Contract assets, trade and other receivables	**625.6**	719.6
Total invested capital assets	**1,773.2**	1,942.5
Current liabilities		
Contract liabilities, trade and other payables	**(593.8)**	(683.3)
Non current liabilities		
Contract liabilities, trade and other payables	**(68.5)**	(42.8)
Total invested capital liabilities	**(662.3)**	(726.1)
Invested capital[1]	**1,110.9**	1,216.4
Two point average of opening and closing invested capital	**1,163.7**	1,151.8
Underlying operating profit 12 months	**248.7**	237.0
Underlying ROIC %[2]	**21.4 %**	20.6 %

1 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 where termination options exist and commitments for expenditure are in future years.

2 ROIC is a measure to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UOP, using the income statement for the period 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 above.

Overview of financial performance

Revenue

Reported revenue increased by 7.5% in the year to £4,873.8m (2022: £4,534.0m), a 8.2% increase at constant currency. Organic revenue at constant currency increased by 4.4%. This is in line with the trading update issued on 14 December 2023 where revenue was expected to be at least £4.8bn for the year ended 31 December 2023.

Revenue including the Group's share of joint ventures has increased by 12.1% in the year to £5,347.2m (2022: £4,771.9m) a 12.7% increase at constant currency.

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

Underlying operating profit (UOP)

UOP increased by 4.9% in the year to £248.7m (2022: £237.0m), a 5.0% increase at constant currency. This is marginally higher than the trading update issued on 14 December 2023 where UOP was expected to be around £245m for the year ended 31 December 2023.

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

Joint ventures and associates – share of results

In 2023, the most significant joint ventures and associates in terms of scale of operations were Merseyrail Services Holding Company Limited (Merseyrail) and VIVO Defence Services Limited (VIVO), with dividends received of £21.1m and £nil (2022: £7.3m and £nil), respectively, and total revenues of £217.0m and £844.9m, respectively (2022: £185.0m and £327.0m). Both revenue and dividends have increased in Merseyrail as a result of higher passenger volumes and a commercial settlement relating to current and prior periods. The increase in VIVO’s revenue is due to higher volumes of variable work and additional service contracts awarded to the joint venture during the year.

Finance Review continued

The split of the share of profits in joint ventures and associates, net of interest and tax for the year ended 31 December 2023 was £29.0m (2022: £12.0m), comprising of profit from Merseyrail £15.9m (2022: £5.3m), VIVO £13.1m (2022: £6.6m) and a profit on other joint ventures and associates of £nil (2022: profit of £0.1m). Profit has increased as a result of additional variable revenue and the commercial settlement in Merseyrail.

Whilst the revenues and individual line items are not consolidated in the Group 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	2023 £m	2022 £m
Revenue	**473.4**	237.9
Operating profit	**38.1**	14.3
Net finance cost	**(0.2)**	(0.3)
Income tax charge	**(8.9)**	(2.0)
Profit after tax	**29.0**	12.0
Dividends received from joint ventures and associates	**21.1**	9.1

Exceptional operating items

Exceptional operating 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 2023, the total exceptional credit net of tax was £51.5m (2022: charge of £2.1m).

The Group released provisions held for indemnities provided on disposed businesses totalling £43.9m predominantly due to the claims period ending. The Group also received £9.9m compensation on the early termination of a contract which, due to the size of the settlement, has been disclosed as exceptional.

Exceptional tax for the period was a tax charge of £2.3m (2022: credit of £0.3m) which arises on exceptional operating items within operating profit.

Finance costs and investment revenue

Net finance costs recognised in the income statement were £24.6m (2022: £20.4m), consisting of investment revenue of £7.0m, less finance costs of £31.6m.

Investment revenue of £7.0m (2022: £4.7m) consists of interest accruing on net retirement benefit assets of £3.1m (2022: £2.7m) and interest income of £3.9m (2022: £1.9m).

Finance costs of £31.6m (2022: £25.1m) include interest incurred on loans, primarily the US private placement loan notes and the revolving credit facility of £15.6m (2022: £15.2m) and lease interest expense of £13.1m (2022: £7.9m) as well as other financing related costs including the impact of foreign exchange on financing activities.

Net interest paid recognised in the cash flow statement was £26.5m (2022: £22.5m), consisting of interest received of £3.9m less interest paid of £30.4m.

Tax

Underlying tax

The underlying tax charge recognised in the year was £50.8m (2022: £47.9m). The effective tax rate of 22.7% is marginally higher than in 2022 (22.1%). The increase compared with 2022 is due to smaller credits recognised in 2023 in connection with the finalisation of tax filings and movement in provisions as part of the regular reassessment of tax exposures across the Group. This has been offset by the change in mix of where profits have arisen.

The tax rate at 22.7% is slightly lower than the UK standard corporation tax rate of 23.5%. This is mainly due to the impact of the profits of joint ventures and associates whose post-tax profits are included in the Group's profit before tax (reducing the rate by 3.0%) together with the reduction in provisions held for uncertain tax positions which reduced the rate by 0.4%. This is partially offset by the impact of the higher statutory rate of tax on overseas profits (increasing the rate by 0.9%), the impact of unprovided UK deferred tax in a company that ceased trading in the year (0.5% increase in the rate), the impact of unprovided overseas deferred tax (increasing the rate by 0.2%), and tax disallowable costs (increase the rate by 0.4%). Other smaller items result in a net increase to the rate of 0.6%.

Non-underlying tax

A tax credit of £6.2m (2022: £6.1m) arises on non-underlying items which comprises of:

- A tax credit of £8.5m (2022: £5.8m) due to tax deductions associated with the amortisation of intangibles arising on acquisitions.
- A non-underlying exceptional tax charge for the period of £2.3m arising on compensation received for early termination of a contract. The other exceptional credits, which arise in the UK on the release of the indemnities, are not subject to tax.

Deferred tax assets

At 31 December 2023, the Group has recognised a net deferred tax asset of £184.8m (2022: £190.4m). This consists of a deferred tax asset of £235.7m (2022: £244.2m) and a deferred tax liability of £50.9m (2022: £53.8m). A £179.9m UK deferred tax asset has been recognised on the Group's balance sheet at 31 December 2023 (2022: £186.9m) on the basis that the performance in the underlying UK business indicates sustained profitability which will enable the accumulated tax losses within the UK to be utilised.

Finance Review continued

Taxes paid
Net corporate income tax of £41.1m (2022: £44.2m) was paid during the year, relating to the Group's operations in Asia Pacific (£12.3m), North America (£24.1m), UK (£2.7m), Europe (£0.9m) and the Middle East (£1.1m). The payments made in the UK consisted of £3.6m to HMRC, offset by £0.9m received from the Group's joint ventures and associates for losses sold to them. The amount of tax paid, £41.1m, differs slightly from the tax charge in the period, £44.6m, mainly because taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit. This is particularly the case with regards to movements in deferred tax, such as on the use of prior year losses, and provisions for uncertain tax positions.

Total tax contribution
The Group's published tax strategy of paying the appropriate amount of tax as determined by local legislation in the countries in which it operates means that a variety of taxes are paid across the globe. To increase the transparency of the Group's tax profile, the cash taxes that have been paid across its regional markets is shown below.

In total during 2023, Serco globally contributed £914.5m of tax to government in the jurisdictions in which it operates.

Taxes by category

	Taxes borne £m	Taxes collected £m	Total £m
Total of Corporate Income Tax	41.8	–	41.8
Total of VAT and similar	11.6	277.0	288.6
Total of People Taxes	165.9	401.2	567.1
Total Other Taxes	16.7	0.3	17.0
	236.0	678.5	914.5

Taxes by region

	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	126.3	362.8	489.1
Asia Pacific	39.4	176.8	216.2
North America	67.5	131.3	198.8
Middle East	2.8	7.6	10.4
	236.0	678.5	914.5

Corporation tax, which is the only cost to be separately disclosed in our Financial Statements, is only one element of the Group's tax contribution. For every £1 of corporate tax paid directly by the Group (tax borne), a further £4.65 is borne in other business taxes. The largest proportion of these is in connection with employing people.

In addition, for every £1 of tax borne, £2.88 is collected on behalf of national governments (taxes collected). This amount is directly impacted by the number of people employed and the sales made.

Dividend, share buyback and share count
During the year to 31 December 2023, the Group paid dividends of £33.7m (2022: £30.3m) in respect of the final dividend for the year ended 31 December 2022 and the interim dividend for the year ended 31 December 2023. As noted in the Chief Executive's Review, the Board has decided to declare a final dividend of 2.27p per share in respect of the year ended 31 December 2023 (2022:1.92p per share).

On 28 February 2023, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. The buyback programme took place between 3 March and 22 June 2023. During this period, the Group repurchased 58,956,118 shares at an average cost of £1.51 for total cost including fees of £88.8m. All shares held in treasury at 31 December 2022 and those purchased in 2023 have been cancelled.

The weighted average number of shares for EPS purposes was 1,110.2m for the year ended 31 December 2023 (2022: 1,192.2m) and diluted weighted average number of shares was 1,128.6m (2022: 1,214.8m). The decrease in the weighted average number of shares is primarily due to the full year impact of the repurchase of 55,506,704 shares in 2022 and the impact of the repurchase of 58,956,118 shares during 2023 which were all cancelled in year.

Cash flows and net debt
UOP of £248.7m (2022: £237.0m) converts into a trading cash inflow of £277.2m (2022: £228.8m). The increase in trading cash inflows is mainly due to a £30.0m inflow of working capital compared to an outflow of £24.4m in 2022. The improvement in working capital is driven by 2023 benefiting from some aged debt collection on ceased contracts and better payment terms being experienced within our immigration contracts. The Group saw a decrease in the debtor days from 22 days (2022) to 16 days (2023) and a decrease in creditor days from 21 days (2022) to 20 days (2023) during the year, as the Group continues to ensure its suppliers are paid on time. Including accrued income and other unbilled receivables, day sales outstanding for 2023 were 37.9 days (2022: 48.4 days).

The table below shows the cash flow from underlying operating activities and Free Cash Flow (FCF) reconciled to movements in Net Debt. FCF for the period was an inflow of £209.2m compared to £159.1m in 2022. The movement compared to 2022 is consistent with the increase in trading cash flow above.

Finance Review continued

Adjusted net debt decreased by £95.2m in the year to 31 December 2023, a reconciliation of which is provided at the bottom of the following table. Average Adjusted net debt as calculated on a daily basis for the year ended 31 December 2023 was £232.2m (2022: £231.0m). Peak Adjusted net debt was £362.2m (2022: £376.8m)

For the year ended 31 December	2023 £m	2022 £m
Underlying operating profit	**248.7**	237.0
Less: Share of profit from joint ventures and associates	**(29.0)**	(12.0)
Movement in provisions	**12.6**	4.0
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	**25.7**	33.1
Depreciation and impairment of right of use assets	**126.1**	121.7
Other non-cash movements	**11.1**	15.3
Working capital movements	**30.1**	(24.4)
Tax paid	**(41.1)**	(44.2)
Non-cash R&D expenditure	**(0.4)**	(0.4)
Net cash inflow from underlying operating activities	**383.8**	330.1
Dividends received from joint ventures and associates	**21.1**	9.1
Interest received	**3.9**	1.9
Interest paid	**(30.4)**	(24.4)
Capital element of lease repayments	**(124.4)**	(120.5)
Capitalised finance costs paid	**–**	(2.6)
Purchase of intangible and tangible assets net of proceeds from disposals	**(21.9)**	(18.7)
Purchase of own shares to satisfy share awards	**(22.9)**	(15.9)
Proceeds received from exercise of share options	**–**	0.1
Free cash flow	**209.2**	159.1
Net cash outflow on acquisition and disposal of subsidiaries, joint ventures and associates	**(7.5)**	(19.2)
Net increase in debt items on acquisition and disposal of subsidiaries, joint ventures and associates	**–**	(6.5)
Dividends paid to non-controlling interests	**(1.7)**	–
Dividends paid to shareholders	**(33.7)**	(30.3)
Purchase of own shares	**(88.8)**	(91.2)
Movements on other investment balances	**(0.7)**	1.6
Loans to joint venture	**–**	(10.0)
Capitalisation and amortisation of loan costs	**(0.8)**	1.4
Exceptional items	**9.2**	(2.9)
Cash movements on hedging instruments	**(1.5)**	(2.7)
Foreign exchange gain/(loss) on Adjusted net debt	**11.5**	(25.2)
Movement in Adjusted net debt	**95.2**	(25.9)
Opening Adjusted net debt	**(203.9)**	(178.0)
Closing Adjusted net debt	**(108.7)**	(203.9)
Lease liabilities	**(453.7)**	(446.0)
Closing Net debt	**(562.4)**	(649.9)

Finance Review continued

Risk management and treasury operations

The Group's operations expose it to a variety of financial risks that include access to 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 seek 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 which are reviewed annually. Financial instruments are only used for hedging purposes and speculation is not permitted. A monthly report is provided to senior management outlining performance against the Treasury Policy.

Liquidity and funding

As at 31 December 2023, the Group had committed funding of £558.8m (at 31 December 2022: £616.4m), comprising £208.8m of US private placement loan notes, and a £350.0m revolving credit facility which was undrawn. The US private placement loan notes are repayable in bullet payments between 2024 and 2032. The Group does not engage in any external financing arrangements associated with either receivables or payables.

During the year ended 31 December 2023 total repayments of debt were £44.5m which related to US private placement loan notes.

The Group's revolving credit facility provides £350.0m of committed funding for five years from the arrangement date in November 2022. The facility includes an accordion option, providing a further £100.0m of funding (uncommitted and therefore not incurring any fees) if required without the need for additional documentation. This option has not been included in the Group's assessment of available liquidity as approvals are required to access the funding.

Interest rate risk

The Group has a preference for fixed rate debt to reduce the volatility of net finance costs. The Group's Treasury Policy requires it 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 2023, £208.8m of debt was held at fixed rates and Adjusted Net Debt was £108.7m.

Foreign exchange risk

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

Finance Review continued

Debt covenants

The principal financial covenant ratios are consistent across the US 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 covenant net finance costs of 3.0 times, tested semi-annually. A reconciliation of the basis of calculation is set out in the table below.

The covenants exclude the impact of IFRS 16 Leases on the Group's results.

For the year ended 31 December	2023 £m	2022 £m
Operating Profit	**271.6**	217.2
Remove: Exceptional items	**(53.8)**	2.4
Remove: Amortisation and impairment of intangibles arising on acquisition	**30.9**	21.6
Exclude: Share of joint venture post-tax profits	**(29.0)**	(12.0)
Include: Dividends from joint ventures	**21.1**	9.1
Add back: Net non-exceptional charges/(releases) to OCPs	**8.2**	(1.0)
Add back: Net covenant OCP utilisation	**(3.2)**	(1.3)
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non acquisition intangible assets	**25.7**	33.1
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non acquisition intangible assets held under finance leases - in accordance with IAS17 Leases	**4.3**	4.8
Add back: Foreign exchange on investing and financing arrangements	**(0.9)**	0.4
Add back: Share-based payment expense	**13.5**	15.6
Net Other covenant adjustments to EBITDA	**(11.5)**	(1.0)
Covenant EBITDA	**276.9**	288.9
Net finance costs	**24.6**	20.4
Exclude: Net interest receivable on retirement benefit obligations	**3.1**	2.7
Exclude: Movement in discount on other debtors	**–**	0.1
Exclude: Foreign exchange on investing and financing arrangements	**(0.9)**	0.4
Add back: Movement in discount on provisions	**–**	–
Other covenant adjustments to net finance costs	**(12.7)**	(7.5)
Covenant net finance costs	**14.1**	16.1
Adjusted Net Debt	**108.7**	203.9
Obligations under finance leases - in accordance with IAS17 Leases	**17.4**	21.8
Recourse Net Debt	**126.1**	225.7
Add back: Disposal vendor loan note, encumbered cash and other adjustments	**5.9**	6.9
Covenant adjustment for average FX rates	**5.6**	(8.2)
CTNB	**137.6**	224.4
CTNB / covenant EBITDA (not to exceed 3.5x)	**0.50x**	0.78x
Covenant EBITDA / Covenant net finance costs (at least 3.0x)	**19.6x**	17.9x

Net assets

At 31 December 2023, the consolidated balance sheet shown on page 158 had net assets of £1,033.7m, a movement of £4.0m from the closing net asset position of £1,029.7m as at 31 December 2022. Whilst the Group generated total comprehensive income of £138.5m during the year, returns to shareholders totalled £122.5m through share buybacks and dividend payments.

Key movements since 31 December 2022 on the consolidated balance sheet shown on page 158 include:

- A decrease in goodwill of £38.3m driven predominantly by foreign exchange movements.
- A reduction in other intangible assets of £42.4m due to amortisation of £30.5m, the impairment of customer relationships arising on the acquisition of £8.1m and a revision to the provisional fair values of intangibles arising on acquisition of ORS of £6.9m.
- A decrease in the net retirement benefit asset of £26.3m primarily in respect of SPLAS; further details are provided in the pensions section below.
- Provisions have reduced by £38.1m predominately due to the £43.9m exceptional release of provisions previously held for indemnities given on disposed businesses.

Finance Review continued

- Cash and cash equivalents have increased by £37.2m. In the period the Group generated cash of £383.8m from underlying operations. The net repayment of loans was £44.5m and the capital element of lease repayments in the period was £124.4m. Including associated costs, the spend on shares repurchased during the year totalled £111.7m (£88.8m share buyback and £22.9m to fund employee share options) and dividends totalling £33.7m have been paid to shareholders.
- Net loan balances have decreased by £56.7m due to the £44.5m repayment of the US Private Placement loan notes.
- The movement in contract assets, trade receivables and other assets, and, contract liabilities, trade payables and other liabilities are as a result of normal working capital movements.

Acquisitions

On 14 December 2023, Serco agreed to acquire 100% of the share capital of European Homecare (EHC), a specialist provider of immigration services to public sector customers in Germany. The business will be acquired from Korte-Stiftung for €40m (£34m) subject to final fair value assessments. Subsequent to the balance sheet date clearance has been obtained from the competition authority and the acquisition completed on 1 March 2024. Due to the timing of completion and the availability of financial information, the measurement of the fair value of net assets acquired and any goodwill to be recognised as a result of the acquisition is in progress.

On 14 December 2023, Serco agreed to acquire 100% of the share capital of Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services. The acquisition completed on 31 January 2024 for cash consideration of AED 9.0m (£1.9m) and contingent consideration of up to AED 51.0m (£10.9m), payable on achieving certain financial targets. Due to the timing of completion, the measurement of the fair value of net assets acquired and any goodwill to be recognised as a result of the acquisition is in progress.

Pensions

During the year there continued to be a high degree of volatility in the pensions market. Discount rates and short-term inflation rates had been rising since 31 December 2021. Concerns over high global inflation, recession, rising interest rates and sharp rises in bond yields continued through to the third quarter of 2023 and, as inflation fell and interest rates rose, bond yields fell slightly below the levels at 31 December 2022.

Despite the volatility, Serco's pension schemes remain in a strong funding position and have an accounting surplus, before tax, of £24.5m (2022: £50.8m), on scheme gross assets of £1.1bn (2022: £1.1bn) and gross liabilities of £1.0bn (2022: £1.0bn). The decrease in the net retirement benefit asset of £26.3m is primarily due to the Group's largest scheme, Serco Pension and Life Assurance Scheme (SPLAS), and is as a result of the following:

- Discount rates being lower than prior year resulting in an increase in pension obligation
- Actual inflation in 2023 was higher than prior year assumptions resulting in an experience adjustment increasing pension obligations
- Updated mortality assumptions to reflect the latest available actuarial projections resulting in a reduction to pension obligations
- Reductions to long-term RPI inflation assumptions have resulted in a decrease to pension obligations

Based on the 2021 actuarial funding valuation which was finalised in 2022 for SPLAS, the Group has committed to make deficit recovery payments of £6.6m per year from 2022 to 2030.

On 25 June 2023 the contract for Caledonian Sleepers was transferred back to the Scottish Government which included the transfer of obligations under the section of the share costs pension scheme under the franchise agreement. In line with the accounting under IAS 19 the Group held no liability for this scheme on the balance sheet and therefore there is no gain or loss through the income statement.

The opening net asset position led to a net interest income within net finance costs of £3.1m (2022: £2.7m).

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, as the claim progresses, 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
1 March 2024

Section 172 (1) Statement

Section 172 (1) of the Companies Act 2006 requires a director of a company to act in the way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Directors, both individually and collectively, believe they have given due regard to the matters set out in section 172 (1) (a-f) of the Companies Act 2006 in discharging this duty during the year.

A description of how the Directors individually, and the Board collectively, have had regard to those matters is provided below and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Long-term decision-making

The likely consequences of any decision in the long term (s172 (1) (a) of the Companies Act 2006)

We have been clear on our purpose, values and impact on society for many years. In setting the long-term direction and strategy of the Company, ESG considerations have always been important to Serco.

Our People

The interests of the Company's employees (s172 (1) (b) of the Companies Act 2006)

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 bringing together the right people, technology and partners to deliver that positive impact.

Through our annual Group-wide engagement survey, Viewpoint, and more frequent targeted 'pulse' surveying in selected parts of the business, we know that the majority of our people are happy working at Serco and would recommend Serco as a great place to work. Each year, our people provide their views on a wide range of topics so we can better understand their perspectives and experience of working with us. There were 13,878 'Tell the Board' comments submitted this year, a 9% increase on 2022. The topics mentioned most in the comments included: Compensation, Communication, Well-being and Career Opportunities. The Board conducts a focused review of the output from the Viewpoint survey every year and, as a result of the responses received for the 2023 Viewpoint survey, our focus is to:

- further enhance the visibility and accessibility of available job roles and provide additional support and clarity on how to progress at Serco;
- generate greater excitement about Serco's future by communicating openly and regularly, through multiple channels, about the business' future direction; and
- re-energise our values of Trust, Care, Innovation and Pride to enhance the colleague experience and increase colleague impact.

The Board fully supported the continued implementation and roll-out of the Serco People Fund, which is an independent charity and embraces Serco's value of Care. The Fund provides support to current and retired colleagues and their families in times of need or when facing extraordinary financial challenges. Dame Sue Owen DCB, Designated Non-Executive Director for Employee Voice, updates the Board on feedback received from our people through engagement activities held throughout the year as part of the Employee Voice and Colleague ConneXions initiatives and publishes a blog on our global intranet platform, myserco, sharing responses from the Board to the feedback received.

Other members of the Board, the Group Executive Committee and leadership teams participated in a number of 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 regular People reports and individual Board members provide feedback following participation in other activities during the year, such as contract visits and conferences, as well as events in support of our health, safety and ESG agendas (for example, Zero Harm Week and World Environment Day).

During the year, our all-employee savings-linked share option plan (MyShareSave), which was launched in the UK in 2022, was expanded to include additional territories. MySharesave provides an opportunity for our colleagues to share in the long-term success of the Company by entering into a savings arrangement with an option to buy shares in the Company.

More information is available as set out below:

- Employee engagement metrics as part of the Key Performance Indicators on page 27.
- The People and Culture section of this Annual Report on pages 28 to 31.
- Directors' Remuneration Report on pages 115 to 138.

Section 172 (1) Statement continued

Our Customers, Suppliers and Others

The need to foster the company's business relationships with suppliers, customers, and others (s172 (1) (c) of the Companies Act 2006)

As a partner of choice to governments globally, our customers are many and varied, consisting of local, regional and national governments, other public sector bodies, as well as those who use the services we provide.

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 effectively and efficiently.

In addition, there are significant regional and sector-specific dynamics and concerns that vary significantly and which also change over time. For example, Social Value is key to central government bids in the UK; nationalisation and In-Country Value is a key priority for some of our customers in the Middle East; defence customers have been impacted by the war in Ukraine; immigration customers are coping with huge rises in caseloads; and much more. It is critical that we maintain a detailed appreciation of these concerns so that we can respond accordingly.

The Group Chief Executive and Group CFO meet directly with different customers across all our regions and the Board meet with customers during contract visits. The Board met with customers from our UK and European businesses and key representatives from the Ministry of Defence and UK Cabinet Office were also invited to Board meetings during 2023. The Divisional Performance Reviews, which are made available to the Board, also contain details on customer issues and engagement.

In his first full year, the new Group Chief Executive has worked with Group and Divisional colleagues to review strategy and growth across the business. A crucial part of this being our relationship with customers and how we leverage our brand to become the partner of choice to governments globally.

In 2023, we undertook our annual strategy process involving all parts of the business. Alongside producing a clarified and more unified approach to our strategy and strategic frameworks, this process focused on driving deliberate growth and focused execution against our ambitions. As in previous years, this process culminated in several Group Executive Committee sessions as well as a full day Board Strategy session during which the Board debated current and future requirements at length. Further information on our strategy, its implementation and next steps is provided on pages 22 and 23.

Our suppliers have an important role to play in Serco being a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens. We aim to build honest, respectful and transparent relationships with our 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 Group Chief Executive and Group CFO engage directly with key suppliers and, via the Risk Committee and the Corporate Responsibility Committee, the Board is regularly briefed on operational matters as well as on the management and assessment of suppliers by Divisional senior management, the Group Director of Enterprise Risk Management; the Group Director of Business Compliance & Ethics; and the Director of Procurement.

More information is available as set out below:

- Pipeline and Order Book metrics as part of Key Performance Indicators on page 27.
- Divisional Reviews on pages 13 to 19.
- The Our Impact section of this Annual Report on pages 49 to 69 and on our website.
- Principal Risks and Uncertainties on pages 34 to 46 in particular the risks of contract non-compliance, failure to act with integrity and failure to grow profitably.

Section 172 (1) Statement continued

Our Communities and Environment

The impact of the company's operations on the community and the environment (s172 (1) (d) of the Companies Act 2006)

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 among and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, while recognising our responsibility to contribute to the sustainability and well-being of society and the economy wherever we operate.

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.

We are committed to assessing our risks and opportunities, building climate resilience and limiting the impact of our operations on the environment, while also making positive contributions through our environment strategy and through the public and community impact element of our Impact Framework for our customers and stakeholders, including our communities. Our Group environmental strategy themes of Net Zero carbon and climate, efficient use of natural resources, and environmental protection, along with our Sustainable Procurement Charter and Impact Framework, are focus areas that have oversight from the Board through the Corporate Responsibility Committee. As part of the Company's World Environment Day activities, one of our Non-Executive Directors joined colleagues in a local Wildlife Trust volunteering event and the Board continues to encourage colleagues from across the Group to join Serco's Green Ambassador Network.

We support and contribute to societal objectives, helping address climate and environmental challenges through our services and by working in partnership with stakeholders on decarbonisation and nature recovery opportunities. We also deliver sustainable procurement improvements by assessing and collaborating with our supply chain partners and we implement operational efficiencies to avoid and minimise resource use, supporting the transition to a circular economy. We strive to ensure that our operations prevent pollution and protect, value and enhance biodiversity and the natural world which sustains us.

Members of the Board had the opportunity to meet with users of the services we provide on behalf of our customers during contract visits. Further, 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 of Business Compliance and Ethics; Director of Health, Safety and Well-being; and the Group Head of Environment, Energy and Sustainability provide regular updates on ethics and business conduct, the Speak Up service and environmental strategy.

More information is available as set out below:

- The Our Impact section of this Annual Report on pages 49 to 69 and on our website.
- The Serco Foundation website at www.sercofoundation.org
- The Serco Institute website at www.sercoinstitute.com

Our Conduct

The desirability of the company maintaining a reputation for high standards of business conduct (s172 (1) (e) of the Companies Act 2006)

Our Values, Code of Conduct, Serco Management System and related policies cover the values and behaviours expected of employees, the standards to which they must adhere, how we engage with stakeholders and how the Board looks to ensure that we have robust systems of control and assurance processes, and are designed to drive high standards of business conduct across the Group.

The Board monitors:

- how our Values are lived through the annual engagement survey, Viewpoint and direct engagement through contract visits;
- development and completion of Serco Essentials, mandated Group training on our Values, mycode and selected areas of the
- Serco Management System; and
- principal Group risks, focusing on the controls to manage and mitigate these risks.

The Board maintains oversight of compliance with Company policies and processes through three lines of defence and the usage of and items raised through the Company's confidential reporting service 'Speak Up', available to all Serco colleagues, our suppliers, their personnel and the public. The Board also has oversight of the refresh of Serco's Management System and, during the year, approved a refreshed suite of policy statements and new documentation which further clarifies responsibilities and behaviours at each level of the organisation.

During the year, the Board received updates on the implementation of the refreshed Code of Conduct, mycode, which was launched at the start of 2022 and received anecdotal comments on its impact.

More information is available as set out below:

- The Our Impact of this Annual Report on pages 49 to 69 and on our website.
- Principal Risks and Uncertainties on pages 34 to 46.

Section 172 (1) Statement continued

Our Shareholders

The need to act fairly as between members of the company (s172 (1) (f) of the Companies Act 2006)

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

Our shareholders and debt holders consider a broad range of areas when assessing Serco. These include developments in our public services markets, the design and execution of our strategy, our operational and financial performance, the impact Serco has on the communities we serve and the environment in which we operate. Along with the concerns of other stakeholders, these matters are considered by the Board in their decision-making, as demonstrated throughout this report and in the Decision-making in practice section of this disclosure.

The Group Chief Executive, Group CFO and other members of senior management meet with shareholders to discuss relevant developments in the business at our post-results roadshows and programme of investor meetings.

The Executive Directors had a significant number of meetings with shareholders and analysts over the year (more than 100 meetings). We also repeated our annual governance roadshow with the Chair, the Chair of the Remuneration Committee and the Group General Counsel meeting a number of shareholders. The Chair had nine meetings with shareholders, the Senior Independent Director had eight meetings with shareholders, and the Chair and a number of the Board members attended the full year and half year results to meet shareholders and analysts.

The Group Chief Executive, Group CFO and other members of senior management also met regularly with our debt investors, including lending banks and US private placement note holders and feedback received from this engagement with shareholders, debt investors analysts and proxy advisers is provided to the Board as part of the rolling agenda of matters to be considered throughout the year.

The AGM provides the Board with an additional opportunity to communicate with private and institutional investors and this took place on 27 April 2023 at our offices in Hook.

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 keeps stakeholders informed about developments in the Group.

We will continue to actively engage with our investors, shareholders, analysts and debt investors in the coming year.

More information is available as set out below:

- Key Performance Indicators on page 26 and 27.
- The Our Impact section of this Annual Report on pages 49 to 69 and on our website.
- Details of notifiable interests in the shares of the Company are provided on page 143 of the Directors' Report.

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	Section 172 considerations
Returning funds to shareholders: Share Repurchase Programme 2023 See also: – Finance Review on pages 76 to 87 – Share buyback announcement (28 February 2023)	The Company launched another share buyback programme of £90m, the objective of the programme was to return surplus capital to shareholders in line with the Group's capital allocation model. The buyback programme was completed on 22 June 2023 and the repurchased shares have been cancelled. The Board considered the share buyback programme to be in line with shareholder expectations and consistent with the Group's capital allocation policy. The Company took advice from advisers.
Strategy review See also: – Our Strategy on pages 22 and 23 – Our Impact on pages 49 to 69	Following the 2023 Strategy Review, the Board approved proposals to refresh the Group's key strategic frameworks - including our ESG model and the development of a new Group-wide vision, mission and purpose. The Board considered that this would ensure that we best reflect the work of the business externally to stakeholders, whilst also establishing greater understanding amongst colleagues internally. The Board also endorsed the update to the Group's branding (as reflected in this Annual Report and Accounts) to ensure that our branding reflects the latest market trends and to keep up to date with accessibility standards.

Section 172 (1) Statement continued

Principal Decision	Section 172 considerations
Succession planning See also: – Group Executive Committee news story (31 May 2023) – Asia Pacific CEO announcement (25 October 2023)	During the year, the Board endorsed the appointments of Gillian Duggan as Group Chief People and Culture Officer, Ruth McGowan as Group Chief Strategy and Growth Officer and Andrew Head as Chief Executive Officer for the Asia Pacific Division. A rigorous selection process was followed for each appointment, which included internal and external candidates. The following individual skills were pertinent in making the appointments: – Gillian Duggan's depth of experience leading people and operational teams across a range of industries including aviation, engineering and infrastructure services, design and manufacturing. – Ruth McGowan's strong commercial acumen, developed through international experience in consultancy, private equity, FMCG and health businesses. – Andrew Head's experience working in both government and private sectors overseeing several key businesses and leading a number of acquisitions. The Board concluded that the candidates selected were the most appropriate for each role as the Group enters the new phase of our strategy to transform Serco from outsourcer to Impact Partner by promoting impactful, sustainable and equitable solutions for governments, citizens and society more broadly.
Contract wins See also: – Matters Reserved for the Board on our website – Contract win announcements (17 October 2023 and 8 November 2023)	Board approval is required for contract bids where the contract value exceeds a specified value per year or is of an unusual scope, nature or liability exposure**.** When assessing bids that meet this criteria, the Board consider a number of factors including existing knowledge, experience and capabilities in the sector; strategic ambitions; and, the longer term benefit to the Company's shareholders. During 2023, the Board considered and approved a number of bid submissions including: – **Functional Assessment Services in the south-west of England:** The Board agreed that, to deliver these services, the Company could utilise existing knowledge and capabilities the UK Department for Work and Pensions; partnerships with existing supply chain providers in the region; and international expertise in this area of work. The Company was awarded the five-year contract, valued at around £350m (subject to work volumes), to commence in September 2024. – **Electronic monitoring services in England and Wales:** The Board considered how the Company could utilise existing knowledge and capabilities supporting the UK Ministry of Justice (MOJ), as well as experience serving other governments and the broader justice sector, to support the MOJ to make a measurable impact to reduce reoffending, support rehabilitation and keep communities safe. The Company was awarded the contract to commence in May 2024, valued at around £200m over the initial six-year term; and £275m if options to extend the contract for a further two years are exercised.
Acquisition See also: – Acquisition announcement (14 December 2023)	The Board considered a number of acquisitions including European Homecare, a provider of immigration services in Germany and how it could complement existing operations and strengthen the Company's position as a leading partner in immigration services, providing benefit to shareholders in the longer term. The Board also considered the Company's strong track record of providing high standards of service, underpinned by our commitment to ensuring that service users are treated with care and respect; and how the expertise and cultural alignment of the workforce could meet the complex and growing requirements for immigration and asylum seeker support services globally.

The Strategic Report on pages 1 to 92 is approved by the Board of Directors and signed on its behalf by:

Nickesha Graham-Burrell
Group Company Secretary
1 March 2024

Corporate Governance

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Chair's Corporate Governance Overview

This report sets out how Serco is governed and the key activities of the Board of Directors in promoting effective governance during 2023. Further information on how the Company complied with the UK Corporate Governance Code during 2023 is set out on the following pages.

Highlights of 2023

- Group Executive Committee succession, with changes leading to the appointment of the Group Chief People and Culture Officer, the Group Chief Strategy and Growth Officer, and the Asia Pacific CEO.
- Continued focus on ESG.
- Completion of the 2023 share buyback programme.
- Strategy review.

John Rishton
Chair

Dear Shareholders

I am pleased to present the Corporate Governance Report for 2023. The Board believes that good governance is key to the long-term success of the Group and is committed to upholding high standards of governance.

Board leadership and Company purpose

As Chair, I am responsible for providing leadership to ensure that the Board operates effectively and that Serco has strong governance which, in recent years, is an area that has received increased focus from our stakeholders. I continue to be supported in this by each of the Directors, in particular Lynne Peacock, our Senior Independent Director. Details of our Governance structure, along with attendance at Board and Committee meetings, which include presentations from Management and third parties, is provided on pages 101 to 102.

Following the 2023 Strategy Review, the Board approved proposals to refresh the Group's key strategic frameworks. As we have moved from recovery to a more stable footing, we are step-changing the way we think of ourselves – from outsourcer to Impact Partner and have refreshed and simplified our Purpose, Vision and Mission to focus our efforts in delivering both financial and service outcomes. Further information about our strategy is provided on pages 22 and 23.

Further information on how we are performing against our strategic objectives can be found on pages 26 and 27. Details of how we ensure that we operate and deliver our strategic objectives in a way that is responsible and consistent with the broader interests of society is summarised on pages 49 to 69 and in our separate Impact Report, which is available on the Company website.

Chairman's Corporate Governance Overview continued

Changes to the Board

As outlined in last year's report, Mark Irwin commenced his role as Group Chief Executive on 1 January 2023.

Further information on Mark's skills and experience are provided in his biography on page 97 of this Corporate Governance Report and details of the selection process we followed and our approach to Board and senior leadership succession are provided in my Nomination Committee Report on page 105.

Effectiveness

The Board and its Committees have continued to work well together over the last year. We continue to have a separate discussion after each Board meeting with only the Non-Executive Directors present and to have informal dinners – attended by all members of the Board and to which members of senior management are sometimes invited. These additional opportunities to meet continue to prove productive and effective. The work of the Board's Committees during the year is set out on the following pages.

The annual Board effectiveness review assists the Board in assessing how the Board and its Committees operate and to identify areas in which improvements can be made. This year, the review was undertaken internally and a summary of the outcome of this review is set out on page 104.

Diversity

We have a strong and diverse Board with over 40% female representation, a female Senior Independent Director, and an increasing level of female representation within senior management, further details of which are set out on page 96.

The Board is committed to ensuring the development of gender and ethnic diversity within the Company's senior management and reviews progress annually. It recognises that there is more to do, not just at the Board level, but also within senior management. More information is provided in the Nomination Committee Report on page 105.

Environmental, Social and Governance

Our commitment to Environmental, Social and Governance (ESG) continues to be central to the way we operate. The Corporate Responsibility Committee provides formal oversight of our Impact Framework and its effective delivery against agreed objectives and targets. ESG targets are also 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 on pages 115 to 138. Further details of the Company's approach to ESG matters and activity during the year are provided in the Our Impact section of this Annual Report on pages 49 to 69 and in our separate Impact Report, available on our website.

Engagement

Non-Executive Directors are encouraged to continually increase their knowledge of the operations of the Company, our customers, our employees, those who use the services we provide on behalf of our customers and the communities we work in. Key customers are also invited to meet with the Board during the year.

Our commitment to engaging with the wider workforce continues and Dame Sue Owen DCB, as the Board's designated Non-Executive Director for Employee Voice, supported by our HR team, ensures that the Board understands employee perspectives and issues. Members of the Board also participated in the Divisional Leadership Conferences, providing the opportunity to meet with Management from across the Group.

I am pleased to report that the overall engagement score from this year's Group-wide engagement survey, Viewpoint, was high at 71 and we received 13,878 'Tell the Board' comments, which were considered as part of a deep dive undertaken by the Board on the Viewpoint outputs.

During the year, accompanied by other members of the Board, I attended a number of meetings with shareholders to discuss a range of matters, including governance and remuneration.

We value the input received from shareholders, which helps us to shape our approach to governance and to ensure our disclosures meet their specific requirements, in addition to those required by regulation.

Further information about how the Board engaged with stakeholders and how stakeholder feedback has influenced Board decisions is set out in the section 172 Statement on pages 88 to 92.

John Rishton
Chair
1 March 2024

Governance at a Glance

UK Corporate Governance Code 2018 (the Code) Compliance Statement

During 2023, the Company applied all the principles and complied with all the provisions of the Code. The Corporate Governance Report and the table on this page illustrates how we have applied the Code principles and complied with the provisions.

The Code is available at www.frc.org.uk.

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Independence[2]

78%
Independence

Chair*	1
Executive Directors	2
Independent Directors	6

* The Chair was independent on appointment

Gender[2]

44%
Female

Further information on Board diversity considerations is provided in the Nomination Committee Report on page 105. The Senior Independent Director is female.

Tenure[1]

56%	33%	11%
0-3 years	4-7 years	7-9 years

Ethnic Group[1]
Other than white[3]

3 of 9

Board Skills Assessment 2023	Skills and Experience: Very Limited	Limited	Moderate	Substantial	Very Substantial	Total
Environmental (E in ESG)		3	4	2		9
Social (S in ESG)		1	3	5		9
Governance (G in ESG) including of PLCs and complex global groups				3	6	9
Previous and/or current PLC board & committee experience		1	2	1	5	9
Financial expertise including banking, financing and audit etc		1	3	1	4	9
HR & remuneration in international businesses		1	3	4	1	9
Working with governments	1		3	2	3	9
Outsourcing contracting		2	2	1	4	9
Leadership of complex global groups			1	1	7	9
Management and oversight of group health and safety arrangements			2	5	2	9
Risk management, ethics and compliance			1	1	7	9
People and culture including D&I, employee incentives and change programme implementation or ongoing oversight etc.			1	4	4	9
Technology, digital and cyber security			4	5		9
Strategy and M&A of complex global groups		1		4	4	9

1. As at 31 December 2023.
2. As at 31 December 2023 and as at the date of this report.
3. Where White is as defined by the Office of National Statistics Ethnic Group Response Categories for England.

Board of Directors

John Rishton
Chair

A | N | RE | C | RI

Appointed to the Board

September 2016 (Chair 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. Non-Executive Director and Chair of the Audit Committee of Unilever plc.

Current external commitments

Chair of Informa plc.

Non-Executive Director of Majid al Futtaim Properties LLC.

Mark Irwin
Group Chief Executive

A | N | RE | C | RI

Appointed to the Board

January 2023

Skills and experience

Mark Irwin has extensive international experience in business and operations management, holding numerous senior leadership positions in state-owned, public and private equity business environments. He has worked for Serco since 2013.

He has an MBA from Victoria University.

Previous roles

Leadership roles in several US-based private equity portfolio businesses, including Momentive Performance Materials and Nalco Company as well as China National Bluestar Group following Blackstone's investment in the company. Prior to working in China, Mark spent eight years in the United States working for multinational companies including General Electric (GE), after commencing with GE in Australia.

Current external commitments

None.

Nigel Crossley
Group Chief Financial Officer

A | N | RE | C | RI

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 at EMI, Group Financial Controller of RHM plc and various finance roles at Procter & Gamble.

Current external commitments

None.

Key to Committee membership

A	Audit Committee
N	Nomination Committee
RE	Remuneration Committee
C	Corporate Responsibility Committee
RI	Risk Committee
	Committee Chair

Board of Directors continued

Lynne Peacock

Senior Independent Director

A N RE C RI

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, Chair of the Environmental, Social and Governance Committee and member of the Audit and Risk, Remuneration and Nomination Committees of International Distributions Services plc (trading as Royal Mail).

Senior Independent Director and member of the Nomination, Remuneration and Risk Committees of TSB Bank plc.

Deputy Chair of The Royal London Mutual Society Limited and member of the Remuneration and Nominations and Governance Committees.

Chair of the Learning Disability Network London charity.

Kirsty Bashforth

Independent Non-Executive Director

A N RE C RI

Appointed to the Board

September 2017

Skills and experience

Kirsty Bashforth is an experienced executive and board member within the construction, services, consumer goods, energy, education and health 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.

Chief Business Officer, Non-Executive Director and Chair of the Remuneration Committee of Diaverum AB.

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 People and Culture Officer of Delinian.

Non-Executive Director, Chair of the Remuneration Committee and a member of the Nomination and Environmental and Social Impact Committees of PZ Cussons plc.

Director of QuayFive Limited.

Director of Northern Superchargers Limited.

Kru Desai

Independent Non-Executive Director

A N RE C RI

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 the Management Board of Hedra PLC.

Managing Director of Atos (UK).

Independent Commissioner of the Geospatial Commission.

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.

Board of Directors continued

Ian El-Mokadem

Independent Non-Executive Director

A N RE C RI

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 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

A N RE C RI

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 were spent 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

A N RE C RI

Designated Non-Executive Director for Employee Voice

Appointed to the Board

August 2020

Skills and experience:

Dame Sue Owen DCB has significant experience of government and economic policy, having held senior roles in several government departments.

She has an 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, 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.

Supervisory Board member of DAF NV.

Chair of the UK Debt Management Office Advisory Board.

Key to Committee membership

- A Audit Committee
- N Nomination Committee
- RE Remuneration Committee
- C Corporate Responsibility Committee
- RI Risk Committee
- Committee Chair

Group Executive Committee

Gillian Duggan

Group Chief People and Culture Officer

Joined Serco in May 2023.

Gillian leads our People, Culture, Health, Safety and Well-being Strategy.

Skills and experience
Gillian has a breadth of experience leading people and operational teams across a range of industries including aviation, engineering and infrastructure services, design and manufacturing.

David Eveleigh

Group General Counsel

Joined Serco in November 2014.

David leads our legal and contractual activities, the Company Secretariat and on ESG, assurance, risk, insurance, governance, ethics and compliance matters. He is Chair of the Serco People Fund and and the Serco Foundation.

Skills and experience
David is an experienced General Counsel and has extensive experience leading multi-disciplined global teams across a range of industries including IT, Services and Chemicals.

Andrew Head

Chief Executive Officer, Serco Asia Pacific

Joined Serco in October 2023.

Skills and experience
Andrew has more than 25 years' experience spanning the public and private sector, including listed and unlisted companies, state government and international consulting organisations.

Anthony Kirby

Chief Executive Officer, Serco UK & Europe

Joined Serco in 2017 and became CEO of the UK & Europe Division in January 2023.

Skills and experience
Anthony has over 20 years' experience in the industry leading different functions including HR and operations. Anthony is a Chartered Fellow of the Institute of Personnel and Development and holds Masters Degrees in both Strategic Human Resources and Employment Law & Industrial Relations.

Phil Malem

Chief Executive Officer, Serco Middle East

Joined Serco in April 2019.

Skills and experience
Phil has over 25 years' experience across a variety of sectors leading businesses operating within public services, energy, transport and infrastructure. He has experience in business transformation, with the ability to reposition and differentiate in line with client and market requirements. He is skilled in leading with purpose, with a colleague-centric approach.

Ruth McGowan

Group Chief Strategy and Growth Officer

Joined Serco in May 2023.

Ruth is the global lead for Strategy, Growth, Communications and Brand.

Skills and experience
Ruth has extensive experience in scaling global operations, delivering both revenue growth and cost efficiencies alongside the ability to set a vision, define strategy and execute technology-enabled growth plans.

Tom Watson

Chief Executive Officer, Serco North America

Joined Serco in 2018 and became CEO of the North America Division in 2022.

Skills and experience
Tom has more than 30 years' experience in supporting and leading command, control, communications, computers, and intelligence systems programs, management, engineering and technical support, hardware and software systems development, production and integration, IT systems, management, and business development efforts. His career also includes six years active duty in the US Navy as an electronics technician.

Corporate Governance

Board Leadership and Company Purpose

The role and structure of the Board

The Board has collective responsibility for the management, direction and performance of the Company ensuring that due regard is paid, at all times, to the interests of its stakeholders. The detailed governance framework ensures that the Board has the right level of oversight for matters that are material to the Group. The Group's delegation of authority provides a clear direction on decision-making, ensuring that decisions are taken at the right level of the business by the colleagues best placed to take them. Each decision taken aligns to our culture and values and considers the benefits, risks, financial implications and impact on relevant stakeholders.

The Board, with the support of its Committees, places great importance on governance across the Group. This supports the Board when delivering its strategic objectives and meeting its key performance indicators (KPIs). The Board has overall responsibility for establishing the Company's purpose, values and behaviours. Our culture supports the delivery of the Company's strategy and its long-term sustainable success, while generating value for shareholders. The Board has ultimate responsibility for ensuring that adequate resources are available to meet agreed objectives and strategy.

The Board is mindful of the need to create value while 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; this 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 88 to 92, including details of the manner in which engagement with the workforce is achieved.

The Board is conscious of the benefits of aligning culture with strategy and is further embedding this through our Impact Framework.

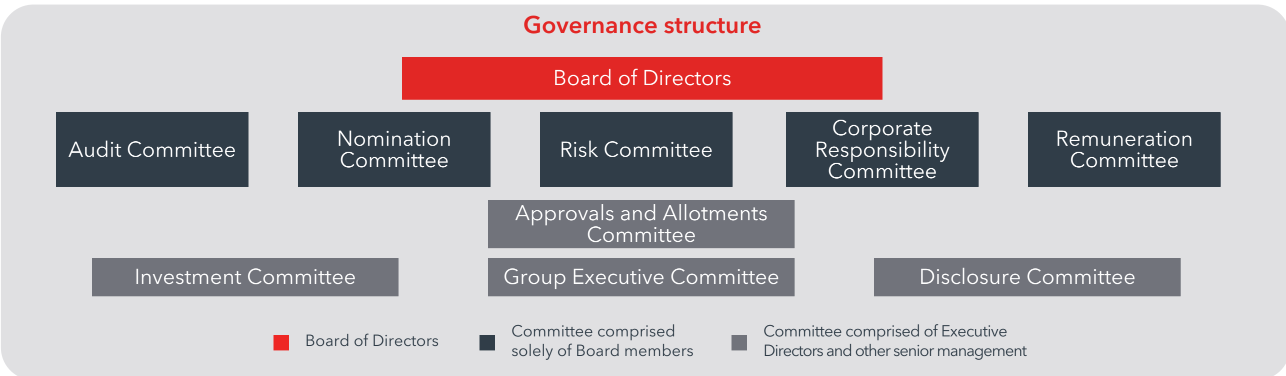
The activities undertaken by the Board during the year are set out on page 102.

The Board is supported by the activities of its Committees, which ensure that specific matters receive the right level of attention and consideration. Members of each Committee are provided with detailed information to enable them to discharge their duties and make recommendations to the Board. Cross-Committee membership provides visibility and awareness of relevant matters. The Committees are namely, Nomination, Audit, Risk, Corporate Responsibility and Remuneration. Each have their own Terms of Reference, which are reviewed at least annually. Details of each Committee's membership and activities during 2023 are set out in their respective reports on pages 105 to 138. The Board retains specific powers in relation to the approval of the Serco's strategic aims, policies and other matters, which must be approved by it in line with legislation or the Articles of Association (Articles). These powers are set out in the Matters Reserved for the Board which are reviewed at least annually and are available on our website.

The Group Executive 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 Group Executive Committee is chaired by the Group Chief Executive and additionally comprises the Group Chief Financial Officer, the CEOs of North America, UK & Europe, Asia Pacific and the Middle East; the Group Chief Strategy and Growth Officer; the Group Chief People and Culture Officer; and the Group General Counsel.

Further details relating to their experience are included on page 100.

There are other Management Committees that support the Group Executive Committees, namely, the Investment Committee and the Disclosure Committee.



Directors

The Board currently consists of nine Directors; the Chair, two Executive Directors (being the Group Chief Executive and Group Chief Financial Officer (CFO)) and six independent Non-Executive Directors (NEDs). The biographies of the Directors can be found on pages 97 to 99.

Corporate Governance continued

Board meetings and attendance

The Board met eight times during the year. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle.

The table below shows the Directors who served during the year and their attendance at the Board and Committee meetings they were eligible to attend in 2023.

The Approvals and Allotments Committee is comprised of the Executive Directors and Group General Counsel and meet on an ad hoc basis.

	Board	Nomination	Audit	Risk	Corporate Responsibility	Remuneration
John Rishton (Chair)	8/8	3/3	n/a	n/a	n/a	6/6
Kirsty Bashforth	8/8	3/3	n/a	5/5	4/4	6/6
Nigel Crossley	8/8	n/a	n/a	n/a	n/a	n/a
Kru Desai	8/8	3/3	5/5	n/a	4/4	n/a
Ian El-Mokadem	8/8	3/3	5/5	5/5	n/a	n/a
Mark Irwin	8/8	n/a	n/a	n/a	4/4	n/a
Tim Lodge	8/8	3/3	5/5	5/5	n/a	6/6
Dame Sue Owen	8/8	3/3	n/a	5/5	4/4	n/a
Lynne Peacock	8/8	3/3	5/5	n/a	n/a	6/6

Each Director is expected to attend all meetings of the Board, any Committees of which they are members, and to devote sufficient time to Serco's affairs to fulfil their duties as Directors. All Directors attend the Audit Committee meeting that reviews the year end results. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair to ensure that their views are recorded and taken into account during the meeting. Private NED-only sessions are held at the end of each Board meeting. During the year, a joint Audit and Risk Committee meeting was also held, as well as a session with the Corporate Responsibility Committee focused on Road Safety. These sessions were attended by each member of the respective Committee.

What did the Board achieve in 2023?

Key Board activities during the year included:

- Embedding of the new Group Chief Executive including receiving regular updates from him at each meeting.
- Review of relevant contracts including new bids, rebids and extensions.
- Review of Strategy.

Risk Management and Internal Control

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 by the Audit, Risk and Corporate Responsibility Committees.

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 Audit and Risk 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, the effectiveness of which are reviewed at least annually by the Board.

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.

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. To provide management assurance that these controls are effective, we use a 'three lines of defence' compliance assurance model to test business compliance.

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 2023 Annual Report and Accounts.

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 across the business as well as independent performance and regulatory reports on Serco operations.

Corporate Governance continued

Stakeholder engagement

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 Company has established 'Employee Voice' to ensure employee engagement and employees can raise concerns through Speak Up, our global, confidential, ethics helpline.

Regular engagement is sought with major shareholders, primarily through the Executive Directors, following the announcement of the full and half year results, and also through the Chair, who is available to major shareholders, and the Chair of the Remuneration Committee who consults with shareholders, as appropriate. The Chair meets shareholders during the annual governance roadshow and Non-Executive Directors have the opportunity to meet investors at the full and half year results. The outcome of such engagement is shared to ensure that the Board as a whole has a clear understanding of the views of shareholders.

Full details of how the Board engages with the Serco's key stakeholders are included on pages 88 to 92.

Relations with shareholders

The Group Head of Investor Relations maintains regular, open and transparent dialogue with institutional investors and sell-side analysts. He has access to the Group Chief Executive and Group CFO who are available for meetings with shareholders and frequently attend industry conferences. They also meet with shareholders to discuss relevant developments in the business at our post-results roadshows and through our programme of investor meetings and with our debt investors, including lending banks and US private placement note holders. Feedback received from this engagement with shareholders, debt investors, analysts and proxy advisers is provided to the Board as part of the rolling agenda of matters considered throughout the year. The Group Chief Executive and the Group CFO had more than 100 meetings with investors in 2023.

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.

Further details can be found in the Section 172 Statement on pages 88 to 92.

Annual General Meeting

Our AGM will be held on 24 April 2024 at our offices at Enterprise House, 11 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9XB at 11am. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available our website. At the 2023 AGM, all resolutions were passed with at least 86% of votes in favour.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006. Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Group Company Secretary to the registered office or by sending an email to agm@serco.com. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.

Workforce policies and practices

The Board is supported by its Committees to ensure that workforce policies and practices are consistent with the Company's core values and support its long-term sustainable success. The Board monitors and assesses culture to ensure that it is aligned to Serco's continued commitment to its employees. The Board, with the support of its Committees, approves key policies and practices which impact the workforce and drive their behaviours. Training is provided to employees to ensure that the policies are embedded within the culture. Further details of workforce policies and practices are included in the People and Culture and Our Impact sections.

Speak Up

Serco has established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Audit and Corporate Responsibility Committees are responsible for monitoring Serco's whistleblowing arrangements and regularly report to the Board on their activities. Further details are provided in the Our Impact section.

Division of Responsibilities

Roles of the Chair and Group Chief Executive

The roles of Chair and Group Chief Executive are distinct and held by different people. There is a clear division of responsibilities, which has been agreed by the Board and is formalised in a schedule of responsibilities for each.

The roles and responsibilities of the Chair, Group Chief Executive, Senior Independent Director, the Board and its Committees are clearly defined, documented, approved by the Board and are available on our website.

Details of the activities of each of these Committees are set out in their reports elsewhere within this Annual Report.

The Chair, who was independent on his appointment, leads and is responsible for the operation of the Board. The Group 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.

Corporate Governance continued

Balance and independence

The Board comprises six Non-Executive Directors (NEDs), the Chair and two Executive Directors. All of the NEDs, including the Chair, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. 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 NEDs. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

Non-Executive Directors' terms of appointment and time commitment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (a total of nine years). The terms of appointment of NEDs specify the amount of time they are expected to devote to the business, which is a minimum of 30 days per annum calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training.

NEDs are also committed to working additional hours as may be required in exceptional circumstances.

NEDs are required to confirm annually that they continue to have sufficient time to devote to the role. No Director holds more than four directorships on the boards of publicly-listed companies.

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 Chair of the Board. In accordance with the Code, and to ensure sufficient time is devoted to their executive role, 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.

A review of the NEDs' external commitments, taking account of the views of institutional investor bodies, was undertaken from which it was concluded that each of the Company's NEDs was able to dedicate sufficient time to undertake their duties on behalf of the Company.

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 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. Potential and actual conflicts of interest are considered at Board meetings and, where appropriate, at Committee meetings. 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.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Group Company Secretary 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 Group Company Secretary.

Board composition and succession

The size and composition of the Board is kept under review by the Nomination Committee and the Board to ensure that an appropriate balance of skills and experience are represented.

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board as set out in the Articles; any amendment to the Articles requires shareholder approval. All appointments to the Board are made on the recommendation of the Nomination Committee and are subject to a formal, rigorous and transparent procedure. Succession plans are also considered by the Nomination Committee. Appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, as well as cognitive and personal strengths. The Nomination Committee Report on page 105 provides further details on the process for appointing Board Directors, succession planning and diversity.

Board Evaluation

An internal evaluation was undertaken in 2023 (overseen by the Group Company Secretary) using a questionnaire, including questions based on the Code. This questionnaire covered the Board and each of the Board Committees; respondents included members of the Board and each Committee along with regular attendees. The evaluation concluded that the Board and its Committees continued to operate effectively. It was noted that the Board and individual Directors continued to address the promotion of the Company's contribution to wider society and promoting the long-term sustainable success of the Company and generating shareholder value. Similarly, the Board felt that purpose, values and strategy remained strong, although further work is required to align culture with the new strategy. It was felt that, while the Board did have an adequate view and that section 172 requirements were taken into account, there were opportunities to enhance how the Board could become better aware of the views of stakeholders and that this could be better signposted. Workforce policies were also considered, specifically in terms of attracting and retaining talent and whether enhancements could be made to support long-term sustainable success.

Nomination Committee Report

John Rishton
Chair of the Nomination Committee

Nomination Committee members
John Rishton (Chair)
Kirsty Bashforth
Kru Desai
Ian El-Mokadem
Tim Lodge
Dame Sue Owen DCB
Lynne Peacock

Dear Shareholders

Further details on diversity are provided in the Chair's Governance Overview on page 95, the Our Impact section of the Annual Report on pages 60 to 61 and in the standalone Impact and People Reports available on our website.

Committee responsibilities

The Committee is responsible for leading the process on appointment of new members of the Board and to ensure that plans are in place for orderly succession to both the Board and senior management positions as well as overseeing the development of a diverse pipeline for succession.

The Committee's Terms of Reference are available on our website.

Membership and attendees

The Committee is comprised of Independent Non-Executive Directors (NEDs). Biographical details for each member of the Committee are provided on pages 97 to 99. In addition to the members of the Committee, the Group General Counsel and the Group Company Secretary attended each meeting. The Committee met three times during the year. Details of attendance at meetings are set out on page 102.

Activities of the Committee during 2023

The Committee's key activities included establishing the new Group Chief Executive and other members of the Group Executive Committee, a review of conflicts of interest, NED tenure and review the Board Diversity Policy.

Appointment, induction and training

The Committee 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 an overview of the Board's policies and procedures, meetings with senior management and contract site visits.

Training is provided to the Board on a range of governance and other matters at Board and Committee meetings and in other forums. Further training is also made available on a range of subjects, including those undertaken by Executives.

The Company believes that visits by NEDs to the Company's contracts, leadership conferences and Management meetings are important in increasing NEDs' awareness of the Company's operations and their accessibility to the Group's employees. A number of such contract visits were undertaken in 2023, some virtual. In addition, the Board met in Italy for the May Board and Committee meetings and used the opportunity to spend time with European management, as well as undertaking a number of European contract visits and other employee events. Training is made available to and undertaken by Directors throughout the year and a record is maintained of the training undertaken by each Director. A face-to-face training session was held at the June meeting and access to online seminars and training was made available to Directors throughout the year covering areas such as Corporate Governance updates and upcoming regulatory and legal changes.

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.

Diversity

The Board values diversity and has established a Board Diversity Policy, which is periodically reviewed. The percentage of women on the Board is currently 44%, exceeding the target of 40% set by the FTSE Women Leaders Review; the Company also meets the target set by the Parker Review with three Directors from an ethnic minority background. In addition, our Senior Independent Director is female. 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 Committee looks to broaden and refresh the Board. We have included additional data on sex, gender and ethnicity representation on page 96. Further details relating to senior management is included within the Our Impact section of the Annual Report.

Board balance

The Committee regularly reviews the skills, knowledge, experience and diversity of the Board and its Committees to 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. Further details of the skills and experience of the Board that are relevant to the Company is set out on page 96. This followed a skills assessment undertaken in 2023.

2024 priorities and focus

During 2024, the Committee will oversee NED Succession Planning and the externally-facilitated Board evaluation.

John Rishton
Chair of the Nomination Committee
1 March 2024

Audit Committee Report

Tim Lodge
Chair of the Audit Committee

Audit Committee members
Tim Lodge (Chair)
Kru Desai
Ian El-Mokadem
Lynne Peacock

Dear Shareholders

I am pleased to present the Committee's report for the year ended 31 December 2023. This review gives an insight into how the Committee addressed significant issues during the year, which were reported to the Board as a matter of course, and how other responsibilities of the Committee were discharged. The 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 through its Internal Audit and Financial Assurance programme. We recruited and welcomed a new Group Head of Internal Audit and worked with her on her initial observations on how further to evolve the function. Following some external audit process challenges during the 2022 audit, resulting in a delay in the release of our preliminary results, we dedicated Committee time to ensure that the root causes of these challenges were identified and rectified with significant input from both KPMG LLP and Management.

A joint meeting was also held with the Risk Committee. At this meeting, the Committee members jointly reviewed the integration of the Group's risk and assurance programmes and how the Group is developing its Enterprise Risk Management framework.

In light of legislation, which was first anticipated following the UK Government's White Paper Restoring trust in audit and corporate governance (March 2021), the Committee provided close scrutiny and challenge of improvements made to the Group's internal control framework and financial assurance programme.

On 16 October 2023, the Government withdrew draft legislation, which intended to introduce certain requirements which would have impacted disclosures made by the Group including the introduction of an annual resilience statement, distributable profits figure, material fraud statement and triennial audit and assurance policy statement. However, on 22 January 2024 the Financial Reporting Council (FRC) issued a revised UK Corporate Governance Code (the Code). The main substantive addition relevant to the Committee is in relation to monitoring the risk management and internal control framework of the Group, and how its effectiveness is assessed; this element of the Code is effective from 1 January 2026. The Committee will carefully consider the changes made to the Code and guidance issued, and determine whether the Group's current framework and plans for improvement are sufficient, or require refinement. The Committee continues to support the Group's objective of improving and embedding its financial controls and assurance framework and extending the same disciplines to strengthen controls within its contracts.

Additionally, throughout 2024, the Committee will continue to focus on the critical accounting judgements made, the effectiveness of the Group's financial controls and assurance programme, including activities within its joint ventures given their increase in scale, and the delivery and effectiveness of the Group's Internal Audit function.

After giving due consideration to the mandatory tendering requirements, the Committee has agreed that it will undertake a tender process for its External Audit during 2024 in respect of the financial year commencing 1 January 2025. A resolution to approve the successful firm will be laid at the Annual General Meeting in 2025 for shareholder approval.

Tim Lodge
Chair of the Audit Committee
1 March 2024

Audit Committee Report continued

Committee responsibilities

The Committee supports the Board in fulfilling its responsibilities including 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 our website.

Membership and attendees

The Committee is comprised of Independent Non-Executive Directors. Between them, the members of the Committee bring strong international, service and public sector expertise and experience which is highly relevant to the Group. Tim Lodge has served as Chair of the Committee since April 2021 and has recent and relevant financial experience, as required by the Code. Biographical details for each member of the Committee are provided on pages 97 to 99.

The Committee met six times during the year which included the joint meeting with the Risk Committee. The details of attendance at meetings are set out on page 102.

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 Group CFO, the Group Financial Controller, the Group Head of Internal Audit, the Group General Counsel, the Group Company Secretary, and representatives of the Group's external auditor, KPMG, attended and received papers for each meeting. The Committee allocated time at the end of each meeting to meet separately without Management present and invite either the Group Head of Internal Audit or KPMG to attend for part of this session. The Committee also meets privately with the Group CFO.

Activities of the Committee during 2023

During the year, the Committee carried out core duties alongside the work required on significant judgements and issues. The Committee also received updates, which assisted members in understanding the framework in place to improve financial controls and mitigate the specific risks associated with these aspects of the business. The activities included the following:

- Reviewing the integrity of the half-year and annual financial statements and the associated significant financial reporting judgements and disclosures taking into account liquidity risk, viability and going concern; and related disclosures in the Annual Report and Accounts.
- Reviewing the 2023 Viability Statement to ensure that it was appropriate and balanced in respect of highlighting the risks the Group is exposed to and the assumptions being made in assessing its viability; and considering the provisions of the Code regarding going concern and viability statements including emerging practice and investor comments.
- 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 and IT assurance, which focused on cyber risk and availability of systems within the Group.
- 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 by the Committee.
- Reviewing fraud-related matters, if any, raised through the Speak Up process overseen by the Corporate Responsibility Committee.
- Providing oversight on 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.
- Maintaining the Group's relationship with the external auditor, including assessing the audit plan and monitoring both independence and effectiveness.
- Post-acquisition reviews of Whitney, Bradley & Brown, Inc. and Facilities First Australia Holdings Pty Limited in 2021.

Performance review

The Committee's effectiveness was reviewed as part of the Board's annual performance evaluation. The findings from the review were largely positive with it being noted that the Committee is sufficiently informed of the risks identified by the internal and external auditors and that the Committee review of key judgements is rigorous. The level of information received at the Committee is considered to be sufficient with appropriate opportunity to challenge both Management and the external auditors. Areas of improvement centred around the external audit process, particularly given the challenges in completing the audit on time for the 31 December 2022 financial statements.

Internal control environment

The Committee is responsible for monitoring the Group's internal control environment and assessing its effectiveness. To facilitate 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 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 and individual business units are invited to the meeting to discuss the findings arising from Internal Audit reviews. The Committee also has responsibility for reviewing and approving 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.

Audit Committee Report continued

Management is also in the process of reviewing the risk and assurance framework across the Group and their proposal was discussed at a joint Audit and Risk Committee meeting held during the year. The objective of the project is to seek to ensure efficiency, completeness and consistency of the three lines of defence; and to ensure that material risks and controls have adequate oversight to evidence their effectiveness and operation.

Internal Audit

Internal audit is an independent assurance function that impartially appraises the Group's governance, risk management and control activities. Internal audit assists Management, the Committee and the Board in discharging their respective duties relating to maintaining an adequate and effective system of internal control and risk management; and safeguarding the assets, activities and interests of the Group. The role and mandate of Internal Audit is set out in the Internal Audit Charter, which is reviewed and approved annually to ensure that it remains appropriate to the needs of the Group.

The Group Head of Internal Audit reports functionally to the Committee Chair. In North America, there is a local Internal Audit team to comply with the Special Security Agreement and maintain independence. The North America internal audit team reports functionally to the Serco Inc. Audit Committee, which is chaired by the Group CFO of Serco Group plc. Internal Audit uses co-source providers to supplement and enhance in-house skills and resources, particularly in specialist areas such as IT and cyber security. The Group Head of Internal Audit meets with the Committee without Management present during the year.

The Internal Audit Plan is risk-based and includes contracts, processes, functions and specific risks. The Committee, together with the Risk Committee, considers the alignment of the annual Internal Audit Plan with the key risks of the business. The Committee approves the internal audit plan annually.

The Committee receives periodic updates relating to the execution of the annual plan and considers the material findings and trends arising from Internal Audit's work as well as the progress of Management's response in relation to those findings. In 2023, internal audits were performed over general business controls relating to contract operations; business support functions, change programmes, financial controls, information security and technology operations.

Financial assurance

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 Risk Committee to consider financial risk management and the Corporate Responsibility Committee to the extent that matters such as fraud are reported through the Speak Up process.

Financial control risk is monitored through one of the Group's Principal Risks, 'financial control failure'. The Committee reviewed this risk during 2023 and 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;
- Management's ongoing programme to improve internal controls; and
- 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, 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 encouraged to note that where weaknesses in the financial control framework had been identified, they were being addressed.

Financial reporting

One of the Committee's core responsibilities is to ensure that the information presented in the Group's financial statements, including the preliminary results announcement, Annual Report and Accounts and half-year financial results, when taken as a whole, is fair, balanced and understandable and contains information necessary for shareholders to assess the Group's position and performance, business model and strategy. To arrive at this conclusion and to form a basis upon which to make a recommendation to the Board, the following was considered:

- 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;
- comprehensive reviews by different levels of management, including SMEs;
- 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.

Audit Committee Report continued

Significant accounting issues and areas of financial judgements

Management is required to exercise judgement in a number of areas when preparing the Group Company accounts. The Committee focuses on any significant areas of judgement that may materially impact the Group's and Company's reported results and assesses and challenges, if necessary, whether these judgements are reasonable and appropriate. The Committee also reviews the clarity and transparency of the related disclosures. The significant accounting issues and areas of judgement considered by the Committee during the year, and how these were addressed, are as follows:

Significant accounting issues and areas of financial judgement	How these were addressed by the Committee
Contract performance, including Onerous Contract Provisions (OCPs)	
The measurement of OCPs is underpinned by assumptions regarding the future operational performance of a contract and possibly the outcome of commercial discussions all of which may involve significant judgement by Management. The Committee considers whether an OCP exists at each reporting period end.	The Committee continues to focus on the potential for existing loss-making contracts to become onerous as well as assessing the risk of an onerous position materialising from a portfolio of contracts across the Group. The Committee agreed 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.
Goodwill Impairment	
The Group has goodwill arising from acquisitions allocated across four cash generating units (CGUs). The Committee evaluate the recoverability of this goodwill formally at the end of each financial year and consider whether impairment indicators exist at the half year.	The goodwill impairment test as at 31 December 2023 used anticipated future cash flows, discount rates and terminal values, which are key areas of judgement. 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, particularly in respect of Asia Pacific, where the headroom is lowest and where the Committee had given particular consideration to the impact of upcoming bids in the context of recent history, and found them to be transparent, appropriate and in compliance with applicable financial reporting requirements. The Committee concluded that the carrying value of goodwill could be supported and that no impairment was required.
Defined Benefit Pension Schemes	
The Group's defined benefit pension schemes include a number of significant estimates and judgements, principal amongst which are the identification of obligations arising from contracts with customers, the assumptions underpinning the liabilities and the valuation of assets without market observable prices.	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. The Committee has also reviewed the assumptions used in the valuation of scheme assets in light of the market volatility which has continued into 2023, although to a lesser extent than 2022. The Committee is satisfied that the valuations included within these financial statements are reasonable and reflect the best estimate of the schemes' assets and liabilities, and that the disclosures are appropriate. The trustees of the Group's largest pension scheme (Serco Pension and Life Assurance Scheme) use Liability Driven Investments to hedge the scheme's exposure to inflation and interest rate risk. The Committee has considered whether this structure commits the Group to funding requirements in addition to those committed under the previous actuarial valuation and have concluded that there are no committed funding requirements under the current schedule of payments.

Audit Committee Report continued

Viability and Going Concern

The Group has assessed its ongoing viability and the appropriateness of using 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 each year.

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 potential reductions in the Group's forecast win rates, reductions in profit margins, the current inflationary pressures being experienced within the economies in which the Group operates and Management's assessment of the shareholder 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 pages 47 and 48 . The Committee also agreed that the going concern basis of accounting is appropriate and this assessment is disclosed within the going concern statement on pages 161 and 162. Both the proposed viability and going concern statements were endorsed by the Committee for recommendation to the Board. In respect of the shareholder claim referred to above, the Committee concurred with Management's assessment that any outcome is subject to a number of significant uncertainties and no provision is required, and disclosure as a contingent liability at the year-end was appropriate. See note 28 to the financial statements.

Use of Alternative Performance Measures (APMs) and Exceptional Items

The Group's performance measures continue to include some metrics which are not defined or specified under IFRS.

The Committee reviewed Management's proposal in simplifying its profit measures by removing Trading Profit and renaming Underlying Trading Profit to Underlying Operating Profit, with historic Underlying Operating Profit being consistent with the equivalent reported Underlying Trading Profit in prior periods. The Group also uses the term Exceptional Items (and in the prior year other non-underlying items) to meet the requirements of IAS1 a section of which requires the nature and amount of material items of income and expense to be disclosed separately.

The Committee concurred that the simplification of profit measures was appropriate given the nature of the business compared to when the definitions of Underlying Trading Profit and Trading Profit were required.

The Committee has agreed with Management that Underlying Operating Profit is 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, although these are less judgmental than in prior periods.

After review of the disclosure of APMs in the 2023 Half Year results and the 2023 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 Operating Profit are not inappropriately classified as Exceptional Items. As a result, the use of APMs and Exceptional Items in the 2023 Half Year results and the 2023 Annual Report was recommended to the Board for approval.

External auditor

The Committee manages the relationship with the Group's external auditor on behalf of the Board and is responsible for making recommendations on the reappointment of the external auditor, determining their independence from the Group and its Management and agreeing the scope and fee for the audit. The Committee proposes that KPMG LLP be re-appointed as external auditor of the Group at the next AGM in April 2024.

Following a tender process undertaken in 2016, KPMG was appointed by the Board in 2017 as the Group's external auditor for the 2016 audit and has served as the Group's auditor for eight years. In accordance with the Revised Ethical Standard 2019, the Group has followed the practice of rotating the audit engagement partner at least every five years, with Juliette Lowes completing her first year-end having replaced John Luke in 2023.

In respect of the audit scope and materiality, the Committee reviewed the audit strategy as presented by KPMG and found it to be comprehensive and focused on the key risks within the Group. The Committee did not require any further areas of focus to be considered with respect to key judgements and estimates but did request enhanced reporting on the audit plan and timeline given the delayed audit completion in respect of the 31 December 2022 financial statements. Significant activities were undertaken by KPMG and Management immediately following the delayed preliminary results announcement and the Committee was presented with the outcome in June 2023. The review highlighted five broad themes including enhancing the quality and phasing of risk assessment and planning procedures, increasing transparency of audit requirements and deepening collaboration particularly in a remote audit environment.

A detailed audit plan was subsequently presented to the Committee in July 2023 with commitments on how the improvements would be implemented and milestones and dependencies clearly outlined. The Committee agreed that the audit plan sufficiently addressed the challenges identified during the 2022 audit. Nevertheless, given the increased regulatory scrutiny on the audit profession, it was agreed with Management and the external auditor that the 2023 year-end reporting timeline would be extended by seven days to allow more time to finalise audit documentation. Throughout the year, both Management and the external auditor provided updates to the Committee on the progress of the audit as well as the delivery of the improvement initiatives.

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 Independent Auditor's Report to shareholders is set out on pages 146 to 154.

Audit Committee Report continued

External auditor effectiveness and quality

The Committee evaluates the effectiveness of the external audit annually, using feedback obtained from Committee members and Management. The performance of the external auditor is assessed 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, remained independent of the Group, and had appropriate focus on the key issues within the Group. The feedback also confirmed that the audit process demonstrated professional integrity and objectivity, was effective, and that there was adequate scepticism and challenge on the key judgements adopted by Management, particularly those relating to contracts at risk of becoming onerous. The external auditors continued to challenge the level of prudence adopted in contract judgements, which were deemed to be balanced overall. However, those judgements which were slightly cautious or optimistic were highlighted to the Committee for consideration. No judgements were reported to be outside the auditor's acceptable range.

An area highlighted within the feedback and during Committee meetings was the efficiency, project management, delivery timetable and visibility of internal reviews within KPMG, which required significant improvement. As noted above, this has been the focus of management during 2023 with improvements identified and actioned.

Audit tender

In accordance with the Statutory Audit Services for Large Companies Market Investigation Order 2014 (the Market Investigation Order), the Group intends to undertake a tender process in 2024 for its external audit for the year beginning 1 January 2025, and therefore would comply with the requirement to be on or before 10 years since the previous tender. Audit quality remains the top priority of the Committee, and therefore it has been agreed that a tender process should be brought forward in light of the significant annual fee increases imposed by the current external auditor and the delivery of the audit timetable in the prior year. The core audit and half-year review fee of £2.4m in respect of the year ended 31 December 2021 increased to £4.0m and £5.8m for the years ended 31 December 2022 and 31 December 2023, respectively.

The Committee challenged the auditor on the rationale for the level of fee increases since 2021 above and beyond the costs associated with newly acquired or formed entities and the underlying inflation within the economies in which the Group operates. The Committee noted that the fee increase is largely as a result of a higher compliance burden on all auditors from new auditing standards and additional regulatory pressure, and benchmarked fee increases against other listed companies of similar size. The Committee believes that it is in the best interest of the Group's shareholders to market test the audit mandate to ensure that quality is delivered at the best possible value.

The timetable has been developed to ensure that there is sufficient time to fully prepare and assume responsibility for a complex and international audit across the Group should there be a change of audit firm.

Independence and non-audit services

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 2023, the non-audit fees paid to KPMG LLP were £135k (2022: £32k) excluding the half-year review. The non-audit services relate to Agreed Upon Procedures required to be performed under certain customer contracts and the audit of special purpose financial statements. The fee for the half-year review, which is designated an audit-related assurance service, increased from £150k in 2022 to £440k in 2023 due to a realignment of KPMG's fees between services.

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 183. 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 Group.

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.

Risk Committee Report

Ian El-Mokadem
Chair of the Risk Committee

Risk Committee members
Ian El-Mokadem (Chair)
Kirsty Bashforth
Tim Lodge
Dame Sue Owen DCB

Dear Shareholders

Throughout 2023, the Committee has continued to oversee the Group's efforts to enhance its risk management capability and the way that the Enterprise Risk Management (ERM) Framework has been embedded across the Group. We have continued to review the Group's risk profile on a quarterly basis holding focused discussions around our principal risks and their mitigations.

Our approach to overseeing the effectiveness of the Group's risk management framework and internal controls and maintaining oversight of our principal risks has remained broadly consistent with previous years.

There has been continued focus on supporting the Group ERM function to drive process improvements and endorse developments towards a more integrated ERM methodology. We are preparing for compliance with the changes relating to Provision 29 over Internal Controls recently confirmed by the FRC, scheduled for implementation in 2026. We continue to take a proactive approach to enhancing our system of articulation and assessment of our material risks and controls under the Integrated Assurance Framework (IAF) programme. The programme includes driving further standardisation of risks and controls from contracts upwards, including Business Unit, Functional and Divisional risks that will support anticipated attestation and reporting requirements. Our existing Governance, Risk and Compliance (GRC) tool will be replaced to better support the reporting process.

The Committee has continued to oversee a programme of work to refine our Serco Management System (SMS) and the continued drive to deliver both improved consistency of approach and resource models across the Group. The programme has refocused the SMS to a role-based view and work is ongoing to ensure detailed operating procedures are clearly documented and accessible to all relevant employees.

Following a review by the Group Executive Committee, including consideration of external and emerging risk trends, it was agreed that there were no material changes required to our principal risks.

Our treatment of Environmental, Social and Governance (ESG) risks, including climate change risks, were also reviewed, and we maintain our position that we do not see these as new principal risks. This does not, however, undermine our commitment to our ESG or climate-related objectives, described in further detail on pages 56 and 57; we continue to recognise the importance of these objectives to our business and stakeholders. Monitoring of our ESG strategy, including climate change, is led by the Corporate Responsibility Committee, which along with the Audit Committee, supports our approach to the TCFD reporting requirements. More detail on this area can be found on page 71.

Similarly, we have chosen not to consider the current political and geopolitical volatility as a standalone principal risk and instead consider it as having direct and indirect impacts across several of our principal risks, most notably Failure to Grow, Integrity, Supply Chain and Health, Safety and Well-being.

We have made some changes to the Executive sponsors of several of our principal risks to reflect changes in the Group Executive Committee. The Executive sponsor for each risk can been seen against each principal risk on page 34.

Ian El-Mokadem
Chair of the Risk Committee
1 March 2024

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 geopolitical and financial environments.

The Committee's Terms of Reference are available on our website.

Membership and attendees

The Committee is comprised of independent Non-Executive Directors; there were no changes made during the year. Biographical details for each member of the Committee are provided on pages 97 to 99. The Committee met five times during the year. In addition, a combined Audit and Risk Committee meeting was held to provide holistic oversight of assurance activities and to maintain oversight of the programme of work underway to further mature our approach to assurance. Details of attendance at meetings are set out on page 102.

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, Group General Counsel, Assistant Company Secretary, Group Director of ERM and the Group Head of Internal Audit. The Chair of the Board also attended every meeting.

Each Divisional Head of Compliance is also invited to attend a private session with the Committee, without management present, providing an opportunity for open discussion and for any concerns or issues to be raised.

Activities of the Committee during 2023

During the year, the Committee's key activities included:

- receiving updates regarding the Group's principal risks, detailing key changes and trends. These included undertaking in-depth reviews (deep dives) of the following risks: Major Information Security Breach; Catastrophic incident, Significant Failure of Supply Chain, Failure to Attract, Recruit and Retain Key Talent and Contract Non-Compliance, Non-performance and Misreporting. The Principal Risks of Failure to Act with Integrity and Health, Safety and Well-being 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;
- maintaining focus on oversight of our response to the UK Corporate Governance Code changes and implementation of the GRC tool as part of the IAF programme, which builds on work previously delivered through the Group-wide ERM Capability Assessment;
- considering internal and emerging risks and themes. These discussions included treatment of ESG, climate change, political volatility, IT infrastructure failure and geopolitical uncertainty;
- 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 key findings and process improvements to the self-assessment process and the review and refresh of the SMS;
- challenging and supporting the Group Director of ERM to improve, enhance and embed the risk management framework; and
- reviewing the Committee's Annual Performance.

2024 priorities and focus

- Maintain focus on undertaking detailed deep dive reviews into the Group's principal risks and continue to maintain a more flexible approach to include deep dives into specific risk themes and emerging risks delivered by functional leaders and/or subject matter experts from across the Group.
- Maintain focus on the progress of mitigation actions and their effectiveness, the updates to our ERM approach and the review and refresh of supporting policies, standards, and reporting.
- Working closely with the Audit Committee, focus on completion of changes required for compliance with the relevant changes to the UK Corporate Governance Code.
- Continue monitoring governance of our Group-wide compliance assurance activity, including increasing oversight of the three lines of defence and how they interrelate and work effectively.

Corporate Responsibility Committee Report

Kirsty Bashforth
Chair of the Corporate Responsibility Committee

Corporate Responsibility Committee members
Kirsty Bashforth (Chair)
Kru Desai
Dame Sue Owen
Mark Irwin

Dear Shareholders

Serco's vitality today owes much to how deeply embedded and resilient its culture of Care, Innovation, Trust and Pride sits within its core. Alongside operational processes, the Company values and what it means to work for Serco, run through interactions across all stakeholder groups.

There is always more to do, not least on health, safety and well-being, where there is a continuous commitment on day-to-day ownership, learning and improving skills to address emerging issues. Serco's wider ESG credentials continue to deepen, and the updated strategy focused on Impact, further embeds ESG factors as part of operational resilience, building partnerships and impact across customer value chains. The Committee continues to cultivate this focus on social impact and value creation as well as risk management and compliance, where we intentionally partner with the Risk Committee on specific topics that require complementary focus.

The ecosystem of public need continues to rapidly evolve for individuals and governments, whether that is cost of living, climate events or increasing migration. In 2023, the Committee conducted its agenda with this changing backdrop in mind and has continued its sharp focus on operational safety culture, oversight on the strategy and plans to deliver the environmental agenda and goals, colleague well-being with a specific focus on psychological safety and the impact of change events on the wider operating culture.

As an Impact Partner to the world's governments, cultural stability and vitality, along with ESG factors, are key underpins of Serco's success. The Committee looks forward to working with leadership in the year ahead to continue progress towards value creation for all.

Kirsty Bashforth
Chair of the Corporate Responsibility Committee
1 March 2024

Committee responsibilities

The Corporate Responsibility Committee is responsible for assisting the Board in providing independent oversight and guidance of the Company's ESG approach and, based on this agreed framework, considering related strategies, policies and practices on how the Company conducts its business, through its values of Trust, Care, Innovation and Pride. The Committee's Terms of Reference are available on our 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 97 to 99. The Committee met four times during the year. Details of attendance at meetings are set out on page 102. 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 usually attended by the Group General Counsel, Assistant Company Secretary, Group Chief People and Culture Officer and the Group Director of Business Compliance and Ethics. Each Divisional Head of Ethics and Compliance is also invited to attend a private session with the Committee, without Management present, providing an opportunity for open discussion and for any concerns or issues to be raised.

Activities of the Committee during 2023

During the year, the Committee's key activities included:

- In-depth reviews (deep dives) on governance, strategy, performance and challenges in priority areas to ensure appropriate focus, control and rigour throughout the Group, including:
  - the Group principal risk, 'Health, Safety and Well-being'; colleague psychological health and safety; and safety culture in specific business areas (justice, road risk);
  - cultural resilience, linkage to delivery of strategy and the behavioural impact of change; and cultural integration of acquisitions;
  - the Group principal risk, 'Failure to act with integrity'; and human rights and modern slavery;
  - climate and environmental matters and targets - current status and future approach; and review of the TCFD compliance statement on climate risks and opportunities;
  - colleague diversity, equity and inclusion; and colleague engagement, including the Company's annual engagement survey results; and
  - supplier management and sustainable procurement.
- Ongoing quarterly oversight of the effective delivery of the Group Ethics and Compliance strategy (including the Speak Up process) and the Group strategies for Health, Safety, Environment and Well-being.
- Scrutiny of how ESG is embedded and evolving in each Division – reviewing regional ESG maturity with Divisional ESG Leads and CEOs – and in other business settings, including use of agents and business development, as well as stakeholder feedback on the Serco approach to ESG.

2024 priorities and focus

- Ongoing oversight of culture refresh and embedding to underpin its purpose as an Impact partner and delivery of its growth strategy.
- Continued focus on operational safety with contract and thematic deep dives (joint ventures, training etc.).
- Embedding Our Impact Framework and measures aligned with our purpose to enable growth, including progress towards our people, place and planet targets.
- Diversity of talent to support future growth.

Directors' Remuneration Report

Lynne Peacock
Chair of the Remuneration Committee

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 2023. In this Report we are presenting, for shareholder approval at the 2024 AGM, a revised Remuneration Policy. Additionally, we set out how our Remuneration Policy has been implemented in 2023, and how we will apply it for 2024.

2023 – a successful year of change

Mark Irwin became Group Chief Executive on 1 January, taking over from Rupert Soames who stepped down at the end of 2022. The transition to our new Group Chief Executive has been smooth and since then the Company has refreshed its strategy, sharpening the focus of the business on those aspects critical to our long term, sustainable growth – customers, capabilities and colleagues – particularly around health and safety.

Environmental, Social and Governance (ESG) matters have always been central to our business, with those matters which are most important to our organisation forming part of our remuneration practices (initially through personal objectives, and since 2021 with formal 'ESG' scorecards within both our bonus and Long Term Incentive Plan (LTIP)). Our ESG strategy has been updated to ensure absolute alignment with our purpose to impact a better future. We continue to evolve our Impact strategy, challenging ourselves to continue to do more and better across the three key areas of People, Planet and Place. Further details on our wider Impact strategy can be found on pages 49 to 69 of this annual report.

As set out in the Board Chair's statement, and the rest of this annual report, the Company delivered good results in 2023; revenue was up 7% with organic growth of 4%, Underlying Operating Profit was up for the sixth consecutive year at £249m and our Order intake was £4.6bn. Free cash flow (FCF) was also up at £209m and we again increased our returns to shareholders with our ordinary dividend up 19% and a share buyback in 2023 of £90m.

Context of remuneration decisions

The Remuneration Committee continues to consider and value the views and experience of all stakeholders when making remuneration decisions. In particular, we remain cognisant of the ongoing cost of living challenges facing many in society, and within the Serco workforce, and are pleased to support the initiatives taken by Management for our people (more details of which can be found on page 119).

2023 performance-linked variable pay

In considering the variable pay outcomes, the Committee seeks to ensure that all payments are appropriate against the backdrop of the overall performance of the Company, the experience of all stakeholders and the context of the wider economic environment. Assurances are sought from the Audit Committee (with regards to financial performance) as well as from the Risk and Corporate Responsibility Committees (which, in particular, provide broader feedback on the performance against and management of the principal risks), where required to support our decisions.

2023 Annual bonus

The Executive Directors' 2023 bonus awards have been determined based on a combination of financial measures (70% weighting; being 40% Trading Profit and 30% FCF), an ESG scorecard (15%) and personal objectives (15%).

Taking into account performance against the targets set, including the individual performance of the Executive Directors, it was determined that the 2023 bonus award will be 74.0% of maximum for both the Group Chief Executive and Group Chief Financial Officer (Group CFO) respectively. Further details can be found on pages 127 to 129. The overall performance of the Company in 2023 has been good and the Committee is satisfied that the bonuses are a true and fair reflection of the underlying performance of both the Company and the Executive Directors.

2021 LTIP

As reported, the Company's performance has been consistently strong over recent years, and this is reflected in the performance outcomes against the three-year performance targets set for the 2021 LTIP awards. The Committee is satisfied that the overall vesting outcome of 93.15% of the maximum opportunity appropriately reflects the overall performance of the Company over this period. Full details of the performance achieved, and vesting outcome, can be found on pages 129 and 130.

Policy review

In preparation for the presentation of the Policy for shareholder approval at the 2024 AGM, the Committee undertook a thorough review of the current Policy during 2023, taking into account the refocus of our business and refreshed corporate strategy. The Committee is also mindful of the need to attract and retain executives of the right calibre to provide clear leadership and successfully deliver long-term stakeholder value, address evolving investor expectations and the need to ensure fairness and equity in our pay practices throughout our organisation.

The Committee determined that the current Policy, which received high levels of support in 2021, continues to be appropriate and therefore the only change is to rebalance the weighting of financial:strategic measures in the LTIP to align to those applied for the bonus (with a minimum weighting for financial measures of 70%, with the balance to comprise strategic measures). The Committee also gave careful consideration to the implementation of the Policy in 2024 and in particular to the appropriate performance metrics to apply to the 2024 bonus and LTIP.

Directors' Remuneration Report continued

On this matter, the Committee is grateful to our shareholders who engaged with us during the consultation process for their invaluable feedback, which has been reflected in our approach for 2024.

Implementation of Policy in 2024

Base salaries

The Committee reviewed the base salaries for the Executive Directors and determined that both should receive an increase of 3% in 2024. This is below that which will apply to the wider workforce (with 2024 budgeted increases across our UK workforce ranging, on average, from 3.5% to in excess of 9%, with 47% of our lowest paid colleagues to receive a 9.79% increase aligned to increases in the National Living Wage).

2024 Annual bonus

The Committee determined that the same overall framework of performance targets and weightings should be retained for the 2024 bonus award. However, reflecting the changes made in 2023 to report on Underlying Operating Profit, this profit measure will now apply for bonus purposes without adjustment, other than for truly exceptional items. The ESG scorecard has been updated from that applicable to 2023 to reflect our increased focus on two critical in-year areas: health and safety in our operations (which remains a key risk for our business), and colleague retention. In particular, like all businesses operating in the current labour market environment, Serco has challenges around colleague attrition which, as noted on page 34, is a significant risk for us.

2024 LTIP

The performance framework for the 2024 LTIP has been revised from prior years to reflect an increased focus on longer-term sustainable growth. The 2024 LTIP will vest subject to aggregate EPS (25% weighting), average ROIC (25%) and relative TSR (20%), together with two growth measures aligned to our medium-term growth goals (total of 20% weighting split between the Book-to-Bill ratio and Organic Revenue Growth), and an ESG scorecard (10%) focused on sustained colleague engagement and, building on our previous environmental measures, specific Scope 1 and 2 carbon reduction targets aligned to our longer-term Net Zero ambition. Full details of the performance measures for the 2024 LTIP can be found on page 133.

Stakeholder engagement

We have continued our programme of shareholder dialogue and we thank those who took the time to consider and respond with their feedback on our Policy and its proposed implementation for 2024. That feedback was taken on board by the Committee and, in particular, helped shape our approach to performance measurement for 2024. 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 is in regular contact with our shareholders and shares any feedback or queries on remuneration throughout the year so that we can maintain an ongoing dialogue.

As mentioned elsewhere in this annual report, the Board regularly engage with Serco's workforce through a number of channels, receiving feedback on general pay and conditions, and invite comment on remuneration matters from all colleagues.

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 2023, and our proposals for 2024 onwards, will continue to ensure that the Executive Directors are fairly rewarded for delivery against the strategic goals of the Company, while ensuring that recognition is also given to appropriate management of all Company risks and performance, even where these are not an explicit measure in an incentive award. Together, these ensure that our remuneration framework supports all colleagues to continue to deliver the critical services to governments, impacting a better future for us all. I hope you will all support the resolution to vote for the revised Policy and this Report at the forthcoming AGM.

Lynne Peacock
Chair of the Remuneration Committee

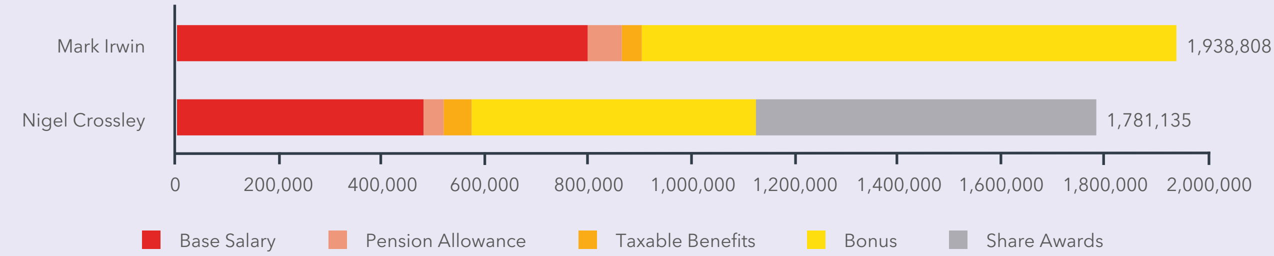
1 March 2024

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.

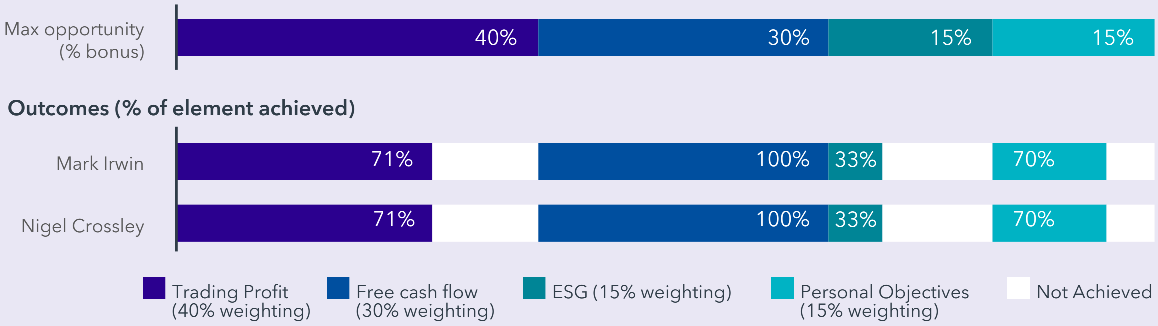
Directors' Remuneration Report continued

Overview of Remuneration 2023 – What did we pay our Executive Directors for 2023

Single figure remuneration at a glance



Annual Bonus Outcomes



2023 bonus earned

Mark Irwin

74.0% of total maximum

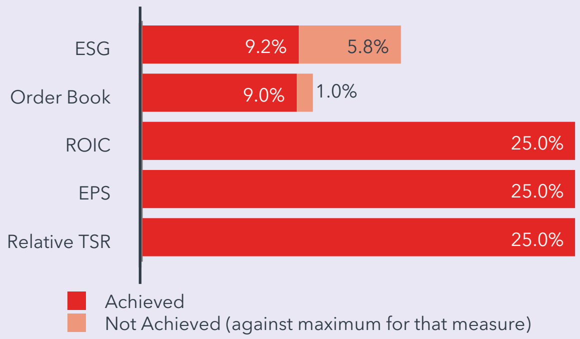
of which **22.8%** is subject to deferral

Nigel Crossley

74.0% of total maximum

of which **12.9%** is subject to deferral

2021 LTIP outcome



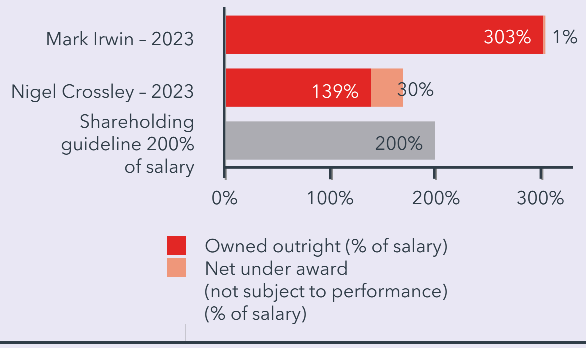
Vesting Outcome

93.15%

of maximum

Executive Director shareholdings (% of base salary)

Mark Irwin has exceeded his shareholding requirement. However, as a relatively new appointment, at 31 December 2023 Nigel Crossley is working towards his requirement.



The Policy applied for the year ended 31 December 2023 was consistent with the Policy approved by shareholders at the AGM on 21 April 2021. The Committee has not deviated from the approved 2021 Policy in respect of any payments made during 2023.

Total spend on pay	Dividends & share buyback	Average increase for UK colleagues
£2,194.2m (2.5% on 2022)	£122.5m (1% on 2022)	6.43%
2022 - £2,140.2m	2022 - £121.3m	2022 - 4.50%

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

Directors’ Remuneration Report continued

Implementation of Remuneration Policy 2024 – How will our Executive Directors be paid in 2024

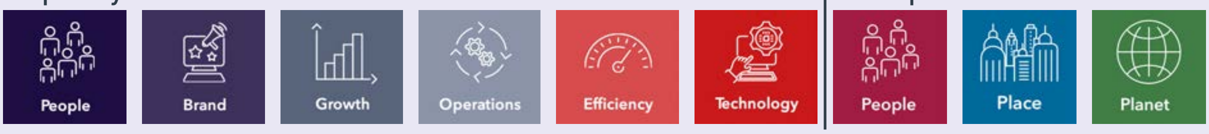
Remuneration in 2024 will align to the proposed 2024 Remuneration Policy as set out from page 120.

Fixed pay

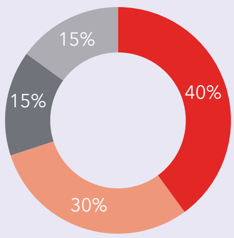
Group Chief Executive salary	Group CFO salary	General increase for all colleagues	Executive Directors’ pension contributions aligned to the wider UK workforce
£824,000	**£494,400**	**3.5%**	**8.0% salary**
3% increase on 2023	3% increase on 2023		

Variable Pay aligned to Business Strategy

Six priority areas | **Our Impact**



Annual Bonus



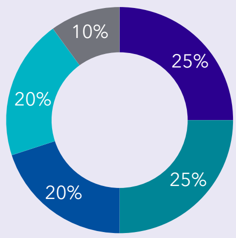
Underlying Operating Profit | Free Cash Flow | ESG | Personal objectives

Element	Link to strategic priorities
Underlying Operating Profit	
Free Cash Flow	
ESG	
Personal objectives	

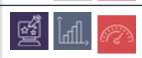
% of base salary	Mark Irwin	Nigel Crossley
Maximum	175 %	155 %
On-target	87.5 %	77.5 %

Bonuses in excess of 100% of salary are subject to mandatory deferral into shares for three years.

Long-Term Incentive Plan



Aggregate EPS | Average ROIC | Relative TSR | Growth | ESG

Element	Link to strategic priorities
Aggregate EPS	
Average ROIC	
Relative TSR	
Growth	
ESG	

% of base salary	Mark Irwin	Nigel Crossley
Maximum	200 %	175 %
On-target	100 %	87.5 %

On vesting, shares received (after payment of tax) are subject to a further post-vest holding period until the fifth anniversary of grant.

Malus and clawback provisions apply to the deferred bonus and LTIP share awards during the three-year period prior to vesting and within five years of grant respectively. Clawback provisions apply to the annual bonus.

Alignment with shareholders

In employment	Minimum shareholding of 200% of salary.
Post-employment	Retain 100% of the in-employment shareholding guideline for the first year post-employment; and 50% of the in-employment shareholding guideline for the second year post-employment.

Directors' Remuneration Report continued

Wider remuneration at Serco

The principles of colleague-centred, fair and impactful total reward

Our reward principles, which apply to all colleagues, are that reward should be fair, competitive and aligned to the sectors and markets from which we draw our talent, while ensuring that we are appropriately managing the cost of our workforce which, as a people business, is our biggest operating cost.

How our approach to reward is implemented throughout our organisation

The Committee believes that the structure of the Executive Directors' 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	
Base salary	Salary levels throughout the Group, as far as possible, are set using the same principles applicable to the Executive Directors. Salaries are reviewed annually, subject to engagement with employee representatives/ unions, where appropriate. Unless exceptional circumstances apply, salary increases for Executive Directors are normally no more than the average increase of the wider workforce.
Benefits	Benefits, aligned to local market practice including well-being support, are provided for all employees. Colleagues in our main operating countries (US, Canada, UK, UAE and Australia) are able to participate in MyShareSave (our all-employee Sharesave Scheme).
Pension	The Group operates a large number of different pension/retirement benefit arrangements globally, including cash allowance alternatives, where appropriate, in line with local market practice.
Annual bonus	Approximately 1,400 colleagues, including members of the Global Leadership Team, are invited annually to participate in the Serco Bonus Plan.
Long-term incentive	Long-term incentive awards are granted annually to approximately 200 colleagues in the Global Leadership Team.

Supporting our people

We have more than 50,000 colleagues across our operations and each individual is critical to our ability to impact a better future for the service users we support through our contracts. The well-being of our people is therefore of utmost importance to us as an organisation. Various targeted and whole-workforce actions have been taken by the Company to support colleagues throughout these difficult times. These vary across our Divisions in response to regional pressures and in 2023 included:

Whole-workforce initiatives	Targeted initiatives
Global coverage of the Serco People Fund.[1]	Increased pay review budget for the normal cycle.
Expansion of MyShareSave[2] to approximately 95% of our global workforce.	Additional off-cycle targeted pay increases.
Continued benefits including discounts on everyday spend, wellness offerings, improved support under the Employee Assistance Programme, improved financial education and well-being support.	

1. The Serco People Fund provides financial support for current and former Serco colleagues and their close family in a range of situations, including hardship or personal crisis and when help is required for health, well-being or recovery. Coverage was expanded in 2023 to all our colleagues in the US, Middle East and Australia in addition to those in UK.
2. MyShareSave is our all-employee savings-linked share plan. In 2023, this benefit was extended to colleagues in the US, Canada, UAE and Australia, in addition to those in the UK.

Directors' Remuneration Report continued

2024 Remuneration Policy

Our proposed 2024 Directors' Remuneration Policy is set out here. This will be subject to a binding shareholder vote at the 2024 Annual General Meeting and, if approved, will take effect from the conclusion of that meeting.

Considerations when determining our Remuneration Policy

Serco's Remuneration Policy was reviewed to ensure that it continued to support the achievement of the Group's long-term strategic objectives. Our approach to executive remuneration is designed to:

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

Consideration of employment conditions across the Group

When setting remuneration for Executive Directors and approving the reward decisions for members of the Group Executive Committee, the Committee considers contextual information about pay and conditions within the Group; ensuring that any decisions made on executive pay are appropriate in the context of the approach for the wider workforce, and that the views of our colleagues, as key stakeholders, are taken into account. To support this, information on pay policies and practices for the workforce is presented to the Committee at least twice each year, and is available at all times for reference. This includes a review of the workforce demographics including diversity and the UK Gender Pay Gap.

The Committee and the Board also engage with the wider workforce throughout the year on remuneration and wider working conditions, including engagement on executive remuneration, through various mechanisms, including Colleague ConneXions – our approach for amplifying the voice of our people; our annual employee engagement survey (which includes a question about how colleagues feel about their pay and benefits); and exchanging their views directly with the Board through various in-person and virtual meetings and site visits. Dame Sue Owen is the Board's employee representative and works closely with the Company to ensure that the Board understands employee perspectives and issues.

Consideration of shareholder views

As set out in the Chair's letter, we have consulted with our largest shareholders and received support and helpful comments which have been taken into consideration in shaping the Policy presented here. The Committee believe it is important to continue to maintain effective channels of communication with our shareholders. The Committee takes the views of shareholders very seriously and these views have been influential in shaping the Policy and our remuneration practices.

Following an extensive review, the Committee determined that the 2021 Policy continues to work well, delivering against each objective, and was appropriately aligned to our refreshed strategy. Therefore only one change is proposed in the 2024 Policy to rebalance the ratio of financial:strategic measures within the performance framework for the long-term incentive, with the ratio to be no less than 70% financial (was 75%) and no more than 30% strategic (was 25%) going forward. This rebalance is to ensure an appropriate weighting on key strategic goals over the longer term and aligns with the weightings applicable to the annual bonus. The full 2024 Remuneration Policy for Executive Directors is set out below. No changes are proposed to any other element of the 2021 Policy and no changes have been made to the Policy applicable to Non-Executive Directors.

Alignment of our remuneration with the principles of the UK Corporate Governance Code:

Clarity	– Our remuneration framework is designed to support the financial and strategic objectives of the Company, aligning the interests of Executive Directors with our shareholders. – The Committee regularly engages with executives, shareholders and their representative bodies in order to explain the approach to executive pay.
Simplicity	– The remuneration for Executive Directors is comprised of distinct elements, each with a clearly defined purpose, structure and strategic alignment.
Risk	– The Committee ensures that there is an appropriate mix of fixed and variable pay. – Financial and non-financial performance measures are appropriately balanced and clearly aligned to Company strategy and performance. – Alignment to long-term shareholder interests is achieved through a post-vest holding period, shareholding requirements and mandatory bonus deferral. – Malus and clawback provisions apply to incentives as set out in the Policy.
Predictability	– The pay opportunities under each element are set out in the remuneration report.
Proportionality	– The Committee ensures that there is a clear alignment between remuneration, Company performance and Company strategy. – Incentive pay outcomes are determined taking into consideration the wider performance of the Company, and the Committee retains overarching discretion to adjust formulaic outcomes for incentives to ensure award payouts are appropriate.
Alignment to culture	– When considering performance, the Committee considers behaviours and actions against Serco's Values of Trust, Care, Innovation and Pride. – ESG measures aligned to the Company's ESG commitments are incorporated into incentives.

Directors' Remuneration Report continued

Features of the 2024 Executive Director Remuneration Policy

The Policy table for Executive Directors below sets out how each element of the 2024 Policy aligns with, and supports, our strategic objectives.

Base salary

Purpose and link to strategy	Policy change
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.	No change

Opportunity and 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 as well as positioning against the market.

Any increases proposed will be with reference to the typical level of increase awarded to other colleagues in the jurisdiction in which the Executive Director is based. Higher increases may be made in exceptional circumstances, for example, 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 rationale would be disclosed in the relevant DRR.

In some circumstances an Executive Director may start on a lower salary than is market typical, with higher phased increases applying depending on performance in role and individual ability.

Benefits

Purpose and link to strategy	Policy change
To provide a competitive level of benefits to enable the recruitment and retention of Executive Directors	No change

Opportunity and operation

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.

A range of benefits may be provided to Executive Directors, including (but not limited to) company car or car allowance, private medical insurance, permanent healthcare insurance, life cover, annual allowance for independent financial advice, relocation benefits and voluntary health checks.

Directors may also be eligible to participate in any all-employee share plans, with participation on the same basis as other employees, up to HMRC-approved limits (where relevant).

Pension

Purpose and link to strategy	Policy change
To provide pension-related benefits to encourage Executive Directors to build savings for retirement, supporting the recruitment and retention of Executive Directors.	No change

Opportunity and operation

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

The maximum contribution or cash allowance (or mix of both) for current Executive Directors will be aligned with the pension opportunity available to the wider workforce in the relevant jurisdiction in which the Executive is based. For a UK based Executive Director, the maximum Company contribution (or cash payment in lieu) is 8% of salary.

Directors' Remuneration Report continued

Annual bonus

Purpose and link to strategy	Policy change
To incentivise Executive Directors to achieve specific, strategically-aligned annual targets and objectives, and to reward ongoing stewardship and contribution to core values. Bonus deferral provides alignment with shareholder interests.	No change

Opportunity and operation

Maximum bonus opportunity is 175% of salary for Group Chief Executive and 155% of salary for other Executive Directors.

Bonus awards are based on the achievement of specific targets over the year and are paid after the end of the financial year to which they relate. Any bonus earned over 100% of salary is deferred into shares, typically vesting after three years.

The Committee may decide to pay the entire bonus in cash in certain exceptional circumstances. Dividend equivalents may accrue during the vesting period on the deferred bonus shares (in the form of cash or shares).

Malus and clawback provisions apply.

Performance framework

At the start of each performance year, the Committee reviews and 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 least 70% of the total bonus will be based on the achievement against financial measures with the remainder based on strategic and personal objectives which may include ESG objectives.

Bonus awards are at the Committee's discretion. 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.

Awards are typically on a straight-line basis from 0% for threshold performance to 50% at target, and to 100% at maximum performance.

Long-term incentive – Serco Group Long Term Incentive Plan (LTIP)

Purpose and link to strategy	Policy change
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.	Change in the performance framework to at least 70% (from 75%) weighting on financial measures, and up to 30% (from 25%) weighting on non-financial/strategic measures.

Opportunity and operation

Maximum annual award of up to 200% of base salary for the Group Chief Executive and 175% for other Executive Directors.

Share awards subject to performance conditions are normally granted annually, typically vesting on the third anniversary of their grant. A post-vesting holding period applies, 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.

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.

Dividend equivalents may accrue during the vesting period (in the form of cash or shares).

Malus and clawback provisions apply.

Performance framework

At least 70% of the vesting of LTIP awards will be dependent on financial performance, with up to 30% of the vesting based on the achievement of strategic measures aligned with the Company's strategic plan, which may include ESG objectives. The Committee (with input from the Audit and 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. The Committee retains discretion to determine the appropriate level of vesting.

The maximum vesting for threshold performance is 25% of the total award, and 100% vesting for maximum performance.

Directors' Remuneration Report continued

Shareholding guidelines

Purpose and link to strategy	Policy change
To support long-term commitment to the Company and the alignment of Executive Directors' interests with those of shareholders.	No change

Operation

Executive Directors are required to build up and maintain holdings in Serco Group plc as follows:

In-employment guideline
The in-employment shareholding guideline is 200% of salary. Executive Directors are required to retain, in shares, at least 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding guideline.

Post-employment guideline
Reflecting the nature of Serco's business, 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.

Unvested 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.

Remuneration Policy for the Board Chair and Non-Executive Directors

Base fees

Purpose and link to strategy	Policy change
To attract Non-Executive Directors with the necessary experience and ability to make a substantial contribution to the Group's affairs.	No change

Opportunity and operation

The Board Chair and Non-Executive Directors receive a base fee to reflect their role and responsibilities. Fees are typically reviewed on an annual basis against a relevant peer group, taking into consideration market practice, anticipated responsibility and time commitment involved. The fees of the Board Chair are determined and approved by the Remuneration Committee (excluding that individual) and fees of the Non-Executive Directors are determined and approved by the Board (excluding the Non-Executive Directors).

Non-Executive Directors may also receive additional fees in respect of additional responsibilities, such as membership or chair of a Board Committee.

Current fee levels are shown on page 134.

Benefits and expenses

Purpose and link to strategy	Policy change
To cover the cost of reasonable expenses in connection with carrying out the duties of the role.	No change

Opportunity and operation

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. The maximum travel allowance is £5,000 per occasion requiring intercontinental travel.

In addition, all reasonable travel and business-related expenses incurred in connection with carrying out their duties are reimbursed.

Non-Executive Directors are not entitled to receive incentives or pension contributions. Non-Executive Directors are encouraged to hold shares in the Group but are not subject to shareholding guidelines.

Malus and clawback

Malus and clawback provisions apply to awards under the annual bonus and long-term incentive which enable the Committee, at its discretion, to reduce, cancel or recover some or all of the awards granted to Executive Directors in certain circumstances. These include (but are not limited to) a material misstatement of the Group's audited financial results; material or misleading results announcements 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 a bonus award paid in cash.

Directors' Remuneration Report continued

Use of discretion

The Committee will operate the annual bonus plan and LTIP according to their respective rules and 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 timing of grant and vehicle of an award. Discretion may also be exercised, in line with the rules, when dealing with a change of control or restructuring of the Group, or in respect of adjustments as required in certain circumstances (for example, rights issues, corporate restructuring events and special dividends).

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 bonus or LTIP that pay out, 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.

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.

The remuneration package for a new Executive Director is aligned to the elements set out in the summary Policy table on pages 121 to 123. 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. Newly-promoted colleagues, or recruits to roles on 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.

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 (normally comprising of a maximum opportunity of 175% of salary under the annual bonus, and 200% of salary under the LTIP).

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 promote, the Committee has discretion to allow the new Executive Director to continue to benefit from participation in existing incentive plans, 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.

Directors' Remuneration Report continued

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 the Chair 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 126.

Provision for Executive Directors	Detailed terms
Notice period	– 12 months' notice from the Company – 12 months' notice from the Director
Termination payment	– Payment in lieu of notice comprising ◦ Base salary ◦ Pension allowance ◦ Selected benefit – 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]	– 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 (for example, in the case of death of the Executive Director) 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. – 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 (for example, in the case of death of the Executive Director). – Malus and clawback provisions continue to apply.
Treatment on termination of unvested awards granted under the LTIP[1]	– 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 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	– As set out in the Policy table on page 123, post-employment shareholding requirements apply for two years following the cessation of employment of an Executive Director.

Directors' Remuneration Report continued

Change of control	– Where the Executive Director leaves the Company following a change of control, whether or not they are dismissed or they elect to leave on notice, they 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 the 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	– Intended only to be used to prevent an outcome that is not consistent with performance. The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company.

1. 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).

Provision for NEDs	Detailed terms
Letters of appointment	– Appointed for initial three-year term. – Appointment may be terminated on three months' written notice.
	– No compensation or other benefits are payable on early termination.

Dates of Directors' service contracts/letters of appointment

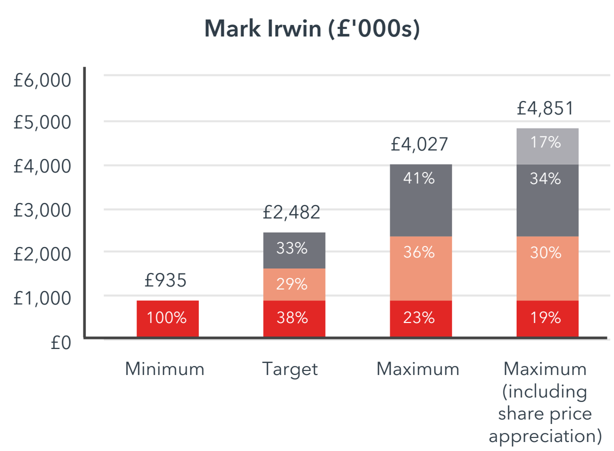
Directors who served on the Board during the financial year ended 31 December 2023:

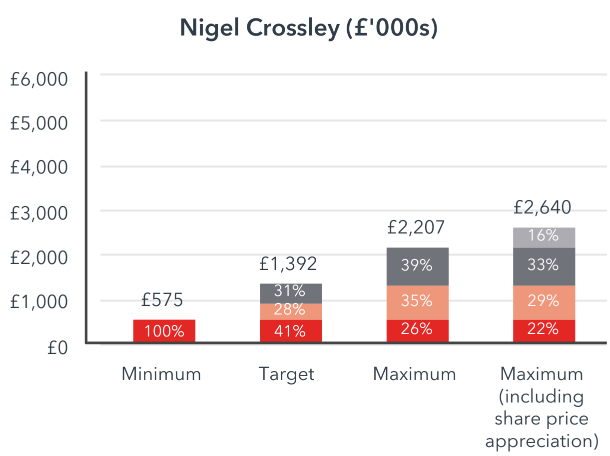
Director	Date of appointment to the Board
John Rishton	13 September 2016
Mark Irwin	1 January 2023
Nigel Crossley	21 April 2021
Kirsty Bashforth	15 September 2017
Kru Desai	21 October 2021
Tim Lodge	21 February 2021
Ian El-Mokadem	1 July 2017
Dame Sue Owen	3 August 2020
Lynne Peacock	1 July 2017

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

Illustration of remuneration opportunity for 2024

The following charts illustrate the value that may be delivered to Executive Directors in 2024 under the Policy.





Fixed elements | Annual variable | Multiple period variable | Value attributable to share price appreciation

Directors' Remuneration Report continued

The scenarios in the above graphs are defined as follows:
- Fixed elements of remuneration:
  - Base salary as applicable from 1 April 2024.
  - Estimated value of benefits to be provided in 2024 in line with the Policy.
  - Pension contribution/cash supplement equal to 8% for Mark Irwin and Nigel Crossley in line with the Policy applicable in 2024.
- 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.

Annual Report on Remuneration

Single total figure of remuneration – Executive Directors (audited)

The following table shows a single total figure of remuneration in respect of qualifying services in 2023 for each Executive Director, together with comparative figures for 2022. Details of Non-Executive Directors' fees are set out in the next section.

	Mark Irwin[1]		Nigel Crossley[1]	
All figures in £	**2023**	**2022**	**2023**	**2022**
Salary	**800,000**	N/A	**480,000**	436,450
Taxable benefits[2]	**38,177**	N/A	**56,259**	34,313
Pension[3]	**64,000**	N/A	**38,400**	34,916
Total Fixed Remuneration	**902,177**	N/A	**574,659**	505,679
Bonus	**1,036,631**	N/A	**550,896**	535,750
Long-Term Incentives[4]	**N/A**	N/A	**655,580**	202,677
Total Variable Remuneration	**1,036,631**	N/A	**1,206,476**	738,427
Total	**1,938,808**	N/A	**1,781,135**	1,244,106

1. Mark Irwin and Nigel Crossley were appointed to the Board on 1 January 2023 and 21 April 2021 respectively. Mark's 2021 LTIP award, for which the performance period ended in 2023, was granted fully in respect of his previously held role within Serco. This is therefore excluded from the figures above as it was not awarded in respect of qualifying services.
2. The taxable benefits relate to the provision of independent financial advice and tax support, as appropriate; 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 income tax and social security liability in respect of benefits provided, the value of the benefit has been grossed up at the individual's marginal tax rate.
3. The pension amounts comprise payments made in lieu of pension, calculated as a percentage of base salary, from which the Executive Directors make their own pension arrangements.
4. This is the estimated or actual value of LTIP awards for which the performance period ended in the year including dividend equivalents. The quantum attributable to share price appreciation is £45,061. 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. Further details are provided on page 130. The LTIP value reported for Nigel in respect of 2022 has been restated to reflect the actual share price at the relevant vest date for the award (being his 2020 LTIP award, which was granted in respect of his previous role prior to his appointment to the Board, and which vested on 6 April 2023: £1.5229).

Variable pay outcome (audited information)

Performance-related annual bonus

In line with the Policy, the 2023 target and maximum annual bonus opportunities were 87.5% and 175% of salary respectively for Mark Irwin (Group Chief Executive) and 77.5% and 155% of salary respectively for Nigel Crossley (Group CFO). Overall outcomes against the 2023 bonus are summarised on page 128.

Performance targets and achievement against them

The table on page 128 sets out the performance targets for 2023 as well as achievement against these.

The 2023 ESG scorecard focused on two key areas with the emphasis (two-thirds of this element) placed on the first area:

- Health and safety within our operations through improvements in the Lost Time Injury Frequency Rate (LTIFR); and
- maintaining a high level of colleague engagement as measured through our annual Group employee engagement score.

The performance measured against each component of the scorecard, and the overall performance outcome determined by the Committee in considering the overall ESG performance, is set out in the table on page 128. The Committee noted that the LTIFR for 2023 was 6.07, above the 5.14 required for payout, although the absolute number of incidents had reduced from 619 to 601 and the number of working days lost fell by 5%. Whilst improvements were seen in a number of regions, further progress was needed in order to hit the stretching targets set. Given how important health and safety is for Serco, the performance against this component of the scorecard has been reflected in the overall outcome against the ESG scorecard.

Directors' Remuneration Report continued

Performance measure and relative weighting	Threshold Target (£m)	Target (£m)	Maximum target (£m)	Actual performance (£m)	Achievement against measure (% maximum opportunity for this measure)
Trading Profit[1] (40%)	£234.2	£242.4	£257.6	£248.9	71 %
Free Cash Flow[1] (30%)	£120.7	£143.8	£166.8	£209.5	100 %
ESG scorecard (15%)					33 %
LTIFR		5.14		6.07	
Global colleague engagement score[2]		70	71	71	
Individual Objectives (15%)					
Mark Irwin					70 %
Nigel Crossley					70 %
Overall bonus (% max)					
Mark Irwin					74 %
Nigel Crossley					74 %

1. Actual performance at constant currency.
2. Group employee engagement score from Employee Voice survey run from 5 to 22 September 2023.

Achievement of individual objectives

Executive Director	Achievements in year
Mark Irwin, Group Chief Executive	The Committee considered Mark's performance against his stated objectives and deemed his overall performance in 2023 to be strong. In taking up his new role as Group Chief Executive, Mark demonstrated effective and visible leadership throughout 2023, and over the course of the year delivered strong performance and financial results, despite post-Covid challenges in our markets globally. Maintaining organisational stability alongside a number of substantial organisational changes and new executive appointments, is testament to Mark's ability to develop and maintain key stakeholder relationships, maintain strong governance, and compel a new vision for growth, one that will improve safety, engagement and performance outcomes for our people and customers. Achievements include: – Reported total pipeline as at 31 December 2023 was £12,720m (versus investor pipeline of £10.1bn). Both total reported pipeline and investor pipeline are materially larger than in FY22. New business wins were below threshold at £1,812m, although total wins were above threshold (but below target) at £4,614m. – Established KSA advisory. Active support to win and retain key contracts. – Completed the strategy review which was built from the Divisional level upwards. Established a pathway to deliver organic growth of 4 to 6% per annum through to 2028. – Achieved an 18% reduction in Scope 1 and 2 Carbon during 2023. – Made the transition to Group Chief Executive. Established strong and productive relationship with the Board Chair and Board. Appointed three new Executive team members. – New executive appointments made which have increased diversity among the Executive team and faced into difficult discussions judiciously. Successfully oversaw the reorganisation of the Asia Pacific ELT, including the appointment of a new Divisional CEO. – Ethnic representation has improved slightly at Group Executive Committee, minus one level. Global Head of DEI appointed. New stretching targets set for 2024 to 2026. – Engagement with the investment community with approximately 100 meetings having taken place. Serco's share price rose by 4% over the year. – Updated Serco Management System implemented and reduced to 14 core interactive modules.
Achievement	70 %

Directors' Remuneration Report continued

Nigel Crossley, Group CFO	The Committee considered Nigel's performance against his stated objectives and deemed his overall performance in 2023 to be strong. Nigel continued to demonstrate effective and visible leadership throughout 2023, in particular supporting the organisation's transition to a new Group Chief Executive. With growth in revenues and underlying trading profit, good liquidity and balance sheet strength, Nigel has delivered strong financial results for the sixth consecutive year. This is despite a range of challenging global and market economic factors that affect each of Serco's Divisions. Nigel has maintained effective relationships with internal and external stakeholders, and maintained the confidence of the wider investment community, essential as Serco embarks upon a refreshed strategy to deliver growth and improved safety, engagement and performance outcomes for our people and customers. Achievements include: – Reported total pipeline as at 31 December 2023 was £12,720m (versus investor pipeline of £10.1bn). Both total reported pipeline and investor pipeline are materially larger than in FY22. New business wins were below threshold at £1,812m, although total wins were above threshold (but below target) at £4,614m. – Effective support of the transition to a new Group Chief Executive, with both internal and external audience and with strong delivery of financial results in 2023. – Continued to build the capability of the Finance function with key senior appointments made at Division and Group level. – Completed a refresh of the Internal Audit function and priorities. – Supported the achievement of the Divisional growth plans with the establishment of KSA advisory. Active support to win and retain key contracts. – Key hires made which have increased diversity among the Executive team, and senior finance teams. Strong and collaborative relationships being established with internal and external stakeholders. Employee engagement rate in the corporate Finance function was 84. – Engagement with the investment community with approximately 100 meetings having taken place. Serco's share price has grown 4% over the course of 2023. – Free cash flow of £209m achieved. – Completion of the strategy review which was built from the divisional level upwards. Established a pathway to deliver organic growth of 4 to 6% per annum through to 2028.
Achievement	70 %

When approving the payments, the Committee considered Serco's wider business performance during the year as well as the experience of all our stakeholders. This included the bonus outcomes for our wider employee base which factor in a combination of Group, Divisional and Business Unit performance to ensure payments are reflective of the overall contribution to Serco's performance. In addition, an Underlying Operating Profit (UOP) test applied to ensure affordability. After a full review, the Committee determined that the formulaic outturn is fair and appropriate with no adjustments needed. The table below sets out the bonus outturn for 2023 as well as the amount to be deferred.

2023 Bonus outcome

	Mark Irwin	Nigel Crossley
Bonus amount earned[1]	£1,036,631	£550,896
Bonus payable as % max (% salary)	74.0% (129.6%)	74.0% (114.8%)
Value of bonus to be deferred for three years into Serco shares (% of total bonus)	£236,631 (22.8%)	£70,896 (12.9%)

2021 Long-term incentive Plan (2021 LTIP)

The 2023 single figure is comprised of the 2021 LTIP awards granted on 6 April 2021, which are due to vest on 6 April 2024 subject to TSR, EPS, ROIC, Order Book (measured as the book-to-bill ratio) and Employee Engagement performance in the three-year period to 31 December 2023. 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 Committee is satisfied that no adjustment to the vesting outcome is required in respect of windfall gains.

Directors' Remuneration Report continued

The performance and formulaic vesting outcome for each tranche of the 2021 LTIP is as follows:

Performance condition and relative weighting	Threshold – 25% vesting	Maximum – 100%	Performance measured	Vesting (% of maximum)
Relative TSR[1] (25%)	Median ranking	Upper quartile ranking	Rank 28/155	100 %
Aggregate EPS[2] (25%)	25.17p	30.76p	39.07p	100 %
Average pre-tax ROIC[2] (25%)	16.5%	20.2%	22.1 %	100 %
Order Book[2] (10%)	N/A	105%	104 %	90 %
ESG scorecard[2] (15%)	N/A	See below	See below	61 %
Overall vesting outcome				93.15 %

1. For the 2021 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 2023. The Company's TSR of 31.8% ranked 28, giving a vesting outcome of 100%.
2. 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 scorecard targets to be strategically critical to the longer-term success of the Company, and that there should be no vesting below target performance. The Order Book vesting level for on-target performance (being a book-to-bill ratio of 100%) is 50% of this element, rising on a straight-line basis to 100% for maximum performance. Further details of the ESG scorecard are below.

ESG scorecard performance

The Committee considered the overall performance of all components of the ESG scorecard in the round in determining an overall outcome for this element of 61% of maximum.

Scorecard component	Actual performance
Average annual Group employee engagement score over the three-year performance period (score of 69 for target, and 71 at maximum).	70.33
Improvement in colleague diversity across gender (focusing on leaders) and ethnicity, to include:	
– Gender diversity amongst our leaders to be measured as the percentage of women holding senior global leadership roles in 2023 (with a target of 33% and maximum 35%). – Strategy for addressing ethnic diversity challenges throughout our organisation, and particularly in management and senior leadership roles.	Senior leadership roles held by women in 2023: 34.3% Good progress has also been made on our diversity, equality and inclusion approach and strategy with an internal review of global diversity and inclusion practices completed in 2022. Further details of progress in 2023 can be found on pages 28 to 31 of this Annual Report.
Improvement in our understanding, management and disclosure of Serco's environmental risks.	Completed a review to better understand our climate-related risks and opportunities, and now disclose these in our Annual Report. Our ESG scores have shown steady improvement over the period and we have set stretching carbon reduction targets. Further details of progress can be found on pages 49 and 75 of this Annual Report.

2021 LTIP Awards vesting

Nigel Crossley has 458,830 shares under his 2021 LTIP award of which awards over 427,399 shares (plus 6,904 associated dividend equivalent shares) will vest on 6 April 2024. The total value at vest is estimated at £655,580 based on the three-month (ending 29 December 2023) average closing share price of £1.5095.

Pensions (audited information)

As at 31 December 2023, 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.

Payments for loss of office and to past Directors (audited information)

Angus Cockburn stepped down as Group CFO on 21 April 2021. Rupert Soames stepped down as Group Chief Executive on 31 December 2022. Share awards vested to Rupert and Angus in 2023 are in line with the treatment on cessation of employment as previously disclosed in our 2022 and 2021 Reports respectively. The awards below vested in the year.

	Award vesting	No. of shares vesting[1]	Value vesting
Rupert Soames	2020 LTIP	1,235,490	£1,881,567
	2020 ESBP	437,967	£664,002
Angus Cockburn	2020 LTIP	310,246	£472,484
	2020 ESBP	181,449	£275,095

1. Shares vesting from the 2020 LTIP awards remain subject to a post-vest holding requirement until the fifth anniversary of grant (6 October 2025).

All ESBP and LTIP awards noted above remain subject to malus and clawback provisions. There were no other payments made to past Directors in 2023.

Directors' Remuneration Report continued

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

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

	Fee-bearing Committee roles held in the year	Board fee (including Chairmanship fees) (£)		Taxable benefits[1] (£)		Total[2] (£)	
		2023	2022	2023	2022	2023	2022
John Rishton (Chair)		**288,400**	280,000	**7,199**	5,865	**295,599**	285,865
Kirsty Bashforth	**C** R RI	**79,130**	76,494	**5,325**	7,292	**84,455**	83,786
Kru Desai	A C	**66,255**	63,994	**–**	–	**66,255**	63,994
Tim Lodge	**A** R RI	**79,130**	76,494	**365**	588	**79,495**	77,082
Ian El-Mokadem	A **RI**	**73,980**	71,494	**84**	–	**74,064**	71,494
Dame Sue Owen[3]	C RI	**70,155**	63,994	**196**	235	**70,351**	64,229
Lynne Peacock (SID)	A **R**	**88,980**	86,494	**841**	450	**89,821**	86,944
Total		**746,030**	718,964	**14,010**	14,430	**760,040**	733,394

A = Audit Committee, C = Corporate Responsibility Committee, R = Remuneration Committee, RI = Risk Committee. Red denotes Chair.
No additional fees were payable for other Board Committee roles in the year.

1. Taxable benefits in 2022 and 2023 relate to reimbursed taxable travel and subsistence business expenses.
2. Non-Executive Directors do not receive any variable pay so 'Total' is total fixed remuneration.
3. As Designated Non-Executive Director for Workforce Engagement, Dame Sue Owen received a fee which was introduced from 1 April 2023, as disclosed in the 2022 Report and aligned to the fees payable for membership of a committee.

Awards made in 2023

Equity Settled Bonus Plan (ESBP) (audited information)

In line with the approved Policy, in connection with the compulsory deferral of the 2022 bonus in excess of 100% of salary, Nigel Crossley was granted the following ESBP awards on 28 March 2023 in the form of a conditional share award. ESBP awards granted in 2023 vest on the third anniversary of grant on 28 March 2026 provided the individual is still in employment with Serco at vest.

Directors	Face value (£)[1]	Grant date	Market price at award (£)[2]	Number of shares[3]
Nigel Crossley	97,149	28 March 2023	1.5416	63,018

1. Calculated as the value of the Executive Directors' 2022 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.

Directors' Remuneration Report continued

Long Term Incentive Plan (LTIP) (audited information)

In line with the approved 2021 Policy, in 2023, the Group Chief Executive received LTIP awards equivalent to 200% of salary, and the Group CFO received awards equivalent to 175% of salary. All awards were in the form of conditional share awards and have a normal vesting date of 6 April 2026. Awards will vest to the extent that the performance conditions have been met, as measured over the three-year performance period ending 31 December 2025, and provided the individual is still in employment with Serco at vest.

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 34.64p (threshold, 25% vesting) to 42.34p (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 18.3% (threshold, 25% vesting) to 22.4% (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: – employee engagement score of 70 for target and 72 for maximum performance measured via the Serco Employee Engagement Survey as an average across the three-year performance period; – colleague diversity improvement assessed against a scorecard of factors including reviewing progress on activities which support diversity as well as reviewing qualitative metrics such as the percentage of women and colleagues of diverse ethnic backgrounds who hold senior global leadership roles; 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 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.

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
Mark Irwin	200%	1,600,00	6 April 2023	1.5344	1,042,752	18.75%	31 December 2025
Nigel Crossley	175%	840,000	6 April 2023	1.5344	547,445	18.75%	31 December 2025

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.

MyShareSave 2023 (audited information)

In line with the approved Policy, and HMRC's requirements relating to UK Sharesave, the Executive Directors were invited to participate in the 2023 scheme on the same terms as all other eligible employees. For 2023, neither Executive Director chose to take up the invitation to participate. Both Executive Directors are participants in the 2022 scheme.

Deferred bonus plan (DBP) – legacy arrangement (audited information)

In connection with the earlier voluntary deferral of a proportion of his 2022 bonus related to his previous role within Serco, on 6 April 2023 Mark Irwin was granted a conditional share award over 287,844 shares (face value at grant of £442,869.58 based on the market price at grant of £1.538575) under a legacy arrangement applicable to that previous role. This award will vest on 6 April 2026, subject to EPS performance, continued employment and the continued holding of Investment Shares.

Directors' Remuneration Report continued

Implementation of the Policy in 2024

Executive Directors

Details of the salary increases, pension opportunity and annual bonus and LTIP awards (including a summary of the performance measures and relative weightings) are provided on page 118.

Details of the performance measures to apply to the 2024 annual bonus and long-term incentive awards

To deliver our strategy we are focused on six core areas which are most significant to driving value: People, Brand, Growth, Efficiency, Operations and Technology. Our variable pay for 2024 aligns to this through the targets set against a number of these. The performance measures and relative weightings applicable to the 2024 annual bonus and LTIP are summarised on page 118, further details are provided below. The Committee takes a robust approach to target setting, informed by internal budget and long-term plans, analyst forecasts and strategic objectives.

2024 Annual bonus

The performance measures applicable to the 2024 bonus have been determined taking into consideration the key strategic priorities of Serco over the next 12 months. In particular, the 2024 ESG scorecard metrics recognise the business priorities of care for our colleagues. Determination of the amount payable under the 2024 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 2024 bonus awards, the Committee will also take into consideration the wider performance of the Group. The final payouts will be adjusted, where appropriate, to ensure that the outcomes are a fair and reasonable reflection of the performance of the Group.

2024 LTIP

The table below provides details of the performance measures and targets to apply to the 2024 LTIP awards. Targets have been set taking into account our longer-term business forecasts and strategy, as well as analyst consensus. In each case performance will be assessed over the three-year period ending 31 December 2026. In determining the final vesting of these awards, the Committee will also give consideration to the Group's underlying performance (with input from the 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 final payouts will be adjusted, where appropriate, to ensure that the outcomes are a fair and reasonable reflection of the performance of the Group.

Performance measure	Weighting of measure	Performance target	Threshold 25% vesting[1]	Maximum 100% vesting
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.	43.39p	53.03p
Average ROIC	25%	Pre-tax Return on Invested Capital (ROIC) measured as an average over the three-year performance period.	22.1 %	27.1 %
Relative TSR	20%	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
Growth	20%	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[1]	105% or above
		Organic Revenue Growth, measured as a three point average over the three-year performance period.	4 %	6 %
ESG scorecard	10%	Average annual Group employee engagement score over the three-year performance period at or above 72 for on-target performance.	71	73
		Reduction in Scope 1 and 2 carbon emissions towards our longer-term net zero goals. Total reduction of 3,081 tCO2e for on-target performance, to be measured over the three-year performance period.	Reduction of 1,628 tCO_2e	Reduction of 4,331 tCO_2e

1. Unless indicated, each tranche vests at 25% for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Book-to-bill target to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Performance below target will 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. The vesting level for on-target performance is 50% of these elements, rising on a straight-line basis to 100% for maximum performance.

Directors' Remuneration Report continued

Non-Executive Directors

Following the annual review of Non-Executive Director fees, the Committee (in respect of the Board Chair's fee) and the Board (in respect of all other Non-Executive Director fees) determined that a 3% increase should apply from 1 April 2024 (this is below that which will apply to the wider workforce). In line with the approved Policy, the fees to apply in 2024 will be as follows:

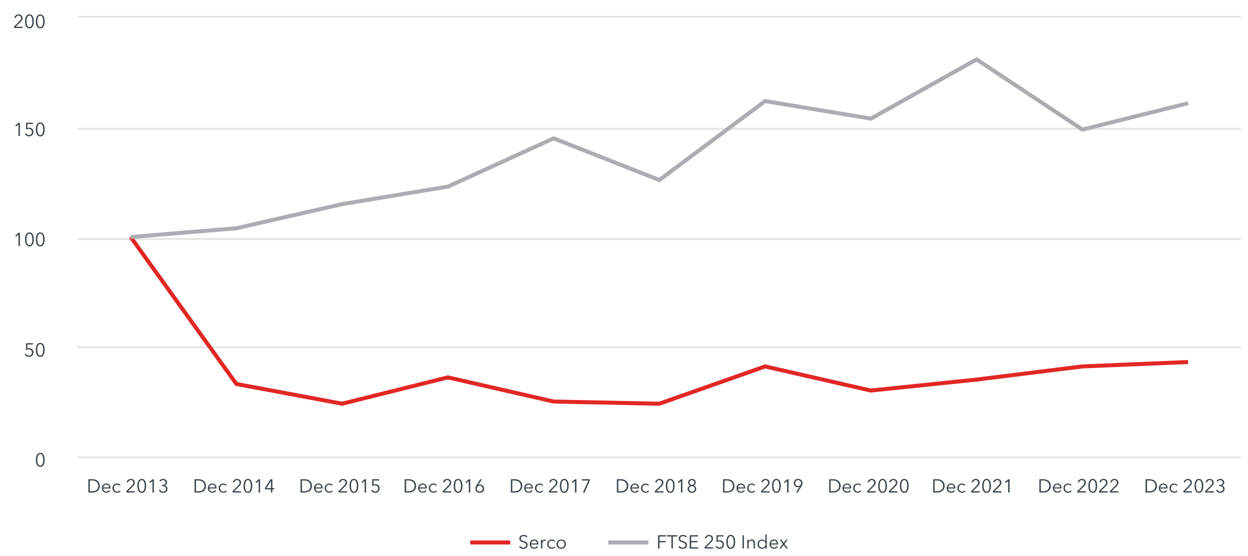
	Base fee to apply from 1 April 2024 £	Base fee 1 April 2023 £	Change £
Element – Annual Board and Committee fees			
Board Chair	299,936	291,200	8,736
Senior Independent Director	15,450	15,000	450
Board fees	58,193	56,498	1,695
Chair of a Board Committee (Audit, Corporate Responsibility, Risk or Remuneration)	13,390	13,000	390
Membership of a Board Committee (Audit, Corporate Responsibility, Risk or Remuneration)	5,356	5,200	156
Designated Non-Executive Director	5,356	5,200	156

No additional fee is payable for the Chair or membership of the Nomination Committee. The Board Chair does not receive any additional fees for his Committee memberships nor do the Executive Directors where they sit on Board Committees.

Performance graph and table

This graph shows the value as at 31 December 2023, of a £100 investment in Serco on 31 December 2013 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 2023 single figure can be found on page 130.

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.



Directors' Remuneration Report continued

CEO's pay in last ten financial years

Year ended 31 December	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Ed Casey									
Group Chief Executive	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Mark Irwin
Single figure remuneration (£'000)	1,605 748	2,255	2,217	3,681	5,176	5,201	5,219	4,011	4,377	1939
Annual bonus outcome (as % of maximum opportunity)	71% 0%	87%	82%	75%	77%	94%	80%	93%	88%	74 %
LTI vesting outcome (as % of maximum opportunity)	0%	100%	24%	91%	73%	71%	99%	89%	90%	N/A

Percentage change in Directors' remuneration

The table below shows the percentage change in remuneration for all Directors who served during 2023, 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 19,000 of the approximately 46,000 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. 2023 is the fourth year of disclosure.

		Executive Directors		Non-Executive Directors						
	UK employees	Mark Irwin	Nigel Crossley	John Rishton	Kirsty Bashforth	Kru Desai	Tim Lodge	Ian El-Mokadem	Dame Sue Owen	Lynne Peacock
2023										
Salary/fees[1]	6.4 %	N/A	10.0 %	3.0 %	3.4 %	3.5 %	3.4 %	3.5 %	9.6 %	2.9 %
Benefits[2]	– %	N/A	64 %	23 %	(27)%	N/A	(38)%	N/A	(17)%	87 %
Bonus[3]	11 %	N/A	3 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2022										
Salary/fees[1]	4.5%	N/A	47%	26%	1%	467%	22%	1%	2%	7%
Benefits[2]	2 %	N/A	102%	194%	435%	0%	100%	0%	100%	1%
Bonus[3]	(13)%	N/A	38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2021										
Salary/fees[1]	2.1%	N/A	N/A	146%	0%	N/A	N/A	8%	140%	15%
Benefits[2]	2%	N/A	N/A	128%	114%	N/A	N/A	0%	0%	0%
Bonus[3]	21%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2020										
Salary/fees[1]	1.9%	N/A	N/A	0%	2%	N/A	N/A	4%	N/A	0%
Benefits[2]	(3)%	N/A	N/A	(51)%	(81)%	N/A	N/A	0%	N/A	0%
Bonus[3]	20%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. The average salary change for UK employees for 2020 represents the average pay increase applied in the corporate annual pay review effective 1 April 2020. From 2021, the average salary change for UK employees represents the average level salary change recorded over the relevant financial year, excluding role changes or promotions, to better reflect our wider workforce pay rates, including those parts of our workforce subject to collective bargaining agreements, customer-set pay structures, or trade union negotiations. Changes in NED fees reflect changes in each individual's role on the Board and its Committees, in addition to the April 2023 fee uplift which was disclosed in the 2022 Report.
2. The nature of taxable benefits provided to all Directors and employees in 2023 remains the same as in prior years.
3. The bonus element is shown for those employees eligible for such payments. The figures shown here relate to a calculation of the bonus earned, but not yet paid, related to performance in 2023 compared to the 2022 bonuses paid in March 2023. The Executive Directors' 2023 bonuses over 100% of salary are subject to compulsory deferral for three years into shares. NEDs do not receive bonus pay.

Directors' Remuneration Report continued

CEO Pay Ratio

The table below shows how pay for the Group Chief Executive compares to our UK colleagues at the 25th, median and 75th percentiles.

	2019 (Option B)	2020 (Option B)	2021 (Option B)	2022 (Option B)	2023 (Option B)	UK colleagues' salary[1]	UK colleagues' total pay and benefits[2]
25th percentile	1:219	1:186	1:168	1:141	1:80	£22,934	£24,340
Median	1:190	1:149	1:139	1:129	1:60	£30,191	£32,208
75th percentile	1:166	1:142	1:122	1:101	1:56	£32,172	£34,356

1. Includes salary enhancements such as shift allowances, unsociable hours payments and overtime.
2. 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, noting that for 2023 the comparative Group Chief Executive pay figure is relatively suppressed due to the reduced variable pay component in this first year in role for the Group Chief Executive. As a business, Serco employs a very wide range of people with different skills, experiences and capabilities, and our colleagues' pay and benefits reflects this. The remuneration of Serco's Group Chief Executive 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 frontline 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 2022 to 2023 is due to the reduced variable pay in 2023 for the Group Chief Executive as this was his first year in role. LTIP awards granted in respect of qualifying service (from 2023) will not be reflected in the Group Chief Executive's single figure until 2025.

Consistent with prior years, we have used our 2023 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 2023. The single figures have been calculated taking into consideration regular salary and allowances (for example, shift allowances), employer pension contributions, taxable benefits and bonuses following the same approach taken in determining the Group Chief Executive'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.

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. Neither Executive Director held any external appointments in the year.

Directors' shareholding and share interests (audited information)

Current shareholdings are summarised on page 117. Shares are valued for shareholding guideline purposes at the year-end price, which was £1.621 per share at 29 December 2023 (being the last trading day of the financial year).

			Share awards		Share options		
Name[1]	Share ownership requirements (% of salary)	Number of shares owned outright at 31 December 2023[2]	Subject to performance conditions[3]	Not subject to performance conditions[4]	Not subject to performance conditions[5]	Exercised during the year[6]	Total share interests at 31 December 2023[7]
Mark Irwin	200%	1,494,270	2,657,338	0	4,285	0	4,155,893
Nigel Crossley	200%	411,711	1,512,994	158,653	4,285	0	2,087,643

1. Nigel Crossley was appointed to the Board as Group CFO on 21 April 2021, Mark Irwin was appointed to the Board as Group Chief Executive on 1 January 2023. It is anticipated that it will take new Executive Directors up to five years from appointment to meet their shareholding commitment.
2. Includes shares owned by connected persons.
3. Includes awards made to Mark Irwin and Nigel Crossley under the LTIP. All awards are in the form of conditional share awards.
4. These are awards made under the ESBP in connection with the compulsory deferral of bonus into shares. Awards are in the form of conditional share awards and have not yet vested.
5. Options over shares pursuant to participation in MyShareSave. These are options granted under a UK Sharesave plan subject to an exercise price at a maximum discount of 20% of the share price at grant. There are no unvested share options held which are subject to performance conditions.
6. There are no share options that are vested but unexercised.
7. There were no changes in Executive Directors' interests in the period between 1 January 2024 and the date of this report.

Directors' Remuneration Report continued

Non-Executive Directors do not participate in any share-based incentives and do not hold any interests in shares other than shares owned outright. Non-Executive Directors are encouraged to hold shares in the Company but are not subject to a shareholding requirement.

Name	Number of shares owned outright (including connected persons) at 31 December 2023[2]
John Rishton	43,086
Kirsty Bashforth	10,000
Kru Desai	–
Tim Lodge	40,000
Ian El-Mokadem[1]	50,000
Dame Sue Owen	10,000
Lynne Peacock	15,000

1. Jointly held with spouse.
2. There were no changes in Non-Executive Directors' interests in the period between 1 January 2024 and the date of this report.

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 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 2023, the Company had headroom of 1.34% and 6.33% 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 9,144,275 and 11,351,967 ordinary shares at 1 January 2023 and 31 December 2023 respectively.

Voting outcomes

At the previous AGMs, votes on remuneration matters were cast as follows:

	Year of AGM	For %	Against %	Number withheld[1]
2022 Annual Report on Remuneration	2023	86.41 %	13.59 %	8,509,213
2021 Remuneration Policy	2021	94.55 %	5.45 %	1,633,113

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

Committee overview and activities

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.

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 six times during the year. Details of attendance at meetings are set out on page 102. Meetings of the Committee are normally attended by the Group Chief Executive, the Group Chief People and Culture Officer, the Group Reward Director, the Group General Counsel, the Group 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.

Directors' Remuneration Report continued

Summary of the Committee's activities during 2023

The Committee met six times during the year, one of which was an ad hoc meeting. The table below summarises the key issues that the Committee considered at each meeting. Remuneration packages for new hires and severance packages for roles subject to the Committee's oversight, together with regulatory and market developments were reviewed at each meeting as required. The Employee Dashboard and key points from the engagement with the workforce are considered at each meeting as appropriate.

Meeting	Key agenda items
January	Group Executive Committee pay review; 2023 LTIP performance framework; 2023 Executive Director objectives; review of the 2022 Report commentary and disclosure.
February	Shareholder consultation update; Employee Dashboard review on policy and workforce demographics; 2022 annual bonus achievement and payouts for Executive Directors and Group Executive Committee members; 2023 bonus performance framework; 2020 LTIP vesting; 2023 discretionary share award policy.
June	AGM voting results for the 2022 Remuneration Report; discretionary share awards update; MyShareSave 2023; Kick-off of 2023 Policy review.
September	Consideration of 2024 Policy proposals; interim bonus and LTIP performance update.
November (ad hoc)	Consideration of 2024 Policy proposals.
December	2024 Policy proposals; Executive 2024 pay review; Employee Dashboard review including 2023 UK Gender Pay Gap and employee feedback on reward; 2023 bonus and 2021 LTIP performance update; 2024 bonus and LTIP proposals.

External advisers

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 2023 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[2]
WTW	Remuneration Committee in 2020	Advice on market practice; governance; reward consultancy	£72,750	Reward and benefits consultancy; provision of benchmark data; DRR review

1. Fees are determined on a time spent basis.
2. WTW do not, to the Committee's awareness, have any other connection with the Company or individual Directors.

Lynne Peacock
Chair of the Remuneration Committee
1 March 2024

Directors' Report: Other Information

Share capital and Rights attaching to shares
The Company had 1,103,545,966 ordinary shares of 2 pence each in issue as at 31 December 2023. Further details relating to share capital can be found in note 31.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

The Company is not aware of any agreement between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Authorities to allot and pre-emption rights
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 on 27 April 2023, pursuant to Section 570 of the Companies Act 2006, shareholders approved the disapplication of pre-emption rights in connection with the issue of shares for cash up to 10% of the existing issued share capital and an additional 10% (only to be used in connection with an acquisition or specified capital investment) and in connection with a follow-on offer to existing shareholders not allocated shares under an issue made pursuant to either of the authorities. These authorities will expire at the conclusion of the 2024 Annual General Meeting.

Authority for the purchase of shares
At the Annual General Meeting on 27 April 2023, the Company was granted authority by shareholders to purchase up to 115,617,039 ordinary shares (10% of the Company's issued ordinary share capital). This authority will expire at the conclusion of the 2024 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2024.

As announced on 28 February 2023, the Company undertook a programme to purchase its own shares with a value of up to £90 million. During the year, the Company purchased a total of 58,956,118 shares with a nominal value of £1,179,122 (representing 5.34% of the Company's issued share capital (excluding those purchased and held in treasury) at a total cost of £88.8 million. The Company cancelled all shares that were purchased and held in treasury.

The Board has agreed a further share purchase up to the value of £140 million which it is intended will be completed in 2024.

Employee share schemes
The details of the Company's employee share schemes are set out on page 119 in the Directors' Remuneration Report and in the Employee engagement section below.

The Company's share schemes plan rules 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.

Results, dividends and dividend waiver
The results for the year are set out in the Statement of Comprehensive Income on page 156. Our dividend policy for 2024 remains to increase dividends and reduce the payout ratio of underlying profit after taxation dividend cover to approximately three over the medium term. The Directors recommend the payment of a final dividend of 2.27 pence per share for 2023 (2022: 1.92 pence), making a total ordinary dividend of 3.41 pence per share (2022: 2.86 pence).

The recommended final dividend is subject to approval at the AGM on 24 April 2024. The final dividend will be paid on 10 May 2024, with an ex-dividend date of 18 April 2024 and a record date of 19 April 2024. The Serco Group plc 1998 Share Ownership Trust, an employee benefit trust, which holds 11,351,967 shares in the Company as at 31 December 2023 in connection with the operation of the Serco's share plans, has lodged standing instructions to waive dividends on shares held by it that have not been allocated to employees. The total amount of dividends waived during 2023 was £337,193.

Directors and Directors' interests
The names of the Directors who served during the year can be found in the attendance chart on page 102.

Directors' interests in the shares of the Company are set out on pages 136 and 137 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.38% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2023.

Branch offices
The Group operates through branches of subsidiary companies in the following jurisdictions: Dubai, France, Italy, Qatar, Ras Al Khaimah, Sharjah, and Switzerland.

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.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. No Director had a material interest in any contract of significance in relation to Serco's business at any time during the year or at the date of this report.

Directors' Report: Other Information continued

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 subcontract 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,with an original end date December 2023. In November 2022, the client negotiated two further six month extension periods, taking the potential end date to December 2024. The client has since exercised this option and the anticipated end date of the contract is now December 2024. 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.

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: To bid and perform on certain classified contracts concerning US national security interests, Serco Inc. was required to mitigate its foreign ownership through a Special Security Agreement (SSA) among the US Department of Defense (DoD), Serco Inc., and Serco Group plc. The effective date of the SSA is 7 October 2019. The DoD may terminate the SSA in the event of the sale of Serco Inc. to an entity not under Foreign Ownership, Control or Influence (FOCI).

CMS Eligibility Support Services: In July 2023, 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 has an initial base term of one year, with three options of one year each, and one final seven-month option. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the US Government adversely affects the Company's ability to perform the services, the contract may be terminated by the US 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 US Navy installations around the world. The contract has an initial base term of five years, with one option for an additional three years. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the US Government adversely affects the Company's ability to perform the services, the contract may be terminated by the US 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. With a performance start date of January 2019, 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 US Government adversely affects the Company's ability to perform the services, the contract may be terminated by the US 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. 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 Continued Procurement of Marine Services (CPMS): On 11 November 2022, Serco Limited entered into a contract with the Secretary of State for Defence to continue to provide support services to the Royal Navy (the CPMS Contract). The CPMS Contract commenced on 17 December 2022 with the current term of the contract running until 31 March 2025 with an option for the Authority to extend by a further six months to 30 September 2025.

Directors' Report: Other Information continued

In the event of a change of ownership of Serco Limited or Serco Group plc to what the Authority may consider an "Unsuitable Third Party" (i.e. a legal person whose activities, in the reasonable opinion of the Authority, pose a threat to national security; whose activities are incompatible with operations, activities, legal duties or other functions of the Authority; or who is inappropriate because of specific information received by the Authority from the Crown, the SFO or the CPMS about their suitability), the contract may be terminated by the Authority.

Concession Agreement relating to the operation of Merseyrail: Serco Holdings Limited is a 50% shareholder in Merseyrail Services Holding Company Limited (the Merseyrail JV Co). Serco Holdings Limited's joint venture partner and the other shareholder in the Merseyrail JV Co is Transport UK Group Limited (following the acquisition of Abellio Transport Group Limited by its management team and related restructuring).

The Merseyrail JV Co is the concessionaire for the Merseyrail rail network under a concession agreement dated 23 May 2003 (the Merseyrail Concession Agreement) among Merseytravel (the passenger transport executive responsible for co-ordination of public transport in the Liverpool city region), the Merseyrail JV Co and Merseyrail Electrics 2002 Limited (the Merseyrail Operating Co). The Merseyrail Operating Co is a wholly-owned subsidiary of the Merseyrail JV Co. The Merseyrail Concession Agreement expires in July 2028 with an option to extend to July 2033 by agreement of the parties. In the event there is a change of control of Serco Holdings Limited or Serco Group plc without the Authority's prior consent then the Merseyrail Concession Agreement may be terminated by the Authority. In addition, there would be a requirement under the terms of the JV agreement to consider the representations of Transport UK Group Limited in relation to the conduct of any such change of control.

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 EQUANS SAS (EQUANS Holding UK Limited) which is now part of the Bouygues Group (following its acquisition of EQUANS from Engie). 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 seven-year term (with the possibility of extension for further periods of up to three 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 seven-year term (with the possibility of extension for further periods of up to three years) (the Lot 2b Contacts). The Lot 2b Contracts become operational on 1 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 £350,000,000 revolving credit facility dated 18 November 2022 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 was undrawn as at 31 December 2023.
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: At 31 December 2023, the Company had notes outstanding under two US Private Placement Note Purchase Agreements (the USPP Agreements) dated 13 May 2013 and 8 October 2020 respectively. The total amount of the notes outstanding under the two USPP Agreements was US$266,147,840 at 31 December 2023, with their maturities between May 2024 and October 2032. Subsequent to the balance sheet date, the Group issued a further US$150,000,000 of USPP Notes. Further details can be found in note 37 on page 219. Under the terms of all 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.

Annual General Meeting

The 2024 Annual General Meeting (AGM) of the Company will be held at the Company's offices at Enterprise House, 11 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9XB on Wednesday, 24 April 2024 at 11am. The Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each, will be sent to shareholders.

Employment policies

The Board is committed to maintaining a working environment where employees 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, while 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, gender reassignment, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

Directors' Report: Other Information continued

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 with a 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, sensitivity to local cultures, and 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, while ensuring that 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 employees 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 into account. 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 that 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 employees 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 created further opportunities for colleagues to share in the success of the Company. The Group offers MyShareSave, which is an all-employee savings-linked share option plan open to the majority of employees.

MyShareSave allows employees to enter into a savings commitment of 36 monthly payments for a fixed amount of between £5 and £150 per month, on completion of which the options may, subject to leaver provisions, be exercised with the savings used to buy shares at a discounted option price. MyShareSave was launched in 2022 and options are granted annually, with the exercise price set at up to a maximum of 20% discount of the share price on the date of grant.

Further information is contained in the People section and in the People Report which is available on our 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 Impact 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 Corporate Responsibility Committee. Oversight and scrutiny of other governance matters is distributed between all Board Committees, with certain matters reserved for the Board itself.

Further information can be found in the Our Impact section of the Strategic Report on pages 49 to 69.

Political donations

Shareholder authority to make aggregate political donations not exceeding £100,000 was obtained at the AGM on 27 April 2023. During the year, neither the Company nor any of its subsidiaries made any political donations as defined by the Companies Act 2006.

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.

Directors' Report: Other Information continued

Going Concern and Viability Statement

The Company's Viability Statement and Going Concern can be found on pages 47 to 48 and 161 to 162 respectively.

Notifiable interests in share capital

At 31 December 2023, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority of the following interests in voting rights over the issued share capital of the Company:

	No. of ordinary shares	% of issued share capital
BlackRock, Inc	101,415,227	9.16
FIL Limited	72,630,028	6.58
Slater Investments	60,908,863	5.00
Marathon Asset Management Limited	56,974,446	5.16

Since 31 December 2023, the Company received the following notifications:

- On 19 January 2024, FIL Limited notified that it had reduced its interest to 52,243,203 representing 4.73% of which 1.18% represents financial instruments with similar economic effect).
- On 25 January 2024, Slater Investments notified that it had reduced its interest to 54,352,261 representing 4.93%.
- On 2 February 2024, Marathon Asset Management Limited notified that it had reduced its interest to 54,372,120 representing 4.93%.

Other information

Likely future developments in the Group are contained in the Strategic Report on pages 20 to 25.

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 199 to 204.

Details on how the Company has complied with section 172 of the Companies Act 2006 can be found throughout the Strategic and Directors' Reports and on pages 88 to 92.

Details relating to post-balance sheet events are set out in note 37 on page 219.

Details relating to underlying operating profit can be found on page 79.

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

Nickesha Graham-Burrell
Group Company Secretary
1 March 2024

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 our website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule (DTR) 4.1.16R, the financial statements will form part of the annual financial report prepared under DTR 4.1.17R and 4.1.18R. The auditor's report on these financial statements provides no assurance over whether the annual financial report has been prepared in accordance with these requirements.

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.

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

1 March 2024

Mark Irwin
Group Chief Executive

Nigel Crossley
Group Chief Financial Officer

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Independent Auditor's Report
To the members of Serco Group plc

1 Our opinion is unmodified
We have audited the Group and Parent Company financial statements of Serco Group Plc. ("the Company") for the year ended 31 December 2023 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheet, Consolidated Cash Flow Statement and the related notes, including the accounting policies in note 2 for the Group financial statements and the accounting policies in note 38 for the Company financial statements.

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 2023 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.

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 8 financial years ended 31 December 2023. 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 our findings from those procedures in order that the Company's members, as a body, may better understand the process by which we arrived at our audit opinion. 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 recognition - Revenue £4,873.8m (2022: £4,534.0m), and Contract Assets £296.6m (2022: £345.0m)

Refer to page 109 (Audit Committee Report), pages 163 to 165 (accounting policy), pages 171 to 172 (key sources of estimation uncertainty), pages 181 to 182 (revenue from contracts with customers note in the financial statements), pages 193 to 194 (contract assets, trade and other receivables note in the financial statements) and page 198 (provisions note in the financial statements)

The risk
Accounting application
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 judgement involved in the assessment of current and future financial performance. The key judgements impacting the recognition of revenue and resulting operating profit include:

- 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; and
- The recognition and recoverability assessments of contract related assets (accruals).

Professional standards require us to make a rebuttable presumption that the fraud risk associated with revenue recognition is a significant risk. The potential for incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue recognition. The opportunity is considered to apply to the group's contracts with customers and we have identified a fraud risk over revenue recognition.

Independent Auditor's Report continued
To the members of Serco Group plc

Our response
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 and onerous contract provisions 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.

Our audit procedures included:

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:

Assessing policy application
We inspected each of Serco's contracts selected for substantive procedures with customers to identify the key contractual terms relevant to assess the method of revenue recognition to determine whether 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.

Accounting analysis
We inspected and challenged accounting papers prepared by the Group to explain the positions taken in respect of key contract judgements including contract modifications. 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.

Tests of details
To assess whether revenue was recognised appropriately in accordance with the Group's accounting policy and relevant accounting standards, for each contract selected for substantive procedures:

- we agreed a sample of revenue to documents such as invoices or purchase orders, or customer agreements for the work performed, as well as cash receipts;
- we inspected a sample of customer contracts to identify any contractual 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.

In addition, we undertook additional data analytic procedures over the UK & Europe divisional revenue in relation to performance obligations satisfied over time (which represents 49% of group revenue) in order to identify any unexpected account pairings in respect of revenue and revenue related transactions. For a selection of these unexpected pairings we obtained audit evidence to support the postings made and agree them to supporting documentation.

Site visits
- For all divisions the Group Audit team and relevant component teams attended a selection of monthly Divisional and Business Unit Performance Reviews used to assess business performance by the Group's management in order to inform our assessment of operational and financial performance of the contracts; and
- The Group Audit team and each of the component teams performed a selection of physical site visits and enquired with contract and Business Unit management teams as to matters related to operational and financial performance in order to inform our assessment of operational and financial performance of the contracts.

For contract related assets being revenue accruals, our procedures included:

Assessing application
We assessed whether contract related assets in the form of revenue accruals had been recognised in accordance with the Group's accounting policy and relevant accounting standards.

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.

Assessing transparency
We assessed whether the Group's disclosures in the financial statements provided sufficient detail regarding the revenue and contract asset (accruals) recognition policies and the key judgements applied

Independent Auditor's Report continued
To the members of Serco Group plc

Our findings
We found no material misstatements in the group's application of its revenue and contract asset recognition accounting policies (2022: no material misstatements).

Recoverability of group goodwill - Goodwill: £906.7m (2022: £945.0m);

Refer to page 109 (Audit Committee Report), pages 166 and 167 (Goodwill accounting policy), page 172 (key sources of estimation uncertainty relating to impairment of Goodwill), pages 188 to 190 (Goodwill note in the consolidated financial statements).

The risk
The carrying value of Goodwill in the group's financial statements is significant and at risk of irrecoverability due to the inherent 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, their key assumptions being discount rates, determining a terminal growth rate and for Asia Pacific, win rates for new and existing business, and assumptions regarding the Australian Immigration re-bid.

This year, the CGU which was most sensitive to a deterioration in the division's cash flow projections or an increase in discount rate was the Asia Pacific CGU (2022: America, Asia Pacific and Middle East CGUs).

As at year end 31 December 2023, the Asia Pacific CGU was estimated to have headroom of £110.0m (2022: £281.0m).

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use of the relevant CGUs had 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. In conducting our final audit work, we concluded that reasonably possible changes to the value in use of the UKE, Americas and Middle East CGUs would not be expected to result in an impairment. The financial statements (Note 17) disclose the sensitivity for goodwill estimated by the Group.

Our response
We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balances is such that detailed testing is inherently the most effective means of obtaining audit evidence.

Our audit procedures over goodwill included:

Benchmarking assumptions
With the assistance of our valuation specialists, we challenged the terminal growth rate and discount rate used in the value in use calculation by comparing the Group's assumptions to externally derived market 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 rebids, contract attrition, as well as margin assumptions on existing contracts through our component teams' knowledge of the entity and experience of the industry in which it operates.

Historical comparisons
We compared the actual cashflows for the past 5 years to historic forecasts to assess the historical accuracy of forecasts used in impairment models. Due to the performance of the Asia Pacific business during 2023 we also challenged the directors' win rates assumption for the Asia Pacific business by comparing them to recent and longer-term average win rates for both new wins and rebids.

Sensitivity analysis
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 tested the sensitivity of the impairment calculation to changes in key underlying assumptions for the Asia Pacific CGU, being the projected win probabilities for new business and rebids and on key contracts (the Australian Immigration contract). We assessed the impact on headroom of the reduced cashflows in what we considered combined plausible downside scenarios.

Comparing valuations
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.

Assessing transparency
We also evaluated the adequacy of the Group's disclosures related to the estimation uncertainty, judgements made and assumptions over the recoverability of goodwill and the level of detail included in the disclosures. We challenged Management on the range of sensitivities considered to ensure that these reflected the key risks particularly in respect to the Asia Pacific CGU, with regards to both win rate assumptions being aligned to the longer-term five-year average and the assumptions regarding the Immigration rebid and timing thereof to ensure overall the disclosure reflects the risks inherent in the valuation of goodwill.

Independent Auditor's Report continued
To the members of Serco Group plc

Our findings:
We found the Group's assessment that there is no impairment of the carrying amount of Group's goodwill to be optimistic (2022: balanced) and the related goodwill disclosures including those addressing the sensitivities considered to be proportionate (2022: proportionate).

Recoverability of parent's investment in subsidiary - Investment in Subsidiary £2,052.5m (2022: £2,052.5m)

Refer to page 222 (Investments held as fixed assets note in the Company financial statements) and page 222 (Fixed Asset Investments accounting policy in the Company financial statements).

The risk
The carrying amount of the parent Company's investments in subsidiaries represents 79% (2022: 77%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our response
We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balances is such that detailed testing is inherently the most effective means of obtaining audit evidence.

Our audit procedures over the investment in subsidiary included those performed in the Recoverability of group Goodwill KAM above. Additionally, substantive audit procedures over recoverability of the Parent company's investment in subsidiary included:

- Comparing the carrying amount of the investment with the subsidiary's draft balance sheet to identify whether its net assets, being an approximation of the minimum recoverable amount, are in excess of the carrying amount and assessing whether the subsidiary's group 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).

Our findings:
We found the Group's assessment that there is no impairment of parent company's investment in subsidiary to be balanced (2022: balanced)

Changes to our Key Audit Matters:
In the prior period we included within our revenue recognition key audit matter a focus on the margin recognition and Group's Onerous Contract Provisions (OCP) as in the prior period we determined a significant level of management judgement. However, we have re-assessed this for our 2023 audit and whilst the margin recognition and OCP remains a significant risk area for our audit it is not separately identified in our report this year.

In previous periods we have reported our Recoverability of Group Goodwill and Recoverability of Parent's Investment in Subsidiary as a single KAM. However, we have presented them separately for our 2023 audit.

3 Our application of materiality and an overview of the scope of our audit
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

Materiality for the Group financial statements as a whole was set at £9m (2022: £9m), determined with reference to a benchmark of group profit before tax, of which it represents 3.6% (2022: 4.57%).

Materiality for the parent company financial statements as a whole was set at £4.1m (2022: £8.1m), which is the component materiality for the parent company determined by the group audit engagement team. This is lower than the materiality we would otherwise have determined with reference to parent company total assets, of which it represents 0.2% (2022: 0.3%).

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% (2022: 75%) of materiality for the financial statements as a whole, which equates to £6.75m (2022: £6.75m) for the group and £3.1m (2022: £6.0m) 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.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.45m (2022: £0.45m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit
We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements. Of the Group's 7 (2022: 6) reporting components, we subjected 6 (2022: 5) to full scope audits for Group purposes and 0 (2022: 1) to specific risk-focussed procedures over a number of accounts such as revenue and onerous contract provision. The latter was not financially significant enough in prior year to require a full scope audit for group purposes but did present specific individual risks that needed to address in the prior year.

Independent Auditor's Report continued
To the members of Serco Group plc

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of components	Group revenue	Group profit before tax	Group total assets
Full scope audits for Group purposes 2023	6	100 %	100 %	100 %
Full scope audits for Group purposes 2022	5	95 %	91 %	97 %
Specified risk-focussed audit procedures 2022	1	5 %	9 %	3 %
Total 2022	6	100 %	100 %	100 %

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above, specifying minimum procedures to perform in the audit of Journals and the information to be reported back. The Group team determined component materiality levels, which ranged from £3.2m to £7.0m (2022: £3.2m to £7.0m) having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 7 components (2022: 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.

The Group team visited all (2022: all) component locations to assess the audit risk and strategy, and to perform site visits. Video and telephone conference meetings were also held with these component auditors. These visits and meetings involved explanations of Group audit instructions, involvement in planning audit procedures, discussing progress updates and emerging findings, reviewing outcomes of testing performed and discussing audit findings. The Group audit team inspected the audit documentation of the component audits through various stages of their audits. The Group team also attended component virtual interim and closing meetings. At these visits and 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, or where neccessary the group 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 the group audit team, principally the testing of transaction processing controls.

The Group audit team performed testing of IT Systems and certain controls in the shared service centre on behalf of certain components and communicated the results of these procedures to component teams, where relevant.

The scope of the audit work performed was predominantly substantive as we only placed limited reliance upon the Group's internal control over financial reporting.

4 The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has made a commitment to be Net Zero across Scope 1, 2 and 3 emissions and to support its customers to meeting this target by 2050. Further information has been provided in the Group's Strategic Report on page 50. The Group's climate related disclosures as recommended by the Task Force on Climate Related Financial Disclosure (TCFD) are included on pages 70 to 75 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 also held discussions with our own climate change professionals to challenge our risk assessment.

Taking into account our risk assessment procedures, the nature and duration of the group's contracts and on the basis of our risk assessment we have determined that the climate change risks to the Group's business and strategy do not have a significant impact on the 2023 financial statements or our key audit matters. There was therefore no significant impact from climate change on our key audit matters.

We have also read the climate change related information in the front half of the Annual Report and considered consistency with the financial statements and our audit knowledge.

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 rebid (with greater focus this year on the Asia Pacific component); and
- Significant deterioration of cash collection, leading to a build-up of working capital.

Independent Auditor's Report continued
To the members of Serco Group plc

We also considered less predictable but realistic second order impacts, such as 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 the cashflow forecasts and the appropriateness of the key assumptions in the 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, 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 ability of the Group to prepare forecasts and budget 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 161 to 162 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, external 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, Underlying Operating 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 specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group. This included attending the Risk Assessment and Planning Discussion, with the engagement partner and engagement key team members, and assisting with designing relevant audit procedures to respond to the identified fraud risks.

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 all component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

Independent Auditor's Report continued
To the members of Serco Group plc

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,
- 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 also 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 and those posted to unexpected account combinations.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making significant accounting estimates are indicative of a potential bias.

We discussed with the audit committee other matters related to actual or suspected fraud, for which disclosure is not necessary and considered any implications for our audit.

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 Group 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 audit team to all component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group audit 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.

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.

Independent Auditor's Report continued
To the members of Serco Group plc

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 as described above:

- 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 the Risk Management Report on pages 32 and 33 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 47 to 48 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.

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.

Independent Auditor's Report continued
To the members of Serco Group plc

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 144, 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.

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements

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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

Juliette Lowes (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

1 March 2024

Consolidated Income Statement
For the year ended 31 December 2023

For the year ended 31 December	Note	Underlying 2023 £m	Non Underlying items 2023 £m	Reported 2023 £m	Underlying 2022 £m	Non Underlying items 2022 £m	Reported 2022 £m
Revenue	8	**4,873.8**	**–**	**4,873.8**	4,534.0	–	4,534.0
Cost of sales		**(4,378.3)**	**–**	**(4,378.3)**	(4,044.7)	4.2	(4,040.5)
Gross profit		**495.5**	**–**	**495.5**	489.3	4.2	493.5
Administrative expenses		**(275.8)**	**–**	**(275.8)**	(264.3)	–	(264.3)
Exceptional operating items	9	**–**	**53.8**	**53.8**	–	(2.4)	(2.4)
Amortisation and impairment of intangibles arising on acquisition	18	**–**	**(30.9)**	**(30.9)**	–	(21.6)	(21.6)
Share of results of joint ventures and associates, net of interest and tax	6	**29.0**	**–**	**29.0**	12.0	–	12.0
Operating profit / (loss)	10	**248.7**	**22.9**	**271.6**	237.0	(19.8)	217.2
Investment revenue	12	**7.0**	**–**	**7.0**	4.7	–	4.7
Finance costs	13	**(31.6)**	**–**	**(31.6)**	(25.1)	–	(25.1)
Net finance costs		**(24.6)**	**–**	**(24.6)**	(20.4)	–	(20.4)
Profit before tax		**224.1**	**22.9**	**247.0**	216.6	(19.8)	196.8
Tax (charge)/credit	14	**(50.8)**	**6.2**	**(44.6)**	(47.9)	6.1	(41.8)
Profit for the period		**173.3**	**29.1**	**202.4**	168.7	(13.7)	155.0
Attributable to:							
Equity attributable to owners of the Company		**173.3**	**29.1**	**202.4**	169.1	(13.7)	155.4
Non-controlling interest		**–**	**–**	**–**	(0.4)	–	(0.4)
Earnings per share (EPS)							
Basic EPS	16	**15.61p**		**18.23p**	14.18p		13.03p
Diluted EPS	16	**15.36p**		**17.93p**	13.92p		12.79p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Profit for the year		**202.4**	155.0
Other comprehensive income/(loss) for the period:			
Items that will not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in joint ventures and associates	6	**1.1**	2.9
Remeasurements of post-employment benefit obligations[1]	30	**(29.1)**	(93.8)
Actuarial loss on reimbursable rights[1]	30	**(3.0)**	(12.3)
Income tax relating to components of other comprehensive income that will not be reclassified subsequently to profit or loss	14	**6.1**	27.1
Items that may be reclassified subsequently to profit or loss:			
Net exchange (loss)/gain on translation of foreign operations[2]		**(38.4)**	60.2
Fair value (loss)/gain on cash flow hedges during the year[2]		**(0.8)**	0.6
Tax relating to items that may be reclassified[2]		**0.2**	(0.1)
Total other comprehensive loss for the year		**(63.9)**	(15.4)
Total comprehensive income for the year		**138.5**	139.6
Attributable to:			
Equity owners of the Company		**138.4**	139.8
Non-controlling interest		**0.1**	(0.2)

1 Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

2 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
For the year ended 31 December 2023

	Share capital £m	Share premium account £m	Retained earnings £m	Other Reserves £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2022	24.4	463.1	542.8	(23.6)	1,006.7	1.7
Total comprehensive income/(loss) for the year	–	–	158.1	(18.3)	139.8	(0.2)
Dividends paid	–	–	(30.3)	–	(30.3)	–
Shares purchased and held in own share reserve	–	–	–	(15.9)	(15.9)	–
Shares purchased and held in Treasury	–	–	–	(91.2)	(91.2)	–
Shares transferred to award holders on exercise of share awards	–	–	–	0.1	0.1	–
Expense in relation to share-based payments	–	–	–	15.6	15.6	–
Tax credit on items taken directly to equity	–	–	–	3.4	3.4	–
At 1 January 2023	**24.4**	**463.1**	**670.6**	**(129.9)**	**1,028.2**	**1.5**
Total comprehensive income/(loss) for the year	**–**	**–**	**203.4**	**(65.0)**	**138.4**	**0.1**
Dividends paid	**–**	**–**	**(33.7)**	**–**	**(33.7)**	**(1.7)**
Shares purchased and held in own share reserve	**–**	**–**	**–**	**(22.9)**	**(22.9)**	**–**
Shares purchased and held in Treasury until cancelled	**–**	**–**	**–**	**(88.8)**	**(88.8)**	**–**
Cancellation of shares held in Treasury	**(2.3)**	**–**	**(180.0)**	**182.3**	**–**	**–**
Change in non-controlling interests	**–**	**–**	**(1.2)**	**–**	**(1.2)**	**(0.2)**
Expense in relation to share-based payments	**–**	**–**	**–**	**13.5**	**13.5**	**–**
Tax credit on items taken directly to equity	**–**	**–**	**–**	**0.5**	**0.5**	**–**
At 31 December 2023	**22.1**	**463.1**	**659.1**	**(110.3)**	**1,034.0**	**(0.3)**

1. 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
For the year ended 31 December 2023

	Note	At 31 December 2023 £m	At 31 December 2022 £m
Non-current assets			
Goodwill	17	**906.7**	945.0
Other intangible assets	18	**115.6**	158.0
Property, plant and equipment	19	**44.3**	48.1
Right of use assets	19	**440.9**	434.2
Interests in joint ventures and associates	6	**32.1**	23.3
Loan to joint ventures	6	**–**	10.0
Trade and other receivables	21	**14.8**	16.1
Derivative financial instruments	29	**–**	0.3
Deferred tax assets	15	**235.7**	244.2
Retirement benefit assets	30	**37.4**	57.0
		1,827.5	1,936.2
Current assets			
Inventories	20	**24.1**	22.4
Contract assets	21	**296.6**	345.0
Trade and other receivables	21	**329.0**	374.6
Loan to joint ventures	6	**10.0**	–
Current tax assets		**23.8**	11.5
Cash and cash equivalents	22	**94.4**	57.2
Derivative financial instruments	29	**4.9**	3.3
		782.8	814.0
Total assets		**2,610.3**	2,750.2
Current liabilities			
Contract liabilities	23	**(35.8)**	(60.5)
Trade and other payables	23	**(558.0)**	(622.8)
Derivative financial instruments	29	**(1.7)**	(1.1)
Current tax liabilities		**(18.4)**	(16.0)
Provisions	26	**(92.9)**	(134.9)
Obligations under leases	24	**(140.0)**	(144.4)
Loans	25	**(51.0)**	(44.5)
		(897.8)	(1,024.2)
Non-current liabilities			
Contract liabilities	23	**(59.3)**	(36.3)
Trade and other payables	23	**(9.2)**	(6.5)
Derivative financial instruments	29	**(0.2)**	–
Deferred tax liabilities	15	**(50.9)**	(53.8)
Provisions	26	**(77.4)**	(73.5)
Obligations under leases	24	**(313.7)**	(301.6)
Loans	25	**(155.2)**	(218.4)
Retirement benefit obligations	30	**(12.9)**	(6.2)
		(678.8)	(696.3)
Total liabilities		**(1,576.6)**	(1,720.5)
Net assets		**1,033.7**	1,029.7

Consolidated Balance Sheet continued

	Note	At 31 December 2023 £m	At 31 December 2022 £m
Equity			
Share capital	31	**22.1**	24.4
Share premium account	32	**463.1**	463.1
Retained earnings		**659.1**	670.6
Other reserves	33	**(110.3)**	(129.9)
Equity attributable to owners of the Company		**1,034.0**	1,028.2
Non-controlling interest		**(0.3)**	1.5
Total equity		**1,033.7**	1,029.7

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 1 March 2024 and signed on its behalf by:

Mark Irwin
Group Chief Executive

Nigel Crossley
Group Chief Financial Officer

Consolidated Cash Flow Statement
For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Net cash inflow from underlying operating activities		**383.8**	330.1
Non-underlying items		**9.3**	(2.9)
Net cash inflow from operating activities	36	**393.1**	327.2
Investing activities			
Interest received		**3.9**	1.9
Dividends received from joint ventures and associates		**21.1**	9.1
Loan to pension scheme relating to collateral calls		**–**	(60.0)
Repayment from pension scheme of loan relating to collateral calls		**–**	60.0
Loan to joint venture	6	**–**	(10.0)
Purchase of other intangible assets	18	**(8.8)**	(7.0)
Purchase of property, plant and equipment	19	**(15.9)**	(12.4)
Proceeds from disposal of property, plant and equipment		**1.4**	0.7
Proceeds from disposal of intangible assets		**1.3**	–
Proceeds from disposal of subsidiary		**0.2**	–
Acquisition of subsidiaries, net of cash acquired	7	**(7.7)**	(19.2)
Other investing activities		**(0.9)**	1.6
Net cash outflow from investing activities		**(5.4)**	(35.3)
Financing activities			
Interest paid		**(30.4)**	(24.4)
Capitalised finance costs paid		**–**	(2.6)
Advances of loans	25	**–**	205.0
Repayments of loans	25	**(44.5)**	(354.3)
Capital element of lease repayments	25	**(124.4)**	(120.5)
Cash movements on hedging instruments		**(1.5)**	(2.7)
Dividends paid to shareholders		**(33.7)**	(30.3)
Dividends paid to non-controlling interests		**(1.7)**	–
Purchase of Own Shares for Employee Share Ownership Trust		**(22.9)**	(15.9)
Own shares repurchased		**(88.8)**	(91.2)
Proceeds received from exercise of share options		**–**	0.1
Net cash outflow from financing activities		**(347.9)**	(436.8)
Net increase/(decrease) in cash and cash equivalents		**39.8**	(144.9)
Cash and cash equivalents at beginning of year		**57.2**	198.4
Net exchange (loss)/gain	25	**(2.6)**	3.7
Cash and cash equivalents at end of year	22	**94.4**	57.2

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, its subsidiaries and its interest in joint ventures (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. Material accounting policies

Basis of preparation

The Consolidated Financial Statements on pages 155 to 219 have been prepared in accordance with UK-adopted International Accounting Standards (IAS), UK-adopted International Financial Reporting Standards (IFRS) 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 following which are measured at fair value:
- certain financial assets and liabilities (including derivative instruments)
- retirement benefit obligations (plan assets and liabilities)
- share-based payments

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 interest represents the portion of profits or losses and net assets in subsidiaries that are not held by the Group and are 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 2023, 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 2023, the Group's principal debt facilities comprised a £350.0m revolving credit facility maturing in November 2027 (of which £nil was drawn), and £208.8m of US private placement notes, giving £558.8m of committed credit facilities and committed headroom of £444.4m, being the undrawn revolving credit facility plus cash of £94.4m. The principal financial covenant ratios are consistent across the US Private Placement loan notes and revolving credit facility and are outlined on page 85. As at 31 December 2023, 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 to 2x at 0.50x.

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.

As noted in post balance sheet events within note 37, subsequent to the balance sheet date the Group issued a further £118m ($150m) of US private placement notes which have been included in the Directors liquidity forecast supporting this assessment.

The basis of the assessment continues to be the Board-approved budget which 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.

Owing to the unprecedented levels of inflation driven by geopolitical factors, the Directors have considered the Group's resilience to rising costs. Due to the nature of the Group's operations, almost all of the revenue base has some form of inflationary protection, whether it be through contractual indexation mechanisms, cost plus billing or being short term in nature. Though the timing of such protections becoming effective may, in the short term, differ from the impact of cost pressures, it is expected that the current inflation levels will not have a material impact on the Group's profitability or cash flow.

Notes to the Consolidated Financial Statements continued

2. Material accounting policies continued

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 bids and extensions, 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 loan of £51m due to mature during the assessment period is repaid, and that no additional refinancing occurs after the date of approval of the financial statements, the Group can afford to be unsuccessful on 80% of its bids and extensions, combined with a profit margin 80 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 and extensions 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 extensions and available contract extensions by volume over the last two years, therefore a reduction of 80% or more to the budgeted bid and extensions 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 80 basis points (bps) versus the Group's budget is not considered plausible within the assessment period combined with an 80% reduction in bid and extensions rates.

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

No new or amended accounting standards had a material impact on the Group for the 31 December 2023 reporting period. The following standards were considered.

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' and in June 2020 issued amendments to IFRS 17. Though expected to primarily impact the insurance sector, IFRS 17 applies more widely than contracts issued by traditional insurance entities.

Management has not identified any contracts or obligations that should be classified as insurance contracts but continues to assess new contracts and any further interpretations issued. While some contracts transfer insurance risk, this is either not deemed significant or not a pre-existing risk, therefore will remain accounted for under the existing revenue standard.

The Group has assessed that the standard would impact its captive insurance company as it issues insurance contracts, however, since the contracts insure other group companies, there is no impact on the Consolidated Financial Statements.

The Group has assessed the impact of its parent company guarantee arrangements on the financial statements of the Group. Parent company guarantees could meet the IFRS 17 definition of insurance contracts. Management has identified two forms of guarantees that the Group enters into which captured by IFRS 17 and has concluded no material impact on the Consolidated Financial Statements, or the individual subsidiaries financial statements based on the following:

- Performance Guarantees are not captured by IFRS 17 as Management has identified no significant insurance risk that exists for the contracts which contain these guarantees.
- Financial Guarantees meet the definition of an insurance contract under IFRS 17, however, the standard allows companies to continue to apply the measurement criteria under IFRS 9. The measurement of the guarantees under IFRS 9 continues to be not material.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendment requires entities to disclose material accounting policies rather than significant accounting policies. Management has concluded that the amendment does not result in a change to the accounting policies disclosed.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendment clarifies the difference between a change in accounting estimate from a change in accounting policy. Management has assessed that the change has no impact on the accounting estimates or accounting policies disclosed.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12). The amendment clarified that the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. Management has assessed that the change has not had a material impact on net deferred tax position of the Group. A gross up between deferred tax assets and liabilities of £22.1m was required.

Notes to the Consolidated Financial Statements continued

Initial Application of IFRS 17 and IFRS 9 - Comparative Information
In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9–Comparative Information (Amendment to IFRS 17). The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The Group is already applying IFRS 9 and has concluded IFRS 17 has no material impact on the Consolidated Financial Statements, or the individual subsidiaries financial statements.

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)
In May 2023, the IASB issued International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12). The amendment provides a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes. Management has assessed that the change has not had a material impact on the Group.

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 2023 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[1]
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)[2]	1 January 2024
Lease Liability in a Sale and Leaseback Amendments to IFRS 16[2]	1 January 2024
Non-current Liabilities with Covenants (Amendments to IAS 1)[2]	1 January 2024
Supplier Finance Arrangements (amendment to IAS 7 and IFRS 7)[2]	1 January 2024
The Effects of Changes in Foreign Exchange Rates for Lack of Exchangeability (amendment to IAS21)[2]	1 January 2025

1. The effective date is based on the standards, amendments or interpretation issued by the IASB and may still be subject to adoption by the UK Endorsement Board.
2. The standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods.

Consolidation of profit measures
The Group has simplified its profit measures by removing Trading Profit and renaming Underlying Trading Profit (UTP) to Underlying Operating Profit (UOP). The historic UOP will be the same as the reported UTP.

The UTP definition was introduced in 2015 to exclude onerous contract provision (OCP) releases or charges, other Contract and Balance Sheet Review adjustments, depreciation and amortisation of assets held for sale, and some other one-time items. It was maintained to ensure that there was transparency outside the underlying results of large charges and releases from the portfolio of onerous contracts recorded in 2014. These definitions are no longer required as the Contract and Balance Sheet Adjustments recorded in 2014 are now at an insignificant level. In the future, no items will be recorded between UTP and Trading Profit, meaning the additional measure no longer adds any value.

Items excluded from UOP will be the amortisation and impairment of intangibles arising on acquisition and exceptional operating items (and in the prior year other non-underlying items), which is consistent with the items currently excluded from Trading Profit.

The methodology applied to calculating other APMs has not changed since 31 December 2022.

Changes in accounting policies
There have been no changes to the Group's accounting policies during the year ended 31 December 2023 except for the change in accounting policy for alternative profit measures mentioned above.

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 IFRS 2 Share-Based Payment, leasing transactions that are within the scope of IFRS 16 Leases, the calculation of net realisable value under IAS 2 Inventories and value in use under IAS 36 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.

Notes to the Consolidated Financial Statements continued

2. Material accounting policies continued

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 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 standalone 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 standalone 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 clause 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 is 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 IFRS 15, 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 IFRS 15, 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.

Notes to the Consolidated Financial Statements continued

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 standalone 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 standalone 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 standalone 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.

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 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.

Revenue recognition: Contract assets and liabilities
Contract assets are recognised for goods and services for which control has transferred to the customer before the Group has the right to bill and are reported under accrued income and other unbilled receivables in note 21. Contract assets are reclassified as receivables when the right to payment becomes unconditional and the Group has billed the customer.

Contract liabilities are recognised when the Group has received advance payment for goods and services that the Group has not transferred to the customer and are reported under deferred income in note 23.

Where the initial set-up, transition or transformation phase of a long-term contract is not considered to be a distinct performance obligation and upfront consideration is received, the Group recognises contract liabilities reported under deferred income in note 23. In this case eligible costs (see contract costs policy below) associated with delivering these services are reported under capitalised mobilisation and phase in costs in note 21.

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 current 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.

Notes to the Consolidated Financial Statements continued

2. Material accounting policies continued

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, investment revenue and finance costs.

Foreign currencies
Transactions in currencies other than Sterling are recorded at the rate of exchange on the date of the transaction which is a monthly average. If exchange rates fluctuate significantly during a period, the use of average rates are reviewed to ensure they are still appropriate.

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 (SOCI).

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.

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 IFRS 3 *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.

Notes to the Consolidated Financial Statements continued

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's 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. These assets are amortised over the average length of the related contracts which typically ranges between five and fifteen years.

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.

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 a 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.

Notes to the Consolidated Financial Statements continued

2. Material accounting policies continued

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 when the Group's criteria are met.

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.

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 remeasured 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.

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.

Notes to the Consolidated Financial Statements continued

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 is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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, 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.

Notes to the Consolidated Financial Statements continued

2. Material accounting policies continued

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 12 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.

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.

Notes to the Consolidated Financial Statements continued

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, 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 a combination of variables associated with those estimates, there is a significant risk that there could be a 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 Management has assessed do not require a provision as at 31 December 2023.

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; and
- the ability of suppliers to deliver their contractual obligations on time and on budget.

In the current year, there has been an overall net charge of new and existing OCPs within UOP of £8.2m. 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 IAS 37 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, while 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 2023, the provision recognised in respect of this portfolio of contracts is £8.1m (2022: £8.1m).

Notes to the Consolidated Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Onerous contract provisions totalling £8.6m 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 £8.1m in respect of the portfolio risk associated with operating a large number of long-term contracts, giving a total onerous contract provision of £16.7m (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 does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the financial statements.

While the focus of the estimate 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 is the impairment testing of goodwill. At each reporting period an assessment is performed in order to determine whether there are any indicators of impairment, which involves considering the performance of the business and any significant changes to the markets in which the Group operates. There continues to be headroom across all cash generating units (CGUs) even when reasonably possible sensitivities are applied except for Asia Pacific as detailed in note 17.

Determining whether goodwill requires an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The Group's CGUs are consistent with its reportable operating segments as outlined in note 4. The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates and terminal growth rates, all of which involve considerable judgement. The future cash flows are derived from the latest Board-approved five-year plan, with the key assumptions being revenue growth which is sensitive to known and unknown pipeline opportunities, which is common within the industry, win rates for rebids and new business, margins on existing and new business, and cash conversion rates, all of which drive short-term growth rates. The Board-approved five-year plan has an element of contingency to take into consideration potential risks within these assumptions.

Discount rates and terminal growth rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts engaged by Management. The calculation of discount rates is performed based on a risk-free rate appropriate to the currency of the cash flows related to the CGU being tested, which is subsequently adjusted to factor in local market risks and risks specific to the Group; cash flow risks are considered within the cash flows and not the discount rate. During 2022, there was a significant increase in market interest rates and therefore risk free rates in response to rising global inflation. Whilst rates have fallen in 2023, the discount rates used in the assessment as at 31 December 2023 remain higher than recent years overall. For the purpose of impairment testing in accordance with IAS36 Impairment of Assets, the Group estimates pre-tax discount rates based on the post-tax weighted average cost of capital which is used for internal purposes.

There is heightened judgement in the determination of future cash flows of the Asia Pacific CGU as the Division has performed below expectations as a result of lower variable income on material contracts, a challenging labour market, and lower than expected win rates for both new business and rebids. In addition, the immigration contract, whilst extended to December 2024, contributes significantly to the cash flows within the five-year plan, and a loss of this rebid will have a material impact on the Division. Continued low win rates or the loss of the immigration contract could result in an impairment of the CGU's goodwill, however, should these risks materialise then a fundamental restructuring of the Division may be required to improve profitability. This is discussed in more detail in note 17.

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.

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 (SPLAS) and the shared cost section of the Railways Pension 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 assets held by insurance companies including the annuity policies in SPLAS are valued at the equal and opposite of the defined benefit obligations that they insure.

The SPLAS pension scheme invests into private debt funds which do not have an observable market price and are remeasured to fair value at each reporting date. The valuation methodology relies upon the net asset value provided by the fund administrator at 30 September adjusted for actual cash flows in the period to 31 December. The Group has undertaken a risk assessment to assess whether this industry standard valuation methodology remains the Group's best estimate at 31 December and has concluded that although there is heightened estimation uncertainty, this methodology provides the most accurate valuation and estimate for Management.

Notes to the Consolidated Financial Statements continued

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 the deferred tax asset that should be recognised, based upon the likely timing, geography and level of future taxable profits.

A £179.9m, UK deferred tax asset is recognised on the Group's balance sheet at 31 December 2023 (2022: £186.9m). This is recognised on the basis of a sustained return to profitability of the UK business which will enable future tax deductions and previous tax losses within the UK to be utilised.

Further details on deferred taxes are disclosed in note 15.

Use of Alternative Performance Measures: Underlying Operating Profit

The Group uses Underlying Operating Profit (UOP) as an alternative measure to reported operating profit by making adjustments for the following:

- Exceptional items (and in the prior year other non-underlying items): IAS 1 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 (and in the prior year other non-underlying items). Management considers exceptional items (and in the prior year other non-underlying items) to be outside of normal operations and are material to the results of the Group by virtue of their size or nature, and are suitable for separate presentation and detailed explanation. There is a level of judgement required in determining which items are exceptional (and in the prior year non-underlying) on a consistent basis and require separate disclosure. Further details can be seen in note 9.
- Amortisation and impairment of intangibles arising on acquisitions: These 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 consolidated income statement on page 155 and the segmental analysis in note 4 includes a reconciliation of reported operating profit to UOP. The Group's Chief Operating Decision Maker (CODM) reviews the segmental analysis during the year.

Climate risk

Risks arising from climate change may have future adverse effects on the Group's business activities. These risks include:

- major physical risks such as extreme weather events, impacting assets, operations and employee wellbeing;
- major transitional risks including policy and legal changes such as increasing reporting and contractual requirements and increasing carbon taxes and levies;
- technology risks including costs to transition to lower emission options; and
- reputational risks such as investor and stakeholder concerns on not transitioning quickly enough to Net Zero.

As an outsourcing organisation operating across multiple sectors and geographies, the ways in which climate change may impact the Group's and its customers' assets (where the Group delivers the majority of its services), supply chains and operations is diverse.

In preparing the Group financial statements, Management has considered the impact of climate-related matters but has not identified significant risks induced by climate changes that could negatively and materially affect the Group's financial statements. In arriving at this conclusion, Management has considered the areas of the Groups financial statements where climate-related matters could reasonably impact measurement and disclosure including key estimates and judgements.

When undertaking the Goodwill impairment review, the Group's latest approved forecast is used to estimate the value in use of its CGUs. Climate assumptions are built into the contract level budgets to the extent that contractual commitments exist. However, Management's current assessment shows that there are no such material contractual obligations. In addition, Group-wide strategic commitments, such as those made as part of the Net Zero targets and planning, are not material in the short term for inclusion in the Group's forecast. The forecast is underpinned by a number of assumptions, and it represents the Group's best estimate of future business performance. Management cannot reliably predict how climate changes will impact the forecast particularly in areas such as carbon levies and the cost of insurance. As such, Management has presented sensitivity analysis to demonstrate the Group's ability to withstand changes to the forecast before recording an impairment (see note 17). The forecast used in the goodwill impairment review is also used in the assessment of deferred tax assets and the Group's ability to continue as a going concern.

The Group also continuously reviews the property, plant and equipment under its control to identify opportunities to reduce its carbon impact. Primarily there has been a transition to electric and hybrid vehicles, both in the company car fleet as well as vehicles required to operate contracts. For example, electric light commercial vehicles are beginning to replace the diesel fleet in certain geographies. The transition is currently being undertaken where assets are identified as nearing the end of their useful economic life (UEL) and therefore there has been no revision to the UEL related to motor vehicles.

Other areas considered include retirement benefit obligations, namely the valuation of assets, share-based payments linked to ESG targets and those critical accounting judgements and sources of estimation uncertainty not noted above.

Management continuously assesses the impact of climate-related matters. Assumptions will likely change in the future in response to the Group's understanding of risks and opportunities maturing, forthcoming environmental regulations, climate change impacts, new commitments taken and increasing customer Net Zero requirements. These changes, if not anticipated and continually assessed, could have an impact on the Group's future cash flows, financial performance and financial position.

Notes to the Consolidated Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

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, as the claim progresses, 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 2023 under IFRS 8 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
North America	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
Asia Pacific	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 £1,863.8m (2022: £1,716.9m) for the UK Government within the UK & Europe segment; £1,167.7m (2022: £1,109.6m) for the US Government within the North America segment; and £782.8m (2022: £880.5m) for the Australian Government within the Asia Pacific 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.

Notes to the Consolidated Financial Statements continued

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable operating segment:

Year ended 31 December 2023	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Revenue	2,439.5	1,362.8	845.1	226.4	–	4,873.8
Result						
Underlying operating profit/(loss)[1]	120.8	138.2	23.7	15.3	(49.3)	248.7
Amortisation and impairment of intangibles arising on acquisition	(3.4)	(16.0)	(11.5)	–	–	(30.9)
Exceptional operating items[2]	9.9	–	–	–	43.9	53.8
Operating profit/(loss)	127.3	122.2	12.2	15.3	(5.4)	271.6
Net finance cost						(24.6)
Profit before tax						247.0
Tax (charge)/credit						(42.3)
Tax on exceptional items						(2.3)
Profit for the year						202.4
Supplementary Information						
Share of profits in joint ventures and associates, net of interest and tax	29.0	–	–	–	–	29.0
Total depreciation and impairment of plant, property and equipment and right of use assets	(99.4)	(20.6)	(10.0)	(2.1)	(11.9)	(144.0)
Amortisation and impairment of intangible assets	(1.9)	(0.9)	(1.1)	(0.1)	(3.6)	(7.6)

1 Underlying operating profit/(loss) is defined as operating profit/(loss) before exceptional items (and in the prior year other non-underlying items) and amortisation and impairment of intangible assets arising on acquisition.

2 Included within exceptional operating items are releases of provisions previously held for indemnities given on disposed businesses of £43.9m and compensation received on the early termination of a contract of £9.9m. Exceptional items incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Notes to the Consolidated Financial Statements continued

4. Segmental information continued

Year ended 31 December 2022	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Revenue	2,100.2	1,269.8	954.6	209.4	–	4,534.0
Result						
Underlying operating profit/(loss)[1]	72.1	136.6	56.9	16.0	(44.6)	237.0
Other non-underlying items[2]	4.1	0.1	–	–	–	4.2
Amortisation and impairment of intangibles arising on acquisition	(1.5)	(16.5)	(3.6)	–	–	(21.6)
Exceptional operating items[3]	(1.2)	(1.2)	–	–	–	(2.4)
Operating profit/(loss)	73.5	119.0	53.3	16.0	(44.6)	217.2
Net finance cost						(20.4)
Profit before tax						196.8
Tax (charge)/credit						(42.1)
Tax on exceptional items						0.3
Profit for the year						155.0
Supplementary Information						
Share of profits in joint ventures and associates, net of interest and tax	12.0	–	–	–	–	12.0
Total depreciation and impairment of plant, property and equipment and right of use assets	(86.4)	(26.7)	(12.6)	(1.9)	(12.9)	(140.5)
Amortisation and impairment of intangible assets	(1.3)	(1.0)	(2.1)	(0.1)	(5.6)	(10.1)

1 Underlying operating profit/(Loss) is defined as operating profit/(loss) before exceptional items (and in the prior year other non-underlying items) and amortisation and impairment of intangible assets arising on acquisition.

2 Non-underlying items include the reversal of an impairment in respect of assets which is no longer required due to contractual changes which the Group has agreed with its customer.

3 Included within exceptional operating items are total acquisition related costs of £2.4m.

As at 31 December 2023	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	31.8	–	–	0.3	–	32.1
Other segment assets[1]	891.6	897.7	254.5	62.4	113.2	2,219.4
Total segment assets	923.4	897.7	254.5	62.7	113.2	2,251.5
Unallocated assets[2]						358.8
Consolidated total assets						2,610.3
Segment liabilities						
Segment liabilities	(725.1)	(172.0)	(223.5)	(54.1)	(124.7)	(1,299.4)
Unallocated liabilities[2]						(277.2)
Consolidated total liabilities						(1,576.6)
Supplementary Information						
Additions to non current assets[3]	125.3	16.7	8.0	2.6	15.7	168.3
Segment non-current assets	677.1	688.6	151.9	13.5	60.8	1,591.9
Unallocated non-current assets						235.8

1 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.

2 Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.

3 Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant and equipment and right of use assets.

Notes to the Consolidated Financial Statements continued

As at 31 December 2022	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	22.9	–	–	0.4	–	23.3
Other segment assets[1]	960.8	948.0	309.6	68.7	123.3	2,410.4
Total segment assets	983.7	948.0	309.6	69.1	123.3	2,433.7
Unallocated assets[2]						316.5
Consolidated total assets						2,750.2
Segment liabilities						
Segment liabilities	(720.2)	(178.3)	(248.1)	(61.1)	(179.0)	(1,386.7)
Unallocated liabilities[2]						(333.8)
Consolidated total liabilities						(1,720.5)
Supplementary Information						
Additions to non current assets[3]	173.7	14.5	7.4	3.0	12.1	210.7
Segment non-current assets	701.1	718.6	177.1	14.1	80.8	1,691.7
Unallocated non-current assets						244.5

1 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.

2 Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.

3 Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant and equipment and right of use 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		2023	2022
United Kingdom	Serco Limited	**100 %**	100 %
Australia	Serco Australia Pty Limited	**100 %**	100 %
USA	Serco Inc.	**100 %**	100 %

Principal joint ventures and associates		2023	2022
United Kingdom	Merseyrail Services Holding Company Limited	**50 %**	50 %
United Kingdom	Vivo Defence Services Limited	**50 %**	50 %

A full list of subsidiaries and related undertakings is included in the Appendix on pages 226 to 228 which form part of the financial statements.

6. Joint ventures and associates

The principal joint ventures, Merseyrail Services Holding Company Limited (Merseyrail) and Vivo Defence Services Limited (VIVO), were the only equity accounted entities which were material to the Group during the year with dividends received of £21.1m and £nil (2022: £7.3m and £nil), and total revenues of £217.0m and £844.9m, respectively (2022: £185.0m and £327.0m). Both revenue and dividends have increased in Merseyrail as a result of higher passenger volumes and a commercial settlement relating to current and prior periods. The increase in VIVO's revenue is due to higher volumes of variable work and additional service contracts awarded to the joint venture during the year.

The split of the share of profits in joint ventures and associates, net of interest and tax for the year ended 31 December 2023 was £29.0m (2022: £12.0m), comprising of profit from Merseyrail £15.9m (2022: £5.3m), VIVO £13.1m (2022: £6.6m) and a profit on other joint ventures and associates of £nil (2022: profit of £0.1m). Profit has increased as a result of additional variable revenue and the commercial settlement in Merseyrail.

Summarised financial information of Merseyrail and VIVO, and an aggregation of the other equity accounted entities in which the Group has an interest in is as follows:

Notes to the Consolidated Financial Statements continued

6. Joint ventures and associates continued

31 December 2023

Summarised financial information Year ended 31 December 2023	Merseyrail (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint ventures and associates[1] £m	Total £m
Revenue	217.0	844.9	472.4	1.0	473.4
Operating profit/(loss)	41.5	35.3	38.1	–	38.1
Net (finance costs)/investment revenue	0.3	(1.2)	(0.2)	–	(0.2)
Income tax (charge)/credit	(10.0)	(7.7)	(8.9)	–	(8.9)
Profit/(loss) from operations	31.8	26.4	29.0	–	29.0
Other comprehensive income	2.2	–	1.1	–	1.1
Total comprehensive income	34.0	26.4	30.1	–	30.1
Non current assets	61.3	8.9	34.3	–	34.3
Current assets	48.5	230.9	127.7	1.5	129.2
Current liabilities	(39.9)	(186.0)	(111.5)	(1.1)	(112.6)
Non current liabilities	(45.6)	(14.1)	(18.7)	(0.1)	(18.8)
Net Assets	24.3	39.7	31.8	0.3	32.1
Portion of Group ownership	50.0 %	50.0 %			
Carrying amount of investment	12.2	19.9	31.8	0.3	32.1

1 For Merseyrail and other joint ventures and associates, these are the total results of the entity multiplied by the proportion of Group ownership. For VIVO, although the equity ownership is 50%, the share of profits from contracts operated by VIVO is either 25% or 50%. Therefore the Group portion of material joint ventures will not represent exactly 50% of their income and net assets.

Year ended 31 December 2023	Merseyrail (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint ventures and associates[1] £m	Total £m
Cash and cash equivalents	27.2	43.8	35.5	0.4	35.9
Current financial liabilities excluding trade and other payables and provisions	(13.5)	(9.5)	(12.9)	(0.3)	(13.2)
Non-current financial liabilities excluding intercompany loans, trade and other payables and provisions	(45.4)	(14.1)	(38.6)	(0.1)	(38.7)
Current joint venture loans liability	–	(20.0)	(10.0)	–	(10.0)
Depreciation and amortisation	(9.1)	(4.0)	(5.0)	–	(5.0)
Interest income	2.0	0.5	1.3	–	1.3
Interest expense	(1.7)	(1.7)	(1.6)	0.1	(1.5)

1 For Merseyrail and other joint ventures and associates, these are the total results of the entity multiplied by the proportion of Group ownership. For VIVO, although the equity ownership is 50%, the share of profits from contracts operated by VIVO is either 25% or 50%. Therefore the Group portion of material joint ventures will not represent exactly 50% of their income and net assets.

The Group's share of liabilities within joint ventures and associates is £131.4m (2022: £90.0m) which include £29.1m of lease obligations (2022: £5.1m) and £10.0m in joint venture loan liabilities (2022: £10.0m). 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.

VIVO's funding requirement is agreed by both shareholders and based on the strategic business plan. At 31 December 2023, the funding provided was £10.0m from each shareholder. In the future, distributions of net profits will be returned to the Group once VIVO has sufficient reserves.

Notes to the Consolidated Financial Statements continued

31 December 2022

Summarised financial information	Merseyrail (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint ventures and associates[1] £m	Total £m
Revenue	185.0	327.0	236.8	1.1	237.9
Operating profit/(loss)	12.0	17.6	14.4	(0.1)	14.3
Net finance costs	(0.4)	(0.6)	(0.4)	0.1	(0.3)
Income tax (charge)/credit	(1.0)	(3.2)	(2.1)	0.1	(2.0)
Profit from operations	10.6	13.8	11.9	0.1	12.0
Other comprehensive income	5.8	–	2.9	–	2.9
Total comprehensive income/(expense)	16.4	13.8	14.8	0.1	14.9
Non-current assets	36.1	5.9	21.0	0.3	21.3
Current assets	51.2	129.9	90.5	1.5	92.0
Current liabilities	(29.6)	(91.7)	(60.6)	(0.8)	(61.4)
Non-current liabilities	(26.5)	(31.1)	(28.6)	–	(28.6)
Net Assets	31.2	13.0	22.3	1.0	23.3
Portion of Group ownership	50.0 %	50.0 %	–		–
Carrying amount of investment	15.6	6.5	22.3	1.0	23.3

1. For Merseyrail and other joint venturess and associates, these are the total results of the entity multiplied by the proportion of Group ownership. For VIVO, although the equity ownership is 50%, the share of profits from contracts operated by VIVO is either 25% or 50%. Therefore the Group portion of material joint ventures will not represent exactly 50% of their income and net assets.

	Merseyrail (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint venture arrangements and associates[1] £m	Total £m
Cash and cash equivalents	33.2	18.0	25.6	0.6	26.2
Current financial liabilities excluding trade and other payables and provisions	(7.1)	(3.2)	(5.1)	(0.3)	(5.4)
Non-current financial liabilities excluding trade and other payables and provisions	(25.8)	(13.6)	(18.4)	–	(18.4)
Non-current joint venture loan liabilities	–	20.0	(10.0)	–	(10.0)
Depreciation and amortisation	(5.0)	(1.3)	(3.2)	(0.1)	(3.3)
Interest income	0.1	–	0.1	–	0.1
Interest expense	(0.4)	(0.2)	(0.3)	(0.1)	(0.4)

1. For Merseyrail and other joint ventures and associates, these are the total results of the entity multiplied by the proportion of Group ownership. For VIVO, although the equity ownership is 50%, the share of profits from contracts operated by VIVO is either 25% or 50%. Therefore the Group portion of material joint ventures will not represent exactly 50% of their income and net assets.

Notes to the Consolidated Financial Statements continued

7. Acquisitions

No acquisitions were completed during the year. See note 37 for details of acquisitions completed subsequent to the Balance Sheet date.

During the year, the Group finalised the integration of OXZ Holdings AG (ORS), completed the analysis of balances acquired as part of the transaction, and made closing net working capital settlements with the vendors. As a result of these activities, the Group revised the fair values of the acquired assets and liabilities resulting in an increase to goodwill of £3.3m, a reduction in other intangibles of £6.9m, an increase to the deferred tax asset of £1.3m, and a cash receipt of £2.3m for final working capital settlements.

Contingent consideration recognised on acquisition of ORS in 2022 was CHF12.8m (£11.2m) and reflected the fair value of the earn-out and over performance payments based on a range of targets for the full year 2022 EBITDA. The maximum earn-out and over performance payments were CHF10.0m and CHF4.0m respectively. The final earn-out and over performance payments settled at CHF 12.3m (£10.2m) which resulted in a change to the fair value of the contingent consideration resulting in a profit of £1.0m including the impact of foreign currency translation.

During the year the Group finalised the integration of Sapienza Consulting Holdings BV (Sapienza), completed the analysis of balances acquired as part of the transaction, and made closing net working capital settlements with the vendors. As a result of these activities, the Group revised the fair values of the acquired assets and liabilities resulting in a decrease of goodwill of £0.2m, an increase in provisions of £0.4m, a reduction in trade and other payables of £0.4m, and a cash receipt of £0.2m for final working capital settlements.

The total impact of acquisitions to the Group's cash flow position in the period was as follows:

	£m
Cash received in respect of prior period acquisitions	(2.5)
Settlement of deferred consideration in respect of prior year acquisitions	10.2
Net cash outflow in respect of prior year acquisitions	**7.7**
Acquisition related costs	1.3
Net cash impact in the year on acquisitions	**9.0**

The total transaction and implementation costs recognised in exceptional items for the year ended 31 December 2023 was nil (2022 £2.4m).

Notes to the Consolidated Financial Statements continued

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 2023	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Total £m
Key sectors					
Defence	**355.0**	**931.9**	**156.7**	**30.9**	**1,474.5**
Justice & Immigration	**1,329.8**	**–**	**351.3**	**–**	**1,681.1**
Transport	**148.7**	**102.5**	**12.2**	**71.3**	**334.7**
Health & Other Facilities Management	**227.4**	**–**	**196.5**	**103.2**	**527.1**
Citizen Services	**378.6**	**328.4**	**128.4**	**21.0**	**856.4**
	2,439.5	**1,362.8**	**845.1**	**226.4**	**4,873.8**
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	**2.8**	**–**	**1.3**	**–**	**4.1**
Revenue recognised at a point in time	**42.1**	**–**	**11.4**	**–**	**53.5**
Products and services transferred over time	**2,394.6**	**1,362.8**	**832.4**	**226.4**	**4,816.2**
	2,439.5	**1,362.8**	**845.1**	**226.4**	**4,873.8**

Year ended 31 December 2022	UK&E £m	North America £m	Asia Pacific £m	Middle East £m	Total £m
Key sectors					
Defence	315.8	863.0	147.9	30.5	1,357.2
Justice & Immigration	798.9	–	412.9	–	1,211.8
Transport	173.9	95.9	9.8	70.0	349.6
Health & Other Facilities Management	264.4	–	225.3	103.0	592.7
Citizen Services	547.2	310.9	158.7	5.9	1,022.7
	2,100.2	1,269.8	954.6	209.4	4,534.0
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	5.8	–	0.8	–	6.6
Revenue recognised at a point in time	21.9	–	5.5	–	27.4
Products and services transferred over time	2,072.5	1,269.8	948.3	209.4	4,500.0
	2,100.2	1,269.8	954.6	209.4	4,534.0

Notes to the Consolidated Financial Statements continued

8. Revenue from contracts with customers continued

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 is 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 remains confident that a significant reduction will not occur.

As part of the considerations around variable revenue, Management considers the impact that factors such as contractual performance, anticipated demand and pricing (including indexation) may have on future revenue recognised. Management also considers 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 significant adjustments were identified in relation to the future revenue forecasts of existing contracts.

	UK&E £m	North America[1] £m	Asia Pacific £m	Middle East £m	Total £m
Within 1 year (2024)	**1,950.9**	**599.1**	**706.7**	**153.9**	**3,410.6**
Between 2 – 5 years (2025 – 2028)	**5,239.1**	**288.6**	**988.4**	**271.6**	**6,787.7**
5 years and beyond (2029+)	**2,131.9**	**57.9**	**1,113.7**	**101.6**	**3,405.1**
	9,321.9	**945.6**	**2,808.8**	**527.1**	**13,603.4**

1. Due to the nature of the contracting environment in the North America Division, the transaction price allocated to remaining performance obligations is primarily within 1 year and as a result the future years are inherently lower than other segments.

9. Exceptional operating 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.

Year ended 31 December	2023 £m	2022 £m
Compensation received on the early termination of contractual services	**9.9**	–
Release of provisions held for indemnities given on disposed businesses	**43.9**	–
Costs associated with successful acquisitions	**–**	(2.4)
Exceptional operating items	**53.8**	(2.4)
Exceptional tax (charge)/credit	**(2.3)**	0.3
Total exceptional operating items net of tax	**51.5**	(2.1)

Notes to the Consolidated Financial Statements continued

10. Operating profit

Operating profit is stated after charging/(crediting):

Year ended 31 December	2023 £m	2022 £m
Research and development costs	**2.9**	2.6
Profit on disposal of property, plant and equipment	**(0.6)**	(0.5)
Loss/(profit) on early termination of leases	**0.6**	(0.2)
(Profit)/loss on disposal of intangible assets	**(0.8)**	0.4
Depreciation and impairment of property, plant and equipment	**17.9**	23.0
Depreciation and impairment of right of use assets	**126.1**	117.5
Amortisation and impairment of intangible assets – arising on acquisition	**30.9**	21.6
Amortisation and impairment of intangible assets	**7.8**	10.1
Staff costs (note 11)	**2,207.7**	2,155.8
Allowance for doubtful debts credited to income statement	**(0.4)**	(0.4)
Net foreign exchange charge/(gain)	**0.8**	(0.1)
Movement on non-designated hedges and reclassified cashflow hedges	**(0.2)**	(0.8)
Lease payments recognised through operating profit[1]	**3.7**	4.2
Operating lease income from sub-leases	**(2.4)**	(1.8)

1. The lease payments recognised in operating profit are those which have not been recorded in accordance with the permissible exemptions in IFRS 16 Leases for short-term or low-value leases.

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	2023 £m	2022 £m
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	**3.9**	2.6
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	**1.5**	1.3
Total audit fees	**5.4**	3.9
– Audit-related assurance services	**0.6**	0.1
– Other non-audit services	**–**	0.1
Total non-audit fees	**0.6**	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 111. 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	2023 Number	2022 Number
UK & Europe	**21,415**	23,855
North America	**9,145**	8,960
Asia Pacific	**13,017**	14,024
Middle East	**1,744**	2,122
Unallocated[1]	**884**	999
	46,205	49,960

1. Unallocated includes Group overhead functions.

Notes to the Consolidated Financial Statements continued

11. Staff costs continued

The average number of persons employed includes all individuals employed under contracts of service by the Group. This comprises permanent, part-time, and casual 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	2023 £m	2022 £m
Wages and salaries	**1,934.2**	1,889.1
Social security costs	**157.9**	148.3
Other pension costs (note 30)	**102.1**	102.8
	2,194.2	2,140.2
Share-based payment expense (note 34)	**13.5**	15.6
	2,207.7	2,155.8

12. Investment revenue

Year ended 31 December	2023 £m	2022 £m
Interest receivable on loans and deposits	**3.9**	1.9
Net interest receivable on retirement benefit obligations (note 30)	**3.1**	2.7
Movement in discount on other debtors	**–**	0.1
	7.0	4.7

13. Finance costs

Year ended 31 December	2023 £m	2022 £m
Interest payable on lease liabilities	**13.1**	7.9
Interest payable on loans	**15.6**	15.2
Facility fees and other charges	**2.1**	2.4
	30.8	25.5
Foreign exchange on financing activities	**0.8**	(0.4)
	31.6	25.1

14. Tax

14 (a) Income tax recognised in the income statement

Year ended 31 December	Underlying 2023 £m	Non-underlying items 2023 £m	Reported 2023 £m	Underlying 2022 £m	Non-underlying items 2022 £m	Reported 2022 £m
Current income tax						
Current income tax charge/(credit)	**34.0**	**(1.5)**	**32.5**	41.8	(4.0)	37.8
Adjustments in respect of prior years	**1.3**	**–**	**1.3**	3.5	–	3.5
Deferred tax						
Current year charge/(credit)	**16.8**	**(4.7)**	**12.1**	7.5	(2.1)	5.4
Adjustments in respect of prior years	**(1.3)**	**–**	**(1.3)**	(4.9)	–	(4.9)
	50.8	**(6.2)**	**44.6**	47.9	(6.1)	41.8

Notes to the Consolidated Financial Statements continued

The tax expense for the year can be reconciled to the profit in the Consolidated Income Statement as follows:

Year ended 31 December	Underlying 2023 £m	Non-underlying items 2023 £m	Reported 2023 £m	Underlying 2022 £m	Non-underlying items 2022 £m	Reported 2022 £m
Profit before tax	**224.1**	**22.9**	**247.0**	216.6	(19.8)	196.8
Tax calculated at a rate of 23.5% (2022: 19.0%)	**52.7**	**5.3**	**58.0**	41.1	(3.8)	37.3
Expenses not deductible for tax purposes[1]	**3.7**	**–**	**3.7**	2.0	0.2	2.2
UK unprovided deferred tax[2]	**0.2**	**–**	**0.2**	0.3	–	0.3
Other unprovided deferred tax	**1.3**	**–**	**1.3**	2.5	0.1	2.6
Effect of the use of unrecognised tax losses	**–**	**–**	**–**	(1.1)	–	(1.1)
Impact of changes in statutory tax rates on current income tax	**0.3**	**–**	**0.3**	(0.8)	–	(0.8)
Overseas rate differences	**1.8**	**(1.2)**	**0.6**	13.0	(2.6)	10.4
Other non-taxable income	**(2.4)**	**(10.3)**	**(12.7)**	(5.5)	–	(5.5)
Adjustments in respect of prior years[3]	**–**	**–**	**–**	(1.4)	–	(1.4)
R&D expenditure credit (RDEC)	**–**	**–**	**–**	0.1	–	0.1
Adjustments in respect of equity accounted investments	**(6.8)**	**–**	**(6.8)**	(2.3)	–	(2.3)
Tax charge/(credit)	**50.8**	**(6.2)**	**44.6**	47.9	(6.1)	41.8

1. Relates to costs that are not allowable for tax deduction under local tax law.
2. Arises due to timing differences between when an amount is recognised in the income statement and when the amount is subject to UK tax.
3. Included within adjustments in respect of prior years for the year ended 31 December 2022, is a credit of £0.9m in relation to the finalisation of the prior year position on share-based payments and a credit of £0.7m reflecting the utilisation of the R&D expenditure credit, previously written off to deferred tax, against the 2021 current tax liability.

The corporate income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 23.5% (2022: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

14 (b) Income tax recognised in the SOCI

Year ended 31 December	2023 £m	2022 £m
Current tax		
Taken to retirement benefit obligations reserve	**1.9**	2.0
Deferred tax		
Relating to cash flow hedges	**0.2**	(0.1)
Taken to retirement benefit obligations reserve	**4.2**	25.1
	6.3	27.0

Notes to the Consolidated Financial Statements continued

14. Tax continued

14 (c) Tax on items taken directly to equity

Year ended 31 December	2023 £m	2022 £m
Current tax		
Recorded in share-based payment reserve	**1.0**	2.2
Deferred tax		
Recorded in share-based payment reserve	**(0.5)**	1.2
	0.5	3.4

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)/liabilities during the year was as follows:

Year ended 31 December	2023 £m	2022 £m
At 1 January – asset	**(190.4)**	(174.0)
Income statement charge/(credit)	**10.8**	0.6
R&D expenditure credit transferred to current tax	**–**	0.7
Items recognised in equity and in other comprehensive income	**(3.9)**	(26.2)
Arising on acquisition	**(1.3)**	5.5
Exchange differences	**–**	3.0
At 31 December – asset	**(184.8)**	(190.4)

The movement in deferred tax (assets)/liabilities during the year was as follows:

	Temporary differences on assets/ intangibles £m	Temporary differences on right of use assets £m	Temporary differences on lease liabilities £m	Share-based payment and employee benefits £m	Retirement benefit schemes £m	Onerous contract provisions £m	Derivative financial instruments £m	Tax losses £m	Other temporary differences £m	Total £m
1 January 2023	32.8	–	–	(38.0)	11.2	(0.8)	0.1	(165.6)	(30.1)	(190.4)
IFRS 16 Restatement	0.8	18.6	(22.1)	–	–	–	–	–	2.7	–
At 1 January (Restated)	33.6	18.6	(22.1)	(38.0)	11.2	(0.8)	0.1	(165.6)	(27.4)	(190.4)
Charged/(credited) to income statement (note 14a)	(0.4)	(2.4)	3.6	(0.9)	0.1	(0.2)	–	8.0	3.0	10.8
Arising on acquisition of a subsidiary	(1.3)	–	–	–	–	–	–	–	–	(1.3)
Items recognised in equity and in other comprehensive income (notes 14b and 14c)	–	–	–	0.5	(4.2)	–	(0.2)	–	–	(3.9)
Exchange differences	(2.9)	(0.8)	0.9	1.6	–	–	–	0.1	1.1	–
31 December 2023	29.0	15.4	(17.6)	(36.8)	7.1	(1.0)	(0.1)	(157.5)	(23.3)	(184.8)

Other temporary differences include amounts such as provisions and accruals which, under certain tax laws, are only allowable when expended.

Notes to the Consolidated Financial Statements continued

The movement in deferred tax (assets)/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	Derivative financial instruments £m	Tax losses £m	Other temporary differences £m	Total £m
1 January 2022	19.9	(34.5)	36.2	(0.8)	–	(166.0)	(28.8)	(174.0)
Credited to income statement (note 14a)	1.7	(0.5)	0.2	0.1	–	0.8	(1.7)	0.6
R&D expenditure credit transferred to current tax	–	–	–	–	–	–	0.7	0.7
Arising on acquisition of a subsidiary	5.5	–	0.1	–	–	(0.1)	–	5.5
Items recognised in equity and in other comprehensive income (notes 14b and 14c)	–	(1.2)	(25.1)	–	0.1	–	–	(26.2)
Exchange differences	5.7	(1.8)	(0.2)	(0.1)	–	(0.3)	(0.3)	3.0
31 December 2022	32.8	(38.0)	11.2	(0.8)	0.1	(165.6)	(30.1)	(190.4)

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:

	2023 £	2022 £
Deferred tax liabilities	**50.9**	53.8
Deferred tax assets	**(235.7)**	(244.2)
	(184.8)	(190.4)

As at the balance sheet date, the UK has a potential deferred tax asset of £238.4m (2022: £253.6m) available for offset against future profits. A UK deferred tax asset has currently been recognised of £179.9m (2022: £186.9m). Recognition has been based on the improved performance in the underlying UK business indicating a sustained return to profitability which will 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. No deferred tax asset has been recognised in respect of the remaining asset (net £58.5m) 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 2023 has been calculated reflecting the increased rate of 25%.

Outside of the UK, there is a further £20.5m (2022: £39.5m) of deferred tax assets which have not been recognised. £19.8m (2022: £38.8m) of this relates to revenue losses where current forecasts do not support recognition.

On 9 December 2022, the Ministry of Finance in UAE published tax law under which certain Serco operations in UAE will pay tax from January 2024. The Group continues to work with local advisers to ascertain the implications on filing requirements and tax payment, however, current expectations are that the introduction of this new tax will not have a material impact on the Group's tax liability.

In October 2021, over 130 countries in the Organisation for Economic Cooperation and Development (OECD) jointly released a framework to introduce a global minimum tax rate of 15% in order to address concerns about uneven profit distributions and tax contributions of large multinationals. In July 2023, the UK government enacted legislation to bring this framework into UK law from January 2024. Work undertaken to date suggests that the introduction of this minimum tax will also not have a material impact on the Group tax liability. The Group has applied a temporary mandatory relief from deferred tax accounting for the impact of the top-up tax and accounts for it as a current tax when it is incurred.

Losses of £7.0m (2022: £1.6m) expire within 5 years, losses of £45.7m (2022: £4.1m) expire within 6-10 years, losses of £4.8m (2022: £11.8m) expire within 20 years and losses of £887.7m (2022: £1,072.6m) may be carried forward indefinitely.

Notes to the Consolidated Financial Statements continued

16. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to owners of the Company by the weighted average number of shares in issue after deducting the own shares held by employee share ownership trusts and treasury shares and adding back vested share options not exercised.

In calculating the diluted earnings per share, unvested share options outstanding have been taken into account where the impact of these is dilutive.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	2023 millions	2022 millions
Weighted average number of ordinary shares for the purpose of basic EPS	**1,110.2**	1,192.2
Effect of dilutive potential ordinary shares: Shares under award	**18.4**	22.6
Weighted average number of ordinary shares for the purpose of diluted EPS	**1,128.6**	1,214.8

Earnings per share

Basic EPS	Earnings 2023 £m	Per share amount 2023 pence	Earnings 2022 £m	Per share amount 2022 pence
Earnings for the purpose of basic EPS	**202.4**	**18.23**	155.4	13.03
Effect of dilutive potential ordinary shares	**–**	**(0.30)**	–	(0.24)
Diluted EPS	**202.4**	**17.93**	155.4	12.79

17. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
1 January 2022	1,180.2	(327.5)	852.7
Acquisitions	20.9	–	20.9
Exchange differences	97.8	(26.4)	71.4
At 31 December 2022	**1,298.9**	**(353.9)**	**945.0**
Acquisitions - revision of provisional fair value estimates	**3.1**	**–**	**3.1**
Disposals	**(0.1)**	**–**	**(0.1)**
Exchange differences	**(55.1)**	**13.8**	**(41.3)**
At 31 December 2023	**1,246.8**	**(340.1)**	**906.7**

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 1 January 2023 £m	Acquisitions - revision of provisional fair value estimates £m	Disposals £m	Exchange differences 2023 £m	Goodwill balance 31 December 2023 £m	Headroom on impairment analysis 2023 £m	Headroom on impairment analysis 2022 £m
UK & Europe	**203.8**	**3.1**	**–**	**(0.3)**	**206.6**	**1,051.1**	811.1
North America	**592.2**	**–**	**–**	**(32.7)**	**559.5**	**644.3**	360.9
Asia Pacific	**137.8**	**–**	**–**	**(7.6)**	**130.2**	**110.0**	281.0
Middle East	**11.2**	**–**	**(0.1)**	**(0.7)**	**10.4**	**285.5**	119.5
	945.0	**3.1**	**(0.1)**	**(41.3)**	**906.7**	**2,090.9**	1,572.5

Included above is 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. In all CGUs, there is sufficient headroom available which is consistent with 2022.

Notes to the Consolidated Financial Statements continued

The key quantifiable assumptions applied in the impairment review are set out below:

	Discount rate % 2023	Discount rate % 2022	Terminal growth rates % 2023	Terminal growth rates % 2022
UK & Europe	**10.2**	10.3	**2.0**	2.0
North America	**11.4**	12.1	**2.3**	2.3
Asia Pacific	**12.3**	13.4	**2.2**	2.2
Middle East	**12.0**	13.5	**2.5**	1.2

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 and risks specific to the Group; cash flow risks are considered within cash flows and not the discount rate.

Discount rates used in 2023 have decreased compared with 2022. This is due to a reduction in risk-free rates following significant market volatility experienced in late 2022 and the adoption of a more relevant risk-free rate for the Middle East CGU in 2023.

Terminal growth rates
The value in use calculation includes a terminal value based on the projections for the fifth year of the five-year 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 advisers and have not materially changed as compared with 2022.

Short-term growth rates
The annual impairment test is performed immediately prior to the year end, based initially on the Board-approved five-year plan. Short-term revenue growth rates used in each CGU's 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, performance improvement has only been assumed where the Directors have assessed that an 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.

Sensitivity analysis
Reflecting the assumptions made in the estimation of future cash flows and the selection of appropriate discount rates and terminal growth rates, a number of plausible scenarios have been considered as part of the overall impairment assessment.

Sensitivity analysis has been performed by applying a 1% movement in discount rates and a 1% movement in terminal growth rates which are considered to be reasonably possible. Both individually and combined, the impact of these changes in key assumptions does not lead to an impairment in any CGU (2022: no impairment in any CGU).

A sensitivity analysis has been performed in respect of short-term growth rates within the Board-approved five-year plan. The sensitivity applied has been to assume no growth to cash flows outside of the two year budget period of the five-year plan. No impairment results from these changes, even when combined with the additional 1% increase in discount rates and 1% reduction in terminal growth rates, with the exception of the Asia Pacific CGU (2022: Asia Pacific CGU) for which additional sensitivities have been performed below. Given the visibility of pipeline available, a no growth scenario is unlikely and would require win and rebid rates to fall below the five-year averages seen within the business. In order to deliver revenue growth, amongst other things, the Group continues to invest in bidding activity in order to ensure it remains competitive within the markets in which it operates.

Management has also considered the sensitivity of cash flows in the terminal year for all CGUs and has determined that a reduction in cash flows of up to 10% in the final year of the plan is reasonably possible. No impairment results from this scenario even when combined with an additional 1% increase in discount rates and a 1% reduction in terminal growth rates though this is not deemed reasonably possible. Cash flows in the terminal year would need to reduce by 91% in the Middle East (£32.4m), 32% in Asia Pacific (£9.8m), 68% in North America (£56.5m) and 79% in UK & Europe (£102.3m), before an impairment would need to be recognised.

Asia Pacific CGU
The risk adjusted Board-approved five-year plan for the Asia Pacific Division supports the headroom held against the CGU. The key judgements in respect of the divisional plan are as follows:

- Win rates by value improve from the current levels experienced by the Division in 2023 of 2% for new business and 24% for rebids, to the five-year average which are 15% for new business and 63% for rebids.
- The immigration rebid, for which the tender outcome is expected in the first half of 2024, delivers cash flows beyond 2024.
- There is no significant deterioration within the outsourcing market in the region.

Notes to the Consolidated Financial Statements continued

17. Goodwill continued

Having performed a review of the market, made local management changes and identified areas where the business could be more efficient, the Directors believe that sufficient opportunities exist to deliver the five-year plan and that win rates can be improved. Whilst tangible cost savings are expected in the short term, it may take a longer period for an improvement in pipeline and win rates to be observed. In addition, the Directors believe on balance that the immigration contract is likely to be retained given the Group's experience in delivering the existing contract, and the general rebid rates it achieves. However, a loss would impact the Division's ability to deliver the five-year plan if no opportunities are secured to replace the cash flows delivered by the contract.

In respect of scenarios within the Asia Pacific CGU:

a. Whilst the base case scenario, which assumes win rates returning to the long-term five-year average outlined above, results in no impairment, the Directors note that sustained win rates at the level observed over the last year combined with the inability to identify sufficient credible opportunities could lead to an impairment of the entire goodwill balance of the CGU. Win rates by value would independently have to reduce to 11% for new business and 46% for rebids over the five-year period to result in no headroom.
b. An unsuccessful outcome in respect of the immigration rebid could result in an impairment in isolation. However, given the scale of this contract to the CGU, a fundamental restructuring of the Division may be required to improve profitability and would mitigate the risk of impairment.

As noted above, win rates not improving, or the loss of the immigration rebid, would require a review of the efficiency of the Asia Pacific Division and may result in a review of the overhead and support structures in place to ensure that they are appropriate for the scale of business and opportunities available . Any costs or benefits of restructuring are not included in the five-year cash flows.

18. Other intangible assets

	Acquisition related	Other		
	Customer relationships £m	Software and IT £m	Internally generated development expenditure £m	Total £m
Cost				
At 1 January 2023	219.5	137.5	54.4	411.4
Acquisitions - revision of provisional fair value estimates	(6.9)	–	–	(6.9)
Additions - internal development	–	–	3.4	3.4
Additions - external	–	5.4	–	5.4
Disposals	–	(7.1)	–	(7.1)
Exchange differences	(9.8)	(3.0)	(0.2)	(13.0)
At 31 December 2023	202.8	132.8	57.6	393.2
Accumulated amortisation and impairment				
At 1 January 2023	88.5	112.1	52.8	253.4
Impairment charge	8.1	0.1	–	8.2
Amortisation charge - internal development	–	3.3	0.6	3.9
Amortisation charge - external	22.8	3.8	–	26.6
Disposals	–	(6.5)	–	(6.5)
Exchange differences	(5.2)	(2.6)	(0.2)	(8.0)
At 31 December 2023	114.2	110.2	53.2	277.6
Net book value				
At 31 December 2023	88.6	22.6	4.4	115.6

Notes to the Consolidated Financial Statements continued

	Acquisition related	Other		
	Customer relationships £m	Software £m	Internally generated development expenditure £m	Total £m
Cost				
At 1 January 2022	176.4	128.8	55.8	361.0
Arising on acquisition	24.9	0.4	1.1	26.4
Additions - internal development	–	0.4	0.8	1.2
Additions - external	–	5.8	–	5.8
Disposals	–	(2.0)	(4.2)	(6.2)
Exchange differences	18.2	4.1	0.9	23.2
At 31 December 2022	219.5	137.5	54.4	411.4
Accumulated amortisation and impairment				
At 1 January 2022	60.3	100.9	55.8	217.0
Impairment charge	–	0.1	–	0.1
Amortisation charge - internal development	–	6.4	0.3	6.7
Amortisation charge - external	21.6	3.3	–	24.9
Disposals	–	(1.6)	(4.2)	(5.8)
Exchange differences	6.6	3.0	0.9	10.5
At 31 December 2022	88.5	112.1	52.8	253.4
Net book value				
At 31 December 2022	131.0	25.4	1.6	158.0

During the year ended 31 December 2023, the Group has recognised an impairment charge on customer relationships of £8.1m. The customer relationship arose on acquisition, however, the unexpected loss of key contracts and lack of visible opportunities with the relevant customer has resulted in an impairment of the intangible asset.

The net book value of internally generated intangible assets as at 31 December 2023 was £4.4m (2022: £1.6m) in development expenditure and £nil (2022: £1.8m) in software and IT.

Notes to the Consolidated Financial Statements continued

19. Property, plant and equipment and right of use assets

	Land & Buildings Owned £m	Land & Buildings Leased £m	Leasehold Improvements Owned £m	Other Assets Owned[1] £m	Other Assets Leased[1] £m	TOTAL £m
Cost						
At 1 January 2023	4.3	673.5	37.2	139.9	132.9	987.8
Additions	0.4	135.7	1.2	14.3	12.8	164.4
Reclassifications from/to property, plant & equipment	–	8.2	–	–	(8.2)	–
Disposals	(0.6)	(74.4)	(1.1)	(18.7)	(49.6)	(144.4)
Exchange differences	–	(5.9)	(1.4)	(3.4)	(0.8)	(11.5)
At 31 December 2023	4.1	737.1	35.9	132.1	87.1	996.3
Accumulated depreciation and impairment						
At 1 January 2023	3.3	294.2	22.8	107.2	78.0	505.5
Charge for the year - impairment	0.2	0.7	0.1	0.3	–	1.3
Charge for the year - depreciation	–	107.6	3.8	13.5	17.8	142.7
Disposals	(0.6)	(65.0)	(0.8)	(18.3)	(45.9)	(130.6)
Exchange differences	–	(3.7)	(0.9)	(2.8)	(0.4)	(7.8)
At 31 December 2023	2.9	333.8	25.0	99.9	49.5	511.1
Net book value[2]						
At 31 December 2023	1.2	403.3	10.9	32.2	37.6	485.2

1. Other assets include machinery, vehicles, furniture and equipment.
2. The net book value is shown on the balance sheet as £44.3m of owned assets in property, plant and equipment and £440.9m of leased assets in right of use assets.

The additions for leased land and buildings include £0.9m (2022: £0.8m) for dilapidation provisions and £nil (2022: £nil) for non-cash lease incentives.

Notes to the Consolidated Financial Statements continued

	Land & Buildings Owned £m	Land & Buildings Leased £m	Leasehold Improvements Owned £m	Other Assets Owned[1] £m	Other Assets Leased[1] £m	TOTAL £m
Cost						
1 January 2022	4.1	569.6	33.7	134.9	132.3	874.6
Arising on acquisition	–	4.5	–	1.1	8.6	14.2
Additions	–	116.2	2.6	9.8	13.6	142.2
Reclassifications from/to property, plant & equipment	0.1	–	0.5	0.6	(1.2)	–
Disposals	–	(28.5)	(1.8)	(11.3)	(24.3)	(65.9)
Exchange differences	0.1	11.7	2.2	4.8	3.9	22.7
At 31 December 2022	4.3	673.5	37.2	139.9	132.9	987.8
Accumulated depreciation and impairment						
1 January 2022	2.8	204.4	19.0	95.4	80.8	402.4
Charge for the year - impairment	0.2	2.0	0.2	1.9	(3.8)	0.5
Charge for the year - depreciation	0.2	96.4	4.2	16.3	22.9	140.0
Reclassifications from/to property, plant & equipment	–	–	–	1.1	(1.1)	–
Disposals	–	(15.3)	(1.8)	(11.1)	(23.5)	(51.7)
Exchange differences	0.1	6.7	1.2	3.6	2.7	14.3
At 31 December 2022	3.3	294.2	22.8	107.2	78.0	505.5
Net book value[2]						
At 31 December 2022	1.0	379.3	14.4	32.7	54.9	482.3

1. Other assets include machinery, vehicles, furniture and equipment.
2. The net book value is shown on the balance sheet as £48.1m of owned assets in property, plant and equipment and £434.2m of leased assets in right of use assets.

20. Inventories

	2023 £m	2022 £m
Service spares, supplies, consumables and work in progress	**24.1**	22.4

21. Contract assets, trade and other receivables

Contract assets: Current	2023 £m	2022 £m
Accrued income and other unbilled receivables	**287.6**	334.4
Capitalised bid costs	**2.1**	2.3
Capitalised mobilisation and phase in costs	**5.6**	7.3
Other contract assets	**1.3**	1.0
	296.6	345.0

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 upfront investments 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.

Notes to the Consolidated Financial Statements continued

21. Contract assets, trade and other receivables continued

Movements in the period were as follows:

Capitalised other contract assets, bid and phase-in costs	2023 £m	2022 £m
At 1 January	**10.6**	12.5
Additions	**0.8**	0.8
Amortisation	**(2.2)**	(3.1)
Exchange differences	**(0.2)**	0.4
At 31 December	**9.0**	10.6

Total trade and other receivables held by the Group at 31 December 2023 amount to £343.8m (2022: £390.7m).

Trade and other receivables: Non-current	2023 £m	2022 £m
Prepayments	**0.4**	1.3
Other receivables	**14.4**	14.8
	14.8	16.1

Other non-current receivables include long-term employee compensation plans, advances and other non-trade receivables.

Trade and other receivables: Current	2023 £m	2022 £m
Trade receivables	**219.1**	266.8
Prepayments	**55.2**	63.8
Amounts owed by joint ventures and associates	**1.1**	3.1
Other receivables	**53.6**	40.9
	329.0	374.6

Other receivables includes cash transferred to purchase shares for the Employee Share Ownership Trust where the shares are yet to be received, and advanced deposits to suppliers.

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 16 days (2022: 22 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 the Group's customers have a sovereign credit rating as a result of being government organisations. Of the trade receivables balance at the end of the year, £43.5m is due from agencies of the UK Government, the Group's largest customer (2022: £55.8m); £43.6m from the Australian Government (2022: £65.5m); £35.7m from the US Government (2022: £33.1m); and £15.2m from the Government of the United Arab Emirates (2022: £18.3m). There are no other customers who represent more than 5% of the total balance of trade receivables. 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 90 days old unless there is firm evidence that the balance is recoverable or is not covered by a credit note provision in unbilled receivables. The total amount of these impairments for the Group was £2.8m as of 31 December 2023 (2022: £3.3m).

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 amount of ECL recognised at 31 December 2023 was £nil (2022: £nil).

Ageing of trade receivables	2023 £m	2022 £m
Not due	**168.6**	202.1
Overdue by less than 30 days	**31.3**	31.8
Overdue by between 30 and 60 days	**11.0**	6.2
Overdue by more than 60 days	**11.0**	30.0
Allowance for doubtful debts	**(2.8)**	(3.3)
	219.1	266.8

Notes to the Consolidated Financial Statements continued

Of the total overdue trade receivable balance, 61% (2022: 63%) 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	2023 £m	2022 £m
At 1 January	**3.3**	4.4
Arising on acquisition	**–**	1.3
Net charges and releases to income statement	**(0.4)**	(0.4)
Utilised	**–**	(2.3)
Exchange differences	**(0.1)**	0.3
At 31 December	**2.8**	3.3

Included in the current other receivables balance is a further £1.2m (2022: £1.5m) due from agencies of the UK Government.

22. Cash and cash equivalents

	Sterling 2023 £m	Other currencies 2023 £m	Total 2023 £m	Sterling 2022 £m	Other currencies 2022 £m	Total 2022 £m
Customer advance payments[1]	**–**	**–**	**–**	–	1.4	1.4
Other cash and short-term deposits[2]	**38.2**	**56.2**	**94.4**	3.5	52.3	55.8
Total cash and cash equivalents	**38.2**	**56.2**	**94.4**	3.5	53.7	57.2

1. Customer advance payments totalling £nil (2022: £1.4m) are encumbered cash balances.
2. Restricted cash of £nil (2022: £4.0m) is included within other cash and short term deposits.

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 from the date of acquisition.

23. Contract liabilities, trade and other payables

Contract liabilities: Current	2023 £m	2022 £m
Deferred income	**35.8**	60.5

Contract liabilities: Non-current	2023 £m	2022 £m
Deferred income	**59.3**	36.3

The allocation of deferred income between current and non-current is presented on the basis that the current portion will unwind in the following 12 months through revenue. There were no material items in the current portion of deferred income in 2022 which did not unwind during the year.

Total trade and other payables held by the Group at 31 December 2023 amount to £567.2m (2022: £629.3m).

Trade and other payables: Current	2023 £m	2022 £m
Trade payables	**99.3**	108.3
Contingent consideration payable	**–**	11.2
Other payables	**140.0**	166.2
Accruals	**318.7**	337.1
	558.0	622.8

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 20 days (2022: 21 days).

Trade and other payables: Non-current	2023 £m	2022 £m
Other payables	**9.2**	6.5

Notes to the Consolidated Financial Statements continued

24. Leases

Management estimates 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 2023 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 material 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 12 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 £137.5m (2022: £128.4m). This is presented in the Consolidated Cash Flow Statement as £124.4m (2022: £120.5m) relating to the principal element of the lease liability payments, with the remaining balance of £13.1m (2022: £7.9m) presented within interest paid.

Amounts payable under leases	Minimum lease payments 2023 £m	Minimum lease payments 2022 £m
Within one year	**149.0**	150.6
Between one and five years	**277.1**	263.2
After five years	**45.8**	51.5
	471.9	465.3
Less: future finance charges	**(18.2)**	(19.3)
Present value of lease obligations	**453.7**	446.0
Less: amount due for settlement within one year (shown under current liabilities)	**(140.0)**	(144.4)
Amount due for settlement after one year	**313.7**	301.6

The following amounts are included in the Group's Consolidated Financial Statements in respect of its leases:

	Note	2023 £m	Restated 2022 £m
Additions to right of use assets	19	**148.5**	129.8
Depreciation charge on right of use assets	19	**(125.4)**	(119.3)
Net (impairment)/release of impairment on right of use assets	19	**(0.7)**	1.8
Net disposal of right of use assets	19	**(13.1)**	(14.0)
Net reclassification from right of use assets	19	**–**	(0.1)
Net exchange differences on right of use assets	19	**(2.4)**	6.2
Carrying amount of right of use assets	19	**440.9**	434.2
Current lease liabilities	24	**140.0**	144.4
Non-current lease liabilities	24	**313.7**	301.6
Capital element of lease repayments		**(124.4)**	(120.5)
Interest expense on lease liabilities	13	**(13.1)**	(7.9)
(Loss)/Profit on early termination of leases	10	**(0.6)**	0.2
Expenses relating to short term or low value leases	10	**(3.7)**	(4.2)

Notes to the Consolidated Financial Statements continued

25. Loans

	Total 2023 £m	Total 2022 £m
Loans are repayable as follows:		
On demand or within one year	**51.0**	44.5
Between one and two years	**38.5**	54.1
Between two and five years	**61.9**	106.3
After five years	**54.8**	58.0
	206.2	262.9
Less: amount due for settlement within one year (shown in current liabilities)	**(51.0)**	(44.5)
Amount due for settlement after one year	**155.2**	218.4

Included within amounts repayable within one year is £nil (2022: £nil) related to the draw down on the revolving credit facility.

Fair value of loans

	Carrying amount 2023 £m	Fair value 2023 £m	Carrying amount 2022 £m	Fair value 2022 £m
Loans	**206.2**	**189.2**	262.9	241.5

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 2023 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash movements[2] £m	At 31 December 2023 £m
Loans payable	**(262.9)**	**44.5**	**–**	**13.1**	**(0.9)**	**(206.2)**
Lease obligations	**(446.0)**	**124.4**	**–**	**3.1**	**(135.2)**	**(453.7)**
Liabilities arising from financing activities	**(708.9)**	**168.9**	**–**	**16.2**	**(136.1)**	**(659.9)**
Cash and cash equivalents	**57.2**	**39.8**	**–**	**(2.6)**	**–**	**94.4**
Derivatives relating to net debt	**1.8**	**–**	**–**	**1.3**	**–**	**3.1**
Net debt	**(649.9)**	**208.7**	**–**	**14.9**	**(136.1)**	**(562.4)**

1 Acquisitions represent the net cash/(debt) acquired on acquisition.

2 Non-cash movements on loans payable relate to movement in capitalised finance costs in the year. For lease obligations 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 2022 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash movements[2] £m	At 31 December 2022 £m
Loans payable	(377.0)	149.3	(6.5)	(30.1)	1.4	(262.9)
Lease obligations	(430.3)	120.5	(13.1)	(8.0)	(115.1)	(446.0)
Liabilities arising from financing activities	(807.3)	269.8	(19.6)	(38.1)	(113.7)	(708.9)
Cash and cash equivalents	198.4	(151.1)	6.2	3.7	–	57.2
Derivatives relating to net debt	0.6	–	–	1.2	–	1.8
Net debt	(608.3)	118.7	(13.4)	(33.2)	(113.7)	(649.9)

1 Acquisitions represent the net cash/(debt) acquired on acquisition.

2 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.

Notes to the Consolidated Financial Statements continued

26. Provisions

	Employee related £m	Property £m	Contract £m	Claims £m	Other £m	Total £m
At 1 January 2023	82.5	19.6	11.6	24.2	70.5	208.4
Acquisitions - revision of provisional fair value estimates	–	–	–	–	0.4	0.4
Disposals	(1.2)	(0.9)	–	–	(0.3)	(2.4)
Charge capitalised in right of use assets	–	0.9	–	–	–	0.9
Charged to income statement	18.3	9.7	8.8	9.7	7.7	54.2
Released to exceptional items	–	–	–	–	(43.9)	(43.9)
Released to income statement	(2.1)	(1.6)	(0.6)	(3.1)	(7.7)	(15.1)
Utilised during the year	(9.2)	(4.2)	(3.2)	(5.2)	(5.4)	(27.2)
Exchange differences	(4.4)	(0.3)	0.1	–	(0.4)	(5.0)
At 31 December 2023	83.9	23.2	16.7	25.6	20.9	170.3
Analysed as:						
Current	54.0	5.9	10.7	5.4	16.9	92.9
Non-current	29.9	17.3	6.0	20.2	4.0	77.4
	83.9	23.2	16.7	25.6	20.9	170.3

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. The provisions will be utilised over various periods driven by attrition and demobilisation of contracts, the timing of which is uncertain. There are also amounts included in relation to restructuring.

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 March 2037.

A contract provision is recorded when a contract is deemed to be unprofitable 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.

Claims provisions relate 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. While 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.

Included within other provisions is £20.9m 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. The Group released from other provisions indemnities given on disposed businesses of £43.9m during the year predominantly due to the claims period ending.

Individual provisions are only discounted where the impact is assessed to be significant. Currently, the effect of discounting is not material.

27. Capital and other commitments

Capital expenditure contracted but not provided	2023 £m	2022 £m
Property, plant and equipment	9.3	5.7
Intangible assets	0.4	0.2

Notes to the Consolidated Financial Statements continued

28. Contingent liabilities

The Group 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 2023 was £214.4m (2022: £222.7m).

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. As the claim progresses, 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.

The Group has guaranteed overdrafts, finance leases and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2022: £5.7m). The actual commitment outstanding at 31 December 2023 was £5.7m (2022: £5.7m).

29. Financial risk management

29 (a) Fair value of financial instruments

(i) Fair value hierarchy

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 that are observable for the asset or liability, either directly or indirectly, other than quoted prices included within Level 1.

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 2023 and the comparison fair values for loans, are all considered to fall into Level 2, with the exception of contingent consideration which is considered to fall into Level 3. 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.

Notes to the Consolidated Financial Statements continued

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 £m 2023	Fair value £m 2023	£m 2023	Amortised cost £m 2022	Fair value £m 2022	£m 2022
Financial assets						
Financial assets – current						
Cash and bank balances[1]	**94.4**	**–**	**94.4**	57.2	–	57.2
Derivatives designated as FVTPL (Level 2)						
Forward foreign exchange contracts	**–**	**4.8**	**4.8**	–	3.0	3.0
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**0.1**	**0.1**	–	0.3	0.3
Receivables						
Trade receivables (note 21)[1]	**219.1**	**–**	**219.1**	266.8	–	266.8
Amounts owed by joint ventures and associates (note 21)	**1.1**	**–**	**1.1**	3.1	–	3.1
Financial assets – non-current						
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**–**	**–**	–	0.3	0.3
Financial liabilities – current[2]						
Derivatives designated as FVTPL (Level 2)						
Forward foreign exchange contracts	**–**	**(1.6)**	**(1.6)**	–	(1.1)	(1.1)
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**(0.1)**	**(0.1)**	–	–	–
Financial liabilities at fair value (Level 3)						
Contingent consideration (note 23)	**–**	**–**	**–**	–	(11.2)	(11.2)
Financial liabilities at amortised cost						
Trade payables (note 23)[1]	**(99.3)**	**–**	**(99.3)**	(108.3)	–	(108.3)
Loans (note 25)	**(51.0)**	**–**	**(50.7)**	(44.5)	–	(44.3)
Financial liabilities – non-current[2]						
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**(0.2)**	**(0.2)**	–	–	–
Financial liabilities at amortised cost						
Loans (note 25)	**(155.2)**	**–**	**(138.5)**	(218.4)	–	(197.2)

1. Management 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.
2. In 2022, disclosed within financial liabilities were the amortised cost of lease obligations (non-current £144.4m and current £301.6m) and the fair value of lease obligations (non-current £143.3m and current £300.5m). These have been removed from this table in the current year as there is no requirement to disclose these under IFRS 7 or IFRS 13.

Notes to the Consolidated Financial Statements continued

The following table shows the development of financial assets and liabilities categorised as level 3:

	Financial liabilities current contingent consideration 2023 £m	Financial liabilities current contingent consideration 2022 £m
Balance at 1 January	**(11.2)**	–
Arising on acquisition	**–**	(12.2)
Acquisitions - revision of provisional fair value estimates	**1.0**	–
Cash settlement	**10.2**	1.0
Balance at 31 December	**–**	(11.2)

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 £3.0m (2022: £2.5m) comprising non-current assets of £nil (2022: £0.3), current assets of £4.9m (2022: £3.3m), current liabilities of £1.7m (2022: £1.1m) and non-current liabilities of £0.2m (2022: £nil).

	1 January 2023 £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 2023 £m
Forward foreign exchange contracts	**2.5**	**(0.8)**	**1.3**	**3.0**

	1 January 2022 £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 2022 £m
Forward foreign exchange contracts	0.6	0.6	1.3	2.5

The fair value of financial liabilities recognised at fair value through profit and loss is £1.7m (2022: £1.1m) 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.

Notes to the Consolidated Financial Statements continued

29. Financial risk management continued

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 2023 £m	Drawn 2023 £m	Utilised for bonding facility 2023 £m	Total facility available 2023 £m
Syndicated revolving credit facility	**Sterling**	**350.0**	**–**	**–**	**350.0**

	Currency	Amount 2022 £m	Drawn 2022 £m	Utilised for bonding facility 2022 £m	Total facility available 2022 £m
Syndicated revolving credit facility	Sterling	350.0	–	–	350.0

The Group has available a revolving credit facility with a maximum capacity of £350m and a five year term ending November 2027. In addition, the facility provides an accordion facility of £100m which is uncommitted. At 31 December 2023, the Group had £208.8m (2022: £266.4m) of US private placement loan notes which will be repaid as bullet repayments between 2024 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 2023	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)	**99.3**	**–**	**–**	**–**	**99.3**
Obligations under leases[1] (note 24)	**149.0**	**119.0**	**158.1**	**45.8**	**471.9**
Loans[2] (note 25)	**51.9**	**39.2**	**62.8**	**54.9**	**208.8**
Future loan interest	**6.5**	**5.4**	**10.5**	**6.0**	**28.4**
Derivatives settled on gross basis:					
Outflow	**1,094.7**	**0.7**	**–**	**–**	**1,095.4**
Inflow	**(1,097.9)**	**(0.4)**	**–**	**–**	**(1,098.3)**
	303.5	**163.9**	**231.4**	**106.7**	**805.5**

1 The present value of lease obligations is £453.7m after deducting £18.2m of future finance costs.

2 Loans are stated gross of capitalised finance costs.

At 31 December 2022	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)	108.3	–	–	–	108.3
Obligations under leases[1] (note 24)	150.6	113.9	149.3	51.5	465.3
Loans[2] (note 25)	45.4	54.9	108.0	58.1	266.4
Future loan interest	11.2	7.3	15.2	8.9	42.6
Derivatives settled on gross basis:					
Outflow	1,284.0	7.6	8.1	–	1,299.7
Inflow	(1,286.2)	(8.1)	(8.6)	–	(1,302.9)
	313.3	175.6	272.0	118.5	879.4

1 The present value of lease obligations is £446.1m after deducting £19.2m of future finance costs.

2 Loans are stated gross of capitalised finance costs.

Gross cash flows in the table above relating to forward foreign exchange contracts total £1,097.9m (inflow) and £1,094.7m (outflow) on demand or within one year (2022: £1,286.2m (inflow) and £1,284.0m (outflow) on demand or within one year).

Notes to the Consolidated Financial Statements continued

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 2023, 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 are used to protect against movements in foreign exchange but are not designated in hedge accounting relationships. These are settled gross and are shown in 29 (c) (ii) maturity of financial liabilities.

(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:

	2023 £m	2022 £m
Sterling	**(15.1)**	(32.9)
US Dollar	**0.9**	12.7
Indian Rupee	**14.2**	21.7

All derivatives designated as cash flow hedges are highly effective and as at 31 December 2023, £0.9m net fair value loss (2022: £0.6m net fair value gain) has been deferred in the hedging reserve. During the year to 31 December 2023, £0.6m of net fair value loss (2022: £0.9m gain) were transferred to the hedging reserve and £0.2m fair value gain (2022: £0.4m gain) were reclassified to the Consolidated Income Statement.

(iv) Currency sensitivity

The Group's currency exposures in respect of monetary items at 31 December 2023 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 rate. The impact of a 10% movement is summarised below:

	Pre-tax profits gain/(loss) 2023 £m	Equity gain/ (loss) 2023 £m	Pre-tax profits gain/(loss) 2022 £m	Equity gain/ (loss) 2022 £m
US Dollar	**(1.0)**	**0.1**	(0.1)	1.3
Euro	**–**	**–**	(0.1)	–
Indian Rupee	**–**	**1.4**	–	2.1
	(1.0)	**1.5**	(0.2)	3.4

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:

Financial assets	Floating rate 2023 £m	Fixed rate 2023 £m	Weighted average interest rate 2023 %	Floating rate 2022 £m	Fixed rate 2022 £m	Weighted average interest rate 2022 %
Cash and cash equivalents	**94.4**	**–**	**4.3**	57.2	–	1.2

Notes to the Consolidated Financial Statements continued

29. Financial risk management continued

Financial assets	Floating rate 2023 £m	Fixed rate 2023 £m	Weighted average interest rate 2023 %	Floating rate 2022 £m	Fixed rate 2022 £m	Weighted average interest rate 2022 %
US Dollar loans	–	**208.8**	**4.0**	–	266.4	4.2
	–	**208.8**	–	–	266.4	–

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 of each loan. The loans will be repaid as bullet repayments between 2024 and 2032. Excluded from the above analysis is £453.7m (2022: £446.0m) 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 Sterling Overnight Index Average (SONIA) 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 £0.9m increase in pre-tax profit for the year to 31 December 2023 (2022: increase of £0.6m).

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 2023 (2022: 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 2023, the Company has issued guarantees in respect of certain joint ventures and associates as per note 28.

29 (g) Capital risk

Management's objective is to maintain a capital structure that supports the Group's strategic objectives. The Group's target leverage is 1x-2x net debt to EBITDA which enables execution of the Board's capital allocation priorities and includes but is not limited to supporting organic growth, reshaping the portfolio through mergers, acquisitions and disposals, optimising shareholder returns and maintaining an implied investment grade credit rating. This strategy is unchanged from the prior year.

Management 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:

	2023 £m	2022 £m
Cash and cash equivalents	**(94.4)**	(57.2)
Loans	**206.2**	262.9
Obligations under leases	**453.7**	446.0
Equity	**1,033.7**	1,029.7
Capital	**1,599.2**	1,681.4

Notes to the Consolidated Financial Statements continued

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. The schemes in which the Group participates are categorised as follows:

Non-contract specific schemes

These schemes do not relate to any specific contract and represent 99.6% (2022: 98.5%) of scheme assets and 99.6% (2022: 98.1%) of scheme liabilities. They consist of eight pre-funded defined benefit schemes and an unfunded defined benefit scheme.

The two UK funded schemes are Serco Pension and Life Assurance Scheme (SPLAS) and a non-contract specific section of the Railways Pension Scheme (RPS). The funding policy for the UK pre-funded schemes is to contribute amounts which will achieve 100% funding on a projected salary basis based on regular actuarial valuations.

There are three non-UK schemes based in Switzerland and are available for the employees of OXZ Holdings AG (ORS) and its subsidiaries which are part of a collective foundation. The occupational benefits fund commission defines the contributions which are shared equally between the employer and the employees.

The Group has obligations in three funded public sector schemes in Australia and there is an unfunded scheme in Germany where the liabilities arising are recognised in full £0.2m (2022: £0.2m).

Contract specific schemes

These schemes represent 0.4% (2022: 1.5%) of scheme assets and 0.4% (2022: 1.9%) of scheme liabilities. They consist of one pre-funded defined benefit schemes in the UK and up until 25 June 2023, the Group sponsored a section of the RPS as part of the Caledonian Sleepers contractual arrangement which was transferred back to the Scottish Government. There was no residual liability to fund any deficit at the end of the franchise period.

The Group also makes contributions under Admitted Body status for one section of the Local Government Pension Scheme for the period to the end of the relevant customer contract. 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.

In respect of Local Government Pension Schemes, as there is a residual liability, 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.

Joint venture scheme

Under contractual arrangements, the Group's joint venture Merseyrail Services Holding Company Limited (Merseyrail) sponsors a section of the RPS, an industry-wide defined benefit scheme, paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund any deficit at the end of the franchise period and there is no pension obligation on the balance sheet of the Group or Merseyrail. The costs associated with the scheme are included in profit from operations for Merseyrail shown in note 6 and reflected in the share of profits in joint ventures in the income statement and therefore the disclosure in this note do not include Merseyrail.

Scheme funding

The normal employer contributions expected to be paid during the financial year for all schemes ending 31 December 2023 are £10.7m (2022: £8.9m).

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 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 date 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 schemes to meet its commitments and could require the Group to fund this shortfall in future years. SPLAS's investment strategy aims to reduce volatility risk by better matching assets to liabilities and is based on the actuarial funding basis. 48% of the scheme's assets are annuity policies, which 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 investment strategy outside of the annuity has a benchmark allocation of 45% Liability Driven Investments (LDIs), 40% Buy and Maintain Credit and 15% Private Debt. 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. Private debt investments are less volatile to the market conditions and therefore the allocation of these investments were higher than the scheme's benchmark at 31 December 2023, with 49% Liability Driven Investments (LDIs), 21% Buy and Maintain Credit and 30% Private Debt. The Trustees of SPLAS have been working closely with the Group and investment consultants to ensure the investment objectives of the scheme are maintained.
- 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 interest rates will increase the schemes' liabilities. This will be partially offset by an increase in the fair value of the schemes' debt investments.

Notes to the Consolidated Financial Statements continued

30. Retirement benefit schemes continued

- 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. Higher inflation will trigger larger annual benefits for the members and 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.

Serco Pension and Life Assurance Scheme (SPLAS)

The largest non-contract specific scheme is SPLAS. The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2021 and completed in May 2022. The actuarially assessed deficit for funding purposes at this time was £70.0m. The increase to the actuarially assessed deficit for funding purposes was as a result of the RPI reform announced by the UK government to take effect from 2030.

Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. As at 31 December 2023, the estimated actuarial deficit on a funding basis for SPLAS was £23m (2022: £27m) whereas the accounting valuation resulted in an asset of £30.5m (2022: £47.5m). The primary reason a difference arises is that IAS 19 accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees uses more prudent assumptions.

The schedule of contributions for SPLAS was agreed during 2022, with 44.3% of pensionable salaries for active employees due to be paid in regular contributions from 1 June 2022. The schedule of contributions also determined that additional shortfall contributions were required and the Group has committed to make deficit recovery payments of £6.6m per year by 31 March from 2022 to 2030. An annual assessment of the shortfall is performed and if the scheme is determined to be in a surplus position the shortfall contributions due by 31 March are deferred to the following year. If the shortfall calculated in the annual assessment is less that than the cumulative shortfall due to date, the contribution is capped at the shortfall calculation and any excess is carried forward to the next year.

(ii) Events in the year

During the year there continued to be a high degree of volatility in the pensions market. Discount rates and short-term inflation rates had been rising since 31 December 2021. Concerns over high global inflation, recession, rising interest rates and sharp rises in bond yields continued through to the third quarter of 2023 and, as inflation fell and interest rates rose, bond yields fell slightly below the levels at 31 December 2022.

Despite the volatility, Serco's pension schemes remain in a strong funding position and have an accounting surplus, before tax, the decrease in the net retirement benefit asset of £26.3m is primarily due to the Group's largest scheme, Serco Pension and Life Assurance Scheme (SPLAS), and is as a result of the following:

- Discount rates being lower than prior year resulting in an increase in pension obligation
- Actual inflation in 2023 was higher than prior year assumptions resulting in an experience adjustment increasing pension obligations
- Updated mortality assumptions to reflect the latest available actuarial projections resulting in a reduction to pension obligations
- Reductions to long term RPI inflation assumptions have resulted in a decrease to pension obligations
    - Discount rates being lower than prior year resulting in an increase in pension obligation
    - Actual inflation in 2023 was higher than prior year assumptions resulting in an experience adjustment increasing pension obligations
    - Updated mortality assumptions to reflect the latest available actuarial projections resulting in a reduction to pension obligations
    - Reductions to long term RPI inflation assumptions have resulted in a decrease to pension obligations

On 25 June 2023, the contract for Caledonian Sleepers was transferred back to the Scottish Government which included the transfer of obligations under the section of the share costs pension scheme under the franchise agreement. In line with the accounting under IAS 19, the Group held no liability for this scheme on the balance sheet and therefore there is no gain or loss through the income statement.

Notes to the Consolidated Financial Statements 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:

Recognised in the income statement	2023 £m	2022 £m
Current service cost – employer	**5.3**	5.9
Past service cost – employer	–	0.8
Settlement gain recognised	–	(0.3)
Administrative expenses and taxes	**2.0**	2.4
Recognised in arriving at operating profit	**7.3**	8.8
Interest income on scheme assets – employer	**(50.4)**	(28.3)
Interest on franchise adjustment	–	(0.2)
Interest cost on scheme liabilities – employer	**47.3**	25.8
Finance income	**(3.1)**	(2.7)
Total recognised in the income statement	**4.2**	6.1

Included within the SOCI	2023 £m	2022 £m
Actual return on scheme assets	**41.4**	(539.8)
Less: interest income on scheme assets	**(50.4)**	(28.3)
Net return on scheme assets	**(9.0)**	(568.1)
Effect of changes in demographic assumptions	**24.3**	21.2
Effect of changes in financial assumptions	**(22.7)**	530.3
Effect of experience adjustments	**(21.7)**	(77.2)
Remeasurements	**(29.1)**	(93.8)
Change in franchise adjustment	**(1.8)**	(7.0)
Change in members' share	**(1.2)**	(5.3)
Actuarial loss on reimbursable rights	**(3.0)**	(12.3)
Total recognised in the SOCI	**(32.1)**	(106.1)

(iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Fair value of scheme assets 2023 £m	Present value of scheme liabilities 2023 £m	Surplus/(deficit) 2023 £m	Fair value of scheme assets 2022 £m	Present value of scheme liabilities 2022 £m	Surplus/(deficit) 2022 £m
SPLAS[1]	**917.0**	**(886.5)**	**30.5**	925.3	(877.8)	47.5
ORS	**68.5**	**(80.5)**	**(12.0)**	49.8	(54.9)	(5.1)
RPS	**66.7**	**(60.8)**	**5.9**	68.4	(59.7)	8.7
Other Schemes in surplus	**3.8**	**(2.8)**	**1.0**	3.3	(2.5)	0.8
Other schemes in deficit	**1.1**	**(2.0)**	**(0.9)**	1.0	(2.1)	(1.1)
Scheme under Franchise agreement[2]	–	–	–	11.9	(14.9)	(3.0)
Total	**1,057.1**	**(1,032.6)**	**24.5**	**1,059.7**	**(1,011.9)**	**47.8**
Franchise adjustment[2]			–			1.8
Members' share of deficit			–			1.2
Net retirement benefit asset[3]			**24.5**			50.8

1 The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time until all members have left the plan. 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 in the form of possible reductions in future contributions

2 The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period and therefore no additional funding will be required by the Group.

3 The net retirement benefit asset (before tax) is split in the balance sheet between schemes in surplus totalling £37.4m (2022: £57.0m) reported in retirement benefit assets and schemes in deficit totalling £12.9m (2022: £6.2m) reported in retirement benefit obligations.

Notes to the Consolidated Financial Statements continued

30. Retirement benefit schemes continued

(v) Pension asset values

The schemes asset values at 31 December are:

Scheme assets at fair value	2023 £m	2022 £m
Equities	**31.6**	45.2
Bonds except LDIs	**136.5**	151.4
Pooled investment funds	**145.0**	140.0
LDIs	**235.8**	217.7
Property	**0.3**	1.3
Cash and other	**9.1**	13.4
Amounts held by insurance companies	**498.8**	490.7
Fair value of scheme assets[1]	**1,057.1**	1,059.7

1 There are no investments in the Group's own transferable financial instruments held as pension assets. No property pension assets are occupied, or other pension assets used by the Group.

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 have quoted prices in active markets and are classified as level 1, except for the unitised equity and bond fund investments in the non-contract specific section of the Railways Pension Scheme which are Level 2 or Level 3 based on the Net Asset Value provided by the fund administrator.
- Pooled investment funds have no observable market price and the valuation is based on the Net Asset Value provided by the fund administrator at 30 September adjusted for actual cash flows in the period to 31 December. Therefore, these investments are classified as level 3.
- LDIs are valued at fair value which is typically the Net Asset Value provided by the fund administrator. The LDIs are comprised of a mix of Level 1 and Level 2 instruments, including corporate/government bonds priced at their quoted bid price, derivatives made up of interest rate/inflation swaps and payables in respect of repurchase agreements.
- Amounts held by insurance companies are valued at the equal and opposite of the defined benefit obligations that they insure and are classified as level 3.

Notes to the Consolidated Financial Statements continued

(vi) Changes in the fair value of scheme assets and liabilities

The table below shows the movements in fair value of scheme assets and liabilities and shows where they are reflected in the financial statements.

	Fair value of scheme assets 2023 £m	Present value of scheme liabilities 2023 £m	Surplus/ (deficit) 2023 £m	Fair value of scheme assets 2022 £m	Present value of scheme liabilities 2022 £m	Surplus/ (deficit) 2022 £m
At 1 January	1,059.7	(1,011.9)	47.8	1,592.9	(1,459.1)	133.8
Current service cost – employer	–	(5.3)	(5.3)	–	(5.9)	(5.9)
Past service costs – employer	–	–	–	–	(0.8)	(0.8)
Administration expenses – employer	(2.0)	–	(2.0)	(2.4)	–	(2.4)
Plan settlement	–	–	–	(8.0)	8.3	0.3
Net interest on scheme assets and liabilities	50.4	(47.3)	3.1	28.3	(25.8)	2.5
Total recognised in the income statement	48.4	(52.6)	(4.2)	17.9	(24.2)	(6.3)
Return of plan assets	(9.0)	–	(9.0)	(568.1)	–	(568.1)
Effect of changes in demographic assumptions	–	24.3	24.3	–	21.2	21.2
Effect of changes in financial assumptions	–	(22.7)	(22.7)	–	530.3	530.3
Effect of experience adjustments	–	(21.7)	(21.7)	–	(77.2)	(77.2)
Total recognised in the SOCI	(9.0)	(20.1)	(29.1)	(568.1)	474.3	(93.8)
Contributions by employer	10.5	–	10.5	19.9	–	19.9
Total recognised in the cash flow statement	10.5	–	10.5	19.9	–	19.9
Contributions by employees	5.1	(4.9)	0.2	1.7	(1.4)	0.3
Current service cost – employees	–	(0.3)	(0.3)	–	(0.9)	(0.9)
Net Interest cost – employee	0.1	(0.1)	–	0.1	(0.2)	(0.1)
Change in member share	5.2	(5.3)	(0.1)	1.8	(2.5)	(0.7)
Arising on acquisition	–	–	–	46.7	(51.7)	(5.0)
Benefits paid	(50.3)	50.3	–	(52.1)	52.1	–
Insurance premiums for risk benefits	(2.0)	2.0	–	(0.7)	0.7	–
Transfer in of accrued benefits	4.1	(4.1)	–	–	–	–
Transfer out of benefits	(12.2)	12.2	–	–	–	–
Foreign exchange	2.7	(3.1)	(0.4)	1.4	(1.5)	(0.1)
Other movements	(57.7)	57.3	(0.4)	(4.7)	(0.4)	(5.1)
At 31 December	**1,057.1**	**(1,032.6)**	**24.5**	**1,059.7**	**(1,011.9)**	**47.8**

Notes to the Consolidated Financial Statements continued

30. Retirement benefit schemes continued

Changes in the franchise adjustment	2023 £m	2022 £m
At 1 January	**1.8**	8.6
Interest on franchise adjustment – recognised in income statement	–	0.2
Other changes – recognised in the SOCI	**(1.8)**	(7.0)
At 31 December	–	1.8

(vii) Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which reflects 86% of total liabilities and 87% 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 expectation less an inflation risk premium. The inflation risk premium is 0.3% both at 31 December 2022 and at 31 December 2023.

The average duration of the benefit obligation at the end of the reporting period is 12 years (2022: 12 years).

Significant actuarial assumptions	2023 %	2022 %
Discount rate	**4.80**	5.00
Rate of salary increases	**2.85**	2.85
RPI Inflation	**3.05**	3.15
CPI Inflation	**2.35**	2.35

Post-retirement mortality[1]	2023 years	2022 years
Current pensioners at 65 – male	**20.9**	21.5
Current pensioners at 65 – female	**23.6**	24.1
Future pensioners at 65 – male	**22.8**	23.6
Future pensioners at 65 – female	**25.6**	26.2

1 The mortality assumptions have been updated to reflect the latest available mortality tables CMI_2022.

Sensitivity analysis for SPLAS 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 2023 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 2023 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.

Notes to the Consolidated Financial Statements continued

Increase/(decrease) in defined benefit obligation of SPLAS	2023 £m	2022 £m
Discount rate – 1.0% increase	**(93.8)**	(93.4)
Discount rate – 1.0% decrease	**114.1**	113.8
Inflation – 1.0% increase	**74.1**	68.0
Inflation – 1.0% decrease	**(69.1)**	(68.1)
Rate of salary increase – 1.0% increase	**1.5**	1.6
Rate of salary increase – 1.0% decrease	**(1.3)**	(1.4)
Mortality – one-year age rating	**26.6**	25.4

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.

The increase or decrease in the defined benefit obligation in the sensitivity table above would be offset by the corresponding movement in the scheme's assets. A 1% change in the long-term gilt yields consistent with the discount rates would result in an approximate offsetting movement of £90m (2022: £100m) in the scheme's LDI investment and a 1% change in long term inflation expectation would result in an approximate offsetting movement of £60m (2022: £70m) in the scheme's LDI Investment.

(viii) Actuarial assumptions: Other schemes

The other UK based schemes are valued on a consistent basis to SPLAS. The non-UK based schemes use a discount rate ranging from 1.40%% to 5.72% (2022 2.40% to 5.45%).

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 2023 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% (2022: 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 £97.9m (2022: £96.7m) into UK defined contribution schemes, foreign defined contribution schemes and foreign state pension schemes.

Serco participated in certain pre-funded defined benefit pension arrangements relating to contracts, including participations in public sector schemes, however, contractual protections are in place allowing actuarial and investment risk to be passed to the end customer via recoveries for contributions paid.

The nature of these arrangements varies from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

31. Share capital

Issued and fully paid	2023 £m	2023 Number Millions	2022 £m	2022 Number Millions
1,218,008,788 (2022: 1,218,008,788) ordinary shares of 2p each at 1 January	**24.4**	**1,218.0**	24.4	1,218.0
Cancelled: 114,462,822 (2022: nil) ordinary shares of 2p	**(2.3)**	**(114.5)**	–	–
1,103,545,966 (2022: 1,218,008,788) ordinary shares of 2p each at 31 December	**22.1**	**1,103.5**	24.4	1,218.0

During the year 114,462,822 (2022: nil) shares were cancelled.

The Company has one class of ordinary shares which carry no right to fixed income.

Notes to the Consolidated Financial Statements continued

32. Share premium account

	2023 £m	2022 £m
At 1 January and 31 December	**463.1**	463.1

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 2022	(91.0)	95.8	(1.2)	–	(0.1)	(27.5)	0.4	(23.6)
Total comprehensive (loss)/income for the year	(78.9)	–	–	–	0.4	60.1	0.1	(18.3)
Shares purchased and held in own share reserve	–	–	(15.9)	–	–	–	–	(15.9)
Shares purchased and held in Treasury	–	–	–	(91.2)	–	–	–	(91.2)
Shares transferred to award holders on exercise of share awards	–	(9.3)	9.4	–	–	–	–	0.1
Expense in relation to share-based payments	–	15.6	–	–	–	–	–	15.6
Tax credit on items taken directly to equity	–	3.4	–	–	–	–	–	3.4
At 1 January 2023	**(169.9)**	**105.5**	**(7.7)**	**(91.2)**	**0.3**	**32.6**	**0.5**	**(129.9)**
Total comprehensive loss for the year	**(26.0)**	**–**	**–**	**–**	**(0.6)**	**(38.4)**	**–**	**(65.0)**
Shares purchased and held in own share reserve	**–**	**–**	**(22.9)**	**–**	**–**	**–**	**–**	**(22.9)**
Shares purchased and held in Treasury	**–**	**–**	**–**	**(88.8)**	**–**	**–**	**–**	**(88.8)**
Shares committed to be purchased and held in Treasury	**–**	**–**	**–**	**180.0**	**–**	**–**	**2.3**	**182.3**
Shares transferred to award holders on exercise of share awards	**–**	**(15.6)**	**15.6**	**–**	**–**	**–**	**–**	**–**
Expense in relation to share-based payments	**–**	**13.5**	**–**	**–**	**–**	**–**	**–**	**13.5**
Tax credit on items taken directly to equity	**–**	**0.5**	**–**	**–**	**–**	**–**	**–**	**0.5**
At 31 December 2023	**(195.9)**	**103.9**	**(15.0)**	**–**	**(0.3)**	**(5.8)**	**2.8**	**(110.3)**

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.

Notes to the Consolidated Financial Statements continued

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 2023, the ESOT held 11,351,967 (2022: 9,144,275) shares equal to 1.0% of the current allotted share capital (2022: 0.8%). The market value of shares held by the ESOT as at 31 December 2023 was £18.4m (2022: £14.2m).

33 (e) Treasury shares
The Treasury shares reserve represents amounts paid to repurchase ordinary shares. On 28 February 2023, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. The buyback programme took place between 3 March and 22 June 2023. During this period, the Group repurchased 58,956,118 shares at an average cost of £1.506 for total cost including fees of £88.8m. All shares held at 31 December 2022 and those purchased in 2023 have been cancelled.

33 (f) 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:

	2023 £m	2022 £m
Long-Term Incentive Plan	**10.7**	13.8
Deferred Bonus Plan	**0.9**	1.0
Equity Settled Bonus Plan	**0.6**	0.6
MyShareSave Plan	**1.3**	0.2
	13.5	15.6

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 2023 thousands	Weighted average exercise price 2023 £	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £
Outstanding at 1 January	**30,284**	**nil**	31,014	nil
Granted during the year	**11,305**	**nil**	10,543	nil
Dividend equivalent granted during the year	**588**	**nil**	598	nil
Exercised during the year	**(9,013)**	**nil**	(9,365)	nil
Lapsed during the year	**(4,823)**	**nil**	(2,506)	nil
Outstanding at 31 December	**28,341**	**nil**	30,284	nil

The awards over shares outstanding at 31 December 2023 were all unvested and had a weighted average contractual life of 1.0 years (2022: 1.0 years).

In the year, 13 grants were made, of which 9 were non-performance related. The remaining 4 awards were performance-based awards, 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 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.

Notes to the Consolidated Financial Statements continued

34. Share-based payment expense continued

The Monte Carlo and Black-Scholes models used the following inputs:

	2023
Weighted average share price	**£1.48**
Weighted average exercise price	**nil**
Expected volatility	**35.1 %**
Average expected life (years)	**2.95**
Risk-free rate	**1.58 %**

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 £1.37 (2022: £1.43).

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 2023 thousands	Weighted average exercise price 2023 £	Number of options or shares under award 2022 thousands	Weighted average exercise price 2022 £
Outstanding at 1 January	**6,455**	**0.02**	9,337	0.02
Exercised during the year	**(2,098)**	**0.02**	(2,877)	0.02
Lapsed during the year	**–**	**nil**	(5)	nil
Outstanding at 31 December	**4,357**	**0.02**	6,455	0.02

Of these awards, 4,356,603 (2022: 6,453,743) were exercisable at the end of the year. The awards outstanding at 31 December 2023 had a weighted average contractual life of 2.9 years (2022: 4.5 years).

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 2023 thousands	Weighted average exercise price 2023 £	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £
Outstanding at 1 January	**2,075**	**nil**	1,806	nil
Granted during the year	**473**	**nil**	741	nil
Dividend equivalent granted during the year	**40**	**nil**	33	nil
Exercised during the year	**(613)**	**nil**	(505)	nil
Lapsed during the year	**(100)**	**nil**	–	nil
Outstanding at 31 December	**1,875**	**nil**	2,075	nil

None of these awards were exercisable at the end of the year (2022: nil). The awards outstanding at 31 December 2023 had a weighted average contractual life of 0.7 years (2022: 1.4 years).

Notes to the Consolidated Financial Statements continued

There were 472,852 new awards granted under the Deferred Bonus Plan in the year, with 100% of the deferred bonus subject to the same EPS performance conditions as the LTIPs.

The Black-Scholes model used the following inputs:

	2023
Weighted average share price	**£1.52**
Weighted average exercise price	**nil**
Expected volatility	**31.1 %**
Expected life (years)	**3.00**
Risk-free rate	**3.25 %**

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 £1.52 (2022: £1.46).

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 2023 thousands	Weighted average exercise price 2023 £	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £
Outstanding at 1 January	**1,443**	**nil**	1,257	nil
Granted during the year	**361**	**nil**	476	nil
Dividend equivalent granted during the year	**24**	**nil**	23	nil
Exercised during the year	**(619)**	**nil**	(313)	nil
Outstanding at 31 December	**1,209**	**nil**	1,443	nil

None of these awards were exercisable at the end of the year (2022: none). The awards outstanding at 31 December 2023 had a weighted average contractual life of 0.6 years (2022: 0.4 years).

There were 360,760 new 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:

	2023
Weighted average share price	**1.54**
Weighted average exercise price	**nil**
Expected volatility	**33.4 %**
Expected life (years)	**3.00**
Risk-free rate	**3.28 %**

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 £1.54 (2022: £1.45).

UK and International save as you earn (MyShareSave)

MyShareSave scheme was introduced to UK employees in October 2022. In September 2023 this was extended to employees in and USA, Canada, United Arab Emirates and Australia. Participating individuals are required to save 36 monthly payments over a maximum of a 48-month period and thus will have the option to buy shares at a discounted grant price. Participants can withdraw from the scheme at any time including after the vesting period has ended.

Notes to the Consolidated Financial Statements continued

34. Share-based payment expense continued

	Number of shares under award 2023 thousands	Weighted average exercise price 2023 £	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £
Outstanding at 1 January	**5,536**	**1.26**	–	nil
Granted during the year	**6,306**	**1.25**	5,556	1.26
Dividend equivalent granted during the year	**–**	**nil**	–	nil
Exercised during the year	**(28)**	**1.26**	–	nil
Lapsed during the year	**(908)**	**1.26**	(20)	1.26
Outstanding at 31 December	**10,906**	**1.25**	5,536	1.26

Of these awards 72,310 (2022: none) were exercisable at the end of the year. The awards outstanding at 31 December 2023 had a weighted average contractual life of 3.0 years (2022: 3.4 years).

There were 6,306,439 new awards granted under the UK MyShareSave plan in the year.

The fair value of the options was based on the assumptions for awards granted during the year as follows:

	28 September 2023
Closing share price	**£1.52**
Exercise price	**£1.23**
Expected volatility	**33.0 %**
Dividend yield	**2.0 %**
Expected life (years)	**3.68**
Risk-free rate	**4.8 %**

The weighted average estimated fair value of awards granted under this scheme in the year was £0.43 (2022 £0.53).

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 2023 £m	Current outstanding at 31 December 2023 £m	Non-current outstanding at 31 December 2023 £m
Sale of goods and services			
Joint ventures	**15.4**	**1.1**	**–**
Other			
Loan to joint venture	**–**	**10.0**	**–**
Dividends received – joint ventures	**21.1**	**–**	**–**
Receivable from consortium for tax – joint ventures	**9.9**	**3.7**	**9.4**
Total	**46.4**	**14.8**	**9.4**

Sales of goods and services to joint ventures relates to services provided including administrative and back office activities to VIVO. 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.

Notes to the Consolidated Financial Statements continued

	Transactions 2022 £m	Current outstanding at 31 December 2022 £m	Non-current outstanding at 31 December 2022 £m
Sale of goods and services			
Joint ventures	10.5	3.1	–
Other			
Loan to joint venture	10.0	–	10.0
Loan to pension scheme	60.0	–	–
Dividends received – joint ventures	7.3	–	–
Dividends received – associates	1.8	–	–
Receivable from consortium for tax – joint ventures	3.2	0.9	3.2
Total	92.8	4.0	13.2

The Group made a short-term temporary loan of £60.0m to Serco Pension and Life Assurance Scheme (SPLAS) in 2022 in order for the scheme to be able to liquidate assets to meet collateral calls required to ensure that the LDI hedge was maintained; this loan was repaid in 2022.

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:

	2023 £m	2022 £m
Short-term employee benefits	**7.7**	8.6
Post-employment benefits	**0.3**	–
Termination benefits	**0.2**	–
Share-based payment expense	**4.1**	7.1
	12.3	15.7

The key Management personnel comprise the Executive Directors, Non-Executive Directors and members of the Group Executive Committee (2023: 18 individuals, 2022: 17 individuals).

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2023 £m	2022 £m
Salaries, fees, bonuses and benefits in kind	**3.1**	3.4
Amounts receivable under long-term incentive schemes	**2.5**	3.0
Gains on exercise of share awards	**0.9**	2.7
	6.5	9.1

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 115 to 138.

Notes to the Consolidated Financial Statements continued

36. Notes to the Consolidated Cash Flow statement

Year ended 31 December	2023 Underlying £m	2023 Non underlying items £m	2023 Reported £m	2022 Underlying £m	2022 Non underlying items £m	2022 Reported £m
Profit before tax	**224.1**	**22.9**	**247.0**	216.6	(19.8)	196.8
Net finance costs	24.6	–	24.6	20.4		20.4
Operating profit for the year	**248.7**	**22.9**	**271.6**	237.0	(19.8)	217.2
Adjustments for:						
Share of profits in joint ventures and associates	**(29.0)**	**–**	**(29.0)**	(12.0)	–	(12.0)
Share-based payment expense	**13.5**	**–**	**13.5**	15.6	–	15.6
Impairment of intangible assets	**0.1**	**8.1**	**8.2**	0.1	–	0.1
Amortisation of intangible assets	**7.7**	**22.8**	**30.5**	10.0	21.6	31.6
Impairment of property, plant and equipment	**0.6**	**–**	**0.6**	2.3	–	2.3
Net impairment/(reversal of impairment) of right of use assets	**0.7**	**–**	**0.7**	2.4	(4.2)	(1.8)
Depreciation of property, plant and equipment	**17.3**	**–**	**17.3**	20.7	–	20.7
Depreciation of right of use assets	**125.4**	**–**	**125.4**	119.3	–	119.3
(Profit)/Loss on disposal of intangible assets	**(0.8)**	**–**	**(0.8)**	0.4	–	0.4
Loss/(profit) on early termination of leases	**0.6**	**–**	**0.6**	(0.2)	–	(0.2)
Profit on disposal of property, plant and equipment	**(0.6)**	**–**	**(0.6)**	(0.5)	–	(0.5)
Other non-cash movements	**(1.5)**	**–**	**(1.5)**	–	–	–
Increase/(decrease) in provisions	**12.6**	**(44.6)**	**(32.0)**	4.0	(0.6)	3.4
Total non-cash items	**146.6**	**(13.7)**	**132.9**	162.1	16.8	178.9
Operating cash inflow/(outflow) before movements in working capital	**395.3**	**9.2**	**404.5**	399.1	(3.0)	396.1
(Increase) in inventories	**(2.4)**	**0.1**	**(2.3)**	(1.5)	–	(1.5)
Decrease in receivables	**63.1**	**–**	**63.1**	1.2	–	1.2
(Increase)/decrease in payables	**(30.7)**	**–**	**(30.7)**	(24.0)	0.1	(23.9)
Movements in working capital	**30.0**	**0.1**	**30.1**	(24.4)	0.1	(24.3)
Cash generated by operations	**425.3**	**9.3**	**434.6**	374.7	(2.9)	371.8
Tax paid	**(41.1)**	**–**	**(41.1)**	(44.2)	–	(44.2)
Non-cash R&D expenditure	**(0.4)**	**–**	**(0.4)**	(0.4)	–	(0.4)
Net cash inflow/(outflow) from operating activities	**383.8**	**9.3**	**393.1**	330.1	(2.9)	327.2

Notes to the Consolidated Financial Statements continued

37. Post balance sheet events

Acquisitions

On 14 December 2023, Serco agreed to acquire 100% of the share capital of European Homecare (EHC), a specialist provider of immigration services to public sector customers in Germany. The business will be acquired from Korte-Stiftung for €40m (£34m) subject to final fair value assessments. Subsequent to the balance sheet date clearance has been obtained from the competition authority and the acquisition completed on 1 March 2024. Due to the timing of completion and the availability of financial information, the measurement of the fair value of net assets acquired and any goodwill to be recognised as a result of the acquisition is in progress.

On 14 December 2023, Serco agreed to acquire 100% of the share capital of Climatize, a small but fast-growing business that operates in the United Arab Emirates and the Kingdom of Saudi Arabia offering 'zero-carbon' advisory and related engineering services. The acquisition completed on 31 January 2024 for cash consideration of AED 9.0m (£1.9m) and contingent consideration of up to AED 51.0m (£10.9m), payable on achieving certain financial targets. Due to the timing of completion, the measurement of the fair value of net assets acquired and any goodwill to be recognised as a result of the acquisition is in progress.

US Private Placement Loan Notes

On 27 February 2024, Serco Group plc issued $150m (£118m) of US Private Placement loan notes. The notes are equally split into two series of $75m each with maturities of 5 and 10 years, giving an average maturity of 7.5 years. The average interest rate on the new loan notes is fixed at 6.58%, which compares to a blended rate of 3.97% for the existing notes.

Serco share buyback

The Group has announced its intention to commence a share buyback of up to £140m. 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 by 31 December 2024 with the shares either held in treasury or cancelled.

Employee Share Ownership Trust

Subsequent to the year end, the Group's Employee Share Ownership Trust completed the purchase of 9.3m shares at the cost of £16.2m. These shares will be held in the own share reserve until they are transferred to award holders on the exercise of share awards.

Dividends

Subsequent to the year-end, the Board has recommended the payment of a final dividend in respect of the year ended 31 December 2023 of 2.27p. 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	2023 £m	2022 £m
Fixed assets			
Right of use assets	39	**0.1**	0.1
Deferred tax assets	46	**–**	0.7
Investments in subsidiaries	40	**2,052.5**	2,052.5
		2,052.6	2,053.3
Current assets			
Debtors: amounts due within one year	41	**23.1**	18.2
Debtors: amounts due after more than one year	41	**449.1**	555.5
Derivative financial instruments due within one year	45	**4.9**	3.0
Corporation tax asset	41	**9.9**	0.6
Cash at bank and in hand		**45.0**	21.1
		532.0	598.4
Total assets		**2,584.6**	2,651.7
Creditors: amounts falling due within one year			
Trade and other payables	42	**(140.4)**	(155.7)
Loans	43	**(51.0)**	(44.4)
Provisions	44	**(8.1)**	(50.8)
Corporation tax liability		**–**	(0.1)
Derivative financial instruments	45	**(1.7)**	(1.1)
		(201.2)	(252.1)
Net current assets		**330.8**	346.3
Creditors: amounts falling due after more than one year			
Loans	43	**(155.2)**	(218.4)
Amounts owed to subsidiary companies		**(1,043.0)**	(1,301.2)
Provisions	44	**–**	(1.2)
		(1,198.2)	(1,520.8)
Total liabilities		**(1,399.4)**	(1,772.9)
Net assets		**1,185.2**	878.8
Capital and reserves			
Called up share capital	47	**22.1**	24.4
Share premium account	48	**463.1**	463.1
Capital redemption reserve		**2.7**	0.4
Profit and loss account	49	**626.0**	401.8
Share-based payment reserve	50	**86.3**	88.0
Treasury shares reserve	51	**–**	(91.2)
Own shares reserve	51	**(15.0)**	(7.7)
Total shareholders' funds		**1,185.2**	878.8

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 £437.9m (2022: loss £5.0m) and the total comprehensive profit for the year was £437.9m (2022: loss £5.0m).

The financial statements (registered number 02048608) were approved by the Board of Directors on 1 March 2024 and signed on its behalf by:

Mark Irwin
Group Chief Executive

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 2022	24.4	463.1	0.4	437.1	–	81.1	(1.2)	1,004.9
Total comprehensive loss for the year	–	–	–	(5.0)	–	–	–	(5.0)
Dividends paid	–	–	–	(30.3)	–	–	–	(30.3)
Shares purchased and held in Treasury	–	–	–	–	(91.2)	–	–	(91.2)
Shares purchased and held in own share reserve	–	–	–	–	–	–	(15.9)	(15.9)
Shares transferred to option holders on exercise	–	–	–	–	–	(9.3)	9.4	0.1
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	–	10.8	–	10.8
Expense in relation to share-based payments	–	–	–	–	–	4.8	–	4.8
Tax charge on items taken directly to equity	–	–	–	–	–	0.6	–	0.6
At 1 January 2023	**24.4**	**463.1**	**0.4**	**401.8**	**(91.2)**	**88.0**	**(7.7)**	**878.8**
Total comprehensive income for the year	**–**	**–**	**–**	**437.9**	**–**	**–**	**–**	**437.9**
Dividends paid	**–**	**–**	**–**	**(33.7)**	**–**	**–**	**–**	**(33.7)**
Shares purchased and held in own share reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(22.9)**	**(22.9)**
Cancellation of shares held in Treasury	**(2.3)**	**–**	**2.3**	**(180.0)**	**180.0**	**–**	**–**	**–**
Shares purchased and held in Treasury until cancelled	**–**	**–**	**–**	**–**	**(88.8)**	**–**	**–**	**(88.8)**
Shares transferred to option holders on exercise	**–**	**–**	**–**	**–**	**–**	**(15.6)**	**15.6**	**–**
Awards over parent's shares made to employees of subsidiaries	**–**	**–**	**–**	**–**	**–**	**7.9**	**–**	**7.9**
Expense in relation to share-based payments	**–**	**–**	**–**	**–**	**–**	**5.6**	**–**	**5.6**
Tax credit on items taken directly to equity	**–**	**–**	**–**	**–**	**–**	**0.4**	**–**	**0.4**
At 31 December 2023	**22.1**	**463.1**	**2.7**	**626.0**	**–**	**86.3**	**(15.0)**	**1,185.2**

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 Financial Reporting Standard 100 (FRS 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 the UK-adopted international financial reporting standards 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 (2022: £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 2022	2,041.7
Awards over parent's shares made to employees of subsidiaries	10.8
At 1 January 2023	**2,052.5**
Awards over parent's shares made to employees of subsidiaries	–
At 31 December 2023	**2,052.5**

There have been no indicators of impairment identified for the investments held as fixed assets.

41. Debtors

Amounts due within one year	2023 £m	2022 £m
Prepayments	**15.2**	12.5
Prepaid intercompany interest	**6.7**	4.9
Amounts owed by subsidiary companies	**1.2**	0.8
	23.1	18.2

Amounts due after more than one year	2023 £m	2022 £m
Amounts owed by subsidiary companies	**439.1**	555.5
Amounts owed by joint ventures of Serco Group	**10.0**	–
	449.1	555.5

The expected credit loss provision against amounts owed by subsidiary companies is immaterial.

42. Trade and other payables

Amounts due within one year	2023 £m	2022 £m
Amounts owed to subsidiary companies	**73.3**	73.3
Trade creditors	**1.4**	57.8
Accruals and deferred income	**46.9**	24.5
Other creditors including taxation and social security	**18.8**	0.1
	140.4	155.7

Notes to the Company Financial Statements continued

43. Loans

	2023 £m	2022 £m
Loans are repayable as follows:		
On demand or within one year	**51.0**	44.4
Between one and two years	**38.5**	54.2
Between two and five years	**61.9**	106.2
After five years	**54.8**	58.0
	206.2	262.8
Less: amount due for settlement within one year (shown within current liabilities)	**(51.0)**	(44.4)
Amount due for settlement after one year	**155.2**	218.4

44. Provisions

	Contract £m	Other £m	Total £m
At 1 January 2023	**8.1**	**43.9**	**52.0**
Released to income statement – exceptional	**–**	**(43.9)**	**(43.9)**
At 31 December 2023	**8.1**	**–**	**8.1**
Analysed as:			
Current	**8.1**	**–**	**8.1**
Non-current	**–**	**–**	**–**
	8.1	**–**	**8.1**

A contract provision is recorded when a contract is deemed to be unprofitable 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.

The Company released from other provisions indemnities given on disposed businesses of £43.9m during the year due to the claims period ending.

45. Derivative financial instruments

	Assets 2023 £m	Liabilities 2023 £m	Assets 2022 £m	Liabilities 2022 £m
Forward foreign exchange contracts	**4.9**	**(1.7)**	3.0	(1.1)
Analysed as:				
Current	**4.9**	**(1.7)**	3.0	(1.1)

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

	2023 £m	2022 £m
Tax losses	**–**	0.7
	–	0.7

The movement in the deferred tax asset during the year was as follows:

	2023 £m	2022 £m
At 1 January	**0.7**	–
Credit to profit and loss account	**(0.7)**	0.7
At 31 December	**–**	0.7

Notes to the Company Financial Statements continued

46. Deferred tax continued

The deferred tax asset not recognised is as follows:

At 31 December	2023 £m	2022 £m
Temporary differences on assets/intangibles	**0.2**	0.2
Share-based payments and employee benefits	**1.5**	2.5
Other temporary differences	**1.5**	1.8
Tax losses	**51.3**	51.1
	54.5	55.6

47. Called up share capital

Issued and fully paid	2023 £m	Number 2023 millions	2022 £m	Number 2022 millions
1,218,008,788 (2022: 1,218,008,788) ordinary shares of 2p each at 1 January	**24.4**	**1,218.0**	24.4	1,218.0
Cancelled: 114,462,822 (2022: nil) ordinary shares of 2p	**(2.3)**	**(114.5)**	–	–
1,103,545,966 (2022: 1,218,008,788) ordinary shares of 2p each at 31 December	**22.1**	**1,103.5**	24.4	1,218.0

During the year 114,462,822 (2022: nil) shares were cancelled as part of the Serco Share Repurchase Programme (the programme).

The Company has one class of ordinary shares which carry no right to fixed income.

48. Share premium account

	2023 £m	2022 £m
At 1 January and at 31 December	**463.1**	463.1

49. Profit and loss account

	2023 £m	2022 £m
At 1 January	**401.8**	437.1
Profit/(loss) for the year	**437.9**	(5.0)
Equity dividends	**(33.7)**	(30.3)
Cancellation of shares held in Treasury	**(180.0)**	–
At 31 December	**626.0**	401.8

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 £437.9m (2022: loss £5.0m) and the total comprehensive profit for the year was £437.9m (2022: loss £5.0m).

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 and consistently positive trading results, the Group has sufficient distributable reserves to facilitate the payment of distributions by Serco Group plc.

Notes to the Company Financial Statements continued

50. Share-based payment reserve

	2023 £m	2022 £m
At 1 January	**88.0**	**81.1**
Awards over parent's shares made to employees of subsidiaries	**7.9**	**10.8**
Share-based payment charge	**5.6**	**4.8**
Shares transferred to award holders on exercise of share awards	**(15.6)**	**(9.3)**
Tax (charge)/credit on items taken directly to equity	**0.4**	**0.6**
At 31 December	**86.3**	**88.0**

Details of the share-based payment disclosures are set out in note 34 of the Group's Consolidated Financial Statements.

51. Other reserves

Treasury shares reserve

The Treasury shares reserve represents amounts paid to repurchase ordinary shares. On 28 February 2023, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. The buyback programme took place between 3 March and 22 June 2023. During this period, the Group repurchased 58,956,118 shares at an average cost of £1.506 for total cost including fees of £88.8m. All shares held at 31 December 2022 and those purchased in 2023 have been cancelled.

Own share 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 2023, the ESOT held 11,351,967 (2022: 9,144,275) shares equal to 1.0% of the current allotted share capital (2022: 0.8%). The market value of shares held by the ESOT as at 31 December 2023 was £18.4m (2022: £14.2m).

52. Contingent liabilities

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 2023 was £212.7m (2022: £220.9m).

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. As the claim progresses, 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.

The Company has a guarantee in place with the SPLAS Trustees in respect of any pension contribution obligations that remain unpaid after 30 days of being due from other Group entities, including the plan sponsor, up to a total of £200m (2022: £200m) less contributions made by the Group since April 2022. This guarantee runs until 2030 (2022: 2030).

The Company has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2022: £5.7m). The actual commitment outstanding at 31 December 2023 was £5.7m (2022: £5.7m).

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
AI Recruiting BV	100%	Kapteynstraat 1, 2201 BB Noordwijk, The Netherlands
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 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
Conflucent 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
Defence Contractor Management and Operations Limited	24.5%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Djurgårdens Färjetrafik AB	50%	Svensksundsvagen 17, 111 49 Stockholm, Sweden
DMS Maritime Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
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
Lift BV	100%	Noordwal 10 III, 2513 EA 's-Gravenhage, The Netherlands
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, NV, 89314, United States
Mercurius Finance SA	100%	11 Avenue de la Porte-Neuve, L-2227 Luxembourg
Merseyrail Electrics 2002 Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, United Kingdom
Merseyrail Infraco Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, United Kingdom
Merseyrail Services Holding Company Limited[3]	50%	St Andrews House, 18 - 20 St. Andrew Street, London, EC4A 3AG, United Kingdom
Northern Rail Holdings Limited	50%	St Andrews House, 18 - 20 St. Andrew Street, London, EC4A 3AG, United Kingdom
Northern Rail Limited	50%	St Andrews House, 18 - 20 St. Andrew Street, London, EC4A 3AG, United Kingdom
ORS Deutschland GmbH	100%	Güterhallenstrasse 4, 79106 Freiburg, Germany
ORS España Servicios Sociales, S.L.	100%	Avda Felipe II 1 7 1 ° Madrid 28009-Madrid, Spain
ORS Greece Monoprosopi A.E	100%	280, Kifisias Ave., Chalandri, Greece
ORS Group AG	100%	Röschibachstrasse 22, 8037 Zürich, Switzerland
ORS Italia S.r.l	100%	Piazza Annibaliano, 18 CAP 00198 Presso Studio Filippini & Ass, Italy
ORS Service AG	100%	Röschibachstrasse 22, 8037 Zürich, Switzerland

Appendix: List of subsidiaries and related undertakings continued

Company name	Serco Group interest	Registered office address
ORS Service GmbH (Austria)	100%	Leopold-Ungar-Platz 2, 1190, Döbling, Wien, Austria
ORS Slovakia s.r.o	100%	Grösslingova 45, Bratislava, Slovakia
OXZ Holdings AG	100%	Röschibachstrasse 22, 8037 Zürich, Switzerland
Priority Properties North West Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Sapienza Consulting BV	100%	Kapteynstraat 1, 2201 BB Noordwijk ZH, Netherlands
Sapienza Consulting France SAS	100%	4 Allée des Cormorans 06150 CANNES LA BOCCA, France
Sapienza Consulting GmbH	100%	Berliner Allee 65, 64295 Darmstadt, Germany
Sapienza Consulting Holding BV	100%	Rijnstraat 3, 2223 EG Katwijk, The Netherlands
Sapienza Consulting Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Sapienza Consulting S.r.l.	100%	Piazza Sant'Andrea della Valle, 3 Roma, Italy
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
Serco Caledonian Sleepers Limited	100%	C/O Serco Northlink Ferries Aberdeen Ferry Terminal, Jamieson's Quay, Aberdeen, United Kingdom, AB11 5NP
Serco Canada Inc.	100%	37 Carl Hall Rd, North York, ON M3K 2B6, Canada
Serco Canada Marine Corporation	100%	555 Legget Drive, Suite 400, Tower A, Ottawa, ON, K2K 2X3,
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[2]	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Facilities Management Holdings Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Facilities Management Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Facilities Management Sub-Holdings Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
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 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[3]	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 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 dell'Astronomia no. 13 – 00144 Roma, Italy
Serco Leasing Limited[2]	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

Appendix: List of subsidiaries and related undertakings continued

Company name	Serco Group interest	Registered office address
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%	33 Rue Sainte Zithe, 2763 Luxembourg
Serco Maritime Services NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
Serco MENA Regional Head Quarters LLC	100%	8793 Riyadh Front, Unit S7, King Khalid Int. Airport District, Riyadh
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
Serco Nunavut Ltd	49%	Field Law, House 2436, PO Box 1734, Iqaluit, NU X0A 0H0, Canada
Serco Paisa Limited	50%	55 Bishopsgate, London, England, EC2N 3AS, 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%	Office Number 1904, 19th Floor, Serco Projects, The E18hteen, Alliance Business Center, Doha, PO BOX 23107, 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.	100%	Office No. 2001, Owned by Seddiqi and Sons Investment, Trade Center 2, Dubai, United Arab Emirates
Serco S.a.r.l.	100%	Bourg en Bresse, Technoparc du pays de Gex, 15 rue Lumiere, 01630 Saint Genis Pouilly, France
Serco SAS	100%	Bourg en Bresse, Technoparc du pays de Gex, 15 rue Lumiere, 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 Firefighting LLC	95%	Building No 7026, Postal Code 13458 Airport Road, King Khaled International Airport District, Kingdom of Saudi Arabia
Serco Security Services SASU	100%	15 Rue Lumière, Technoparc Pays de Gex, 01630 Saint Genis
Serco Services GmbH	100%	Lise-Meitner-Straße 10, 64293 Darmstadt
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
STJ Administration Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
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[3]	50%	First Floor, Neon Q10 Quorum Business Park, Benton Lane, Newcastle Upon Tyne, NE12 8BU, United Kingdom
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 or with an active proposal for strike off as at 31 December 2023.
3 Companies key to the consolidated numbers, all of which are engaged in the provision of support services.

Glossary

Adjusted net debt
Adjusted net debt is used by Serco as an additional non-IFRS Alternative Performance Measure (APM). 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 recognised under IFRS 16 Leases

Colleagues
The number of colleagues is derived from the average number of persons employed and includes all individuals employed under contracts of service by the Group as disclosed in note 11 of the Financial Statements. This comprises permanent, part-time, and casual employees and those with fixed term contracts. In contrast with the number of employees disclosed in note 11 of the Financial Statements, colleagues also includes self-employed contractors, other casual workers and employees of Trusts. This is because such colleagues fall within Serco's duty of care and are within the scope of a number of our KPIs. Employees of Joint Ventures where Serco is not the controlling shareholder and sub-contractors, are excluded.

Employee engagement
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.

Free Cash Flow (FCF)
Free cash flow is the net cash flow from operating activities adjusted to remove the impact of non-underlying cash flows from operating activities, adding dividends we receive from joint ventures and associates and deducting net interest, net capital expenditure on tangible and intangible asset purchases and the purchase of own shares to satisfy share awards

Lost Time Incident Frequency Rate (LTIFR)
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 LTIFR is calculated using the total number of Lost Time Incidents, normalised using the total number of hours worked in the 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. Minor revisions can be made to prior reported performance based on data received post publication date.

Major incident frequency rate (MIFR), per 1 million hours worked
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.

The MIFR is calculated using the total number of major incidents, normalised using the total number of hours worked in the period. This provides a view on the frequency of major incidents, regardless of movements in staff numbers, which is comparable across all areas where major incidents are incurred.

Order book
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), Indefinite Delivery/Indefinite Quantity (IDIQ) contracts 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. The definition is aligned with IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements and therefore excludes unsigned extension periods and option periods in our US business. Order intake is the value of business which has been won during the year and typically includes Serco's share of order intake from its joint ventures and option periods in our US business.

Pipeline of larger new bid opportunities
Pipeline of larger new bid opportunities reflects 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 be awarded within a rolling 24-month timeframe. It does not include re-bids 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. In this case only the potential value of any individual task order is included.

Trading cash conversion
In order to calculate an appropriate cash conversion metric equivalent to UOP, trading cash flow is derived from FCF by excluding capitalised finance costs, interest, non-cash R&D expenditure and tax items. Trading 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 capitalised finance costs, interest, non-cash R&D expenditure, tax and non-underlying items.

Underlying Earnings Per Share (EPS), diluted
Underlying EPS reflects the Underlying Operating Profit measure after deducting underlying net finance costs and tax. 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. Underlying net finance costs and tax are used to calculate Underlying EPS to remove the impact of typical non-recurring or out of period items.

Underlying Operating Profit (UOP)
Underlying Operating Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items (and in the prior year other non-underlying items). Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates.

Underlying Return on Invested Capital (ROIC)
ROIC is calculated as UOP 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.

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 depositary 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.1052686), 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 2.27 pence in respect of the year ended 31 December 2023, subject to approval by shareholders at the Annual General Meeting.

Key dates
Annual General Meeting 24 April 2024

Ex-dividend date 18 April 2024

Record date 19 April 2024

Payment date 10 May 2024

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
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Bartley Way
Hook
Hampshire
RG27 9UY
United Kingdom

Telephone:	+44 (0)1256 745 900
Email:	investorcentre@serco.com

Registered in England and Wales No. 02048608

Group General Counsel

David Eveleigh

Group Company Secretary

Nickesha Graham-Burrell

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 depositary bank

Deutsche Bank Trust Company Americas
c/o Equiniti Trust Company LLC
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:	adr@equiniti.com

Brokers

JP Morgan
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/scamsmart

Notification of major interests in shares (TR1 Forms)

Email:	cosec@serco.com

Legal Disclaimer

This Annual Report and Accounts contains certain statement which are, or may be deemed to be, 'forward-looking statements'. All statements other than statements of historical fact are forward-looking statements. Generally, words such as "expect", "anticipate", "may", "could", "should", "will", "aspire" "aim", "plan", "target", "goal", "ambition", "intend" or, in each case, their negative or other variations or comparable terminology identify forward- looking statements. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Factors which may cause future outcomes to differ from those foreseen or implied in forward-looking statements include, but are not limited to: general economic conditions and business conditions in Serco's markets; contracts awarded to Serco; customers' acceptance of Serco's products and services; operational problems; the actions of competitors, trading partners, creditors, rating agencies and others; the success or otherwise of partnering; changes in laws and governmental regulations; regulatory or legal actions, including the types of enforcement action pursued and the nature of remedies sought or imposed; the receipt of relevant third party and/or regulatory approvals; exchange rate fluctuations; the development and use of new technology; changes in public expectations and other changes to business

cyber-attacks; and pandemics, epidemics or natural disasters. Many of these factors are beyond Serco's control or influence. For a description of the principal risks and uncertainties that may affect Serco's business, financial performance or results of operations, please refer to the Principal Risks and Uncertainties set out in this Annual Report and Accounts. These forward-looking statements speak only as of the date of this publication. Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by any applicable law or regulation (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), Serco expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this publication to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based. Accordingly, undue reliance should not be placed on any such forward-looking statements. Any references in this publication to other reports or materials, including website addresses, are for the reader's interest only. Neither the content of Serco's website nor any website accessible from hyperlinks from Serco's website, including any materials contained or accessible thereon, are incorporated in or form part of this publication.

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www.serco.com

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