



Annual Report
and Accounts

2020

Contents

Strategic Report

01-80

- 03 Highlights
- 04 At a Glance
- 06 Chairman's Statement
- 09 Our Market
- 14 Our Business Model
- 15 Chief Executive's Review
- 27 Divisional Reviews
- 32 Our performance framework and strategic priorities
- 34 Strategy Implementation
- 35 Key Performance Indicators
- 38 Covid-19 - Our Response
- 40 ESG Impact and Integrity - Corporate Responsibility at Serco
- 50 Section 172 (1) Statement
- 56 Finance Review
- 70 Risk Management
- 72 Principal Risks and Uncertainties
- 79 Viability Statement

Corporate Governance

81-140

- 82 Board of Directors
- 86 Chairman's Governance Overview
- 89 Board and Governance
- 91 Group Risk Committee Report
- 94 Audit Committee Report
- 99 Nomination Committee Report
- 101 Corporate Responsibility Committee Report
- 103 Compliance with the UK Corporate Governance Code
- 105 Remuneration Report
- 134 Directors' Report

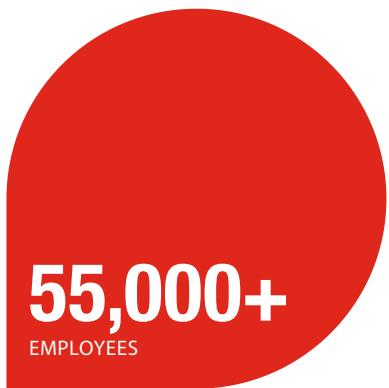
Financial Statements

141-222

- 142 Independent Auditor's Report
- 153 Consolidated Income Statement
- 154 Consolidated Statement of Comprehensive Income
- 155 Consolidated Statement of Changes in Equity
- 156 Consolidated Balance Sheet
- 157 Consolidated Cash Flow Statement
- 158 Notes to the Consolidated Financial Statements
- 211 Company Balance Sheet
- 212 Company Statement of Changes in Equity
- 213 Notes to the Company Financial Statements
- 217 Appendix: List of subsidiaries and related undertakings
- 220 Appendix: Supplementary information
- 221 Shareholder information
- 222 Useful Contacts

Serco Group plc is a leading provider of public services. Our purpose is to be a trusted partner of governments, delivering superb services that transform outcomes and make a positive difference to our fellow citizens.

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



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

Strategic Report

Highlights

Revenue

£3.9bn

2019: £3.2bn

Underlying Trading Profit

£163m

2019: £120m

Underlying EPS, diluted

8.4p

2019: 6.2p

Underlying ROIC

19.1%

2019: 15.4%

Employee Engagement

73 points

2019: 71 points

Order Book

£13.5bn

2019: £14.1bn

Reported Operating Profit

£180m

2019: £103m

Reported EPS, diluted

10.7p

2019: 4.2p

Free Cash Flow

£135m

2019: £62m

Major Incident Frequency

**0.41 per
1m hours**

2019: 0.39 per 1m hours

P.35-37

See KPIs on
pages 35-37
for definitions

P.9-14

See pages 9-14 for
more information
on our market and
business model

At a Glance

What we do

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

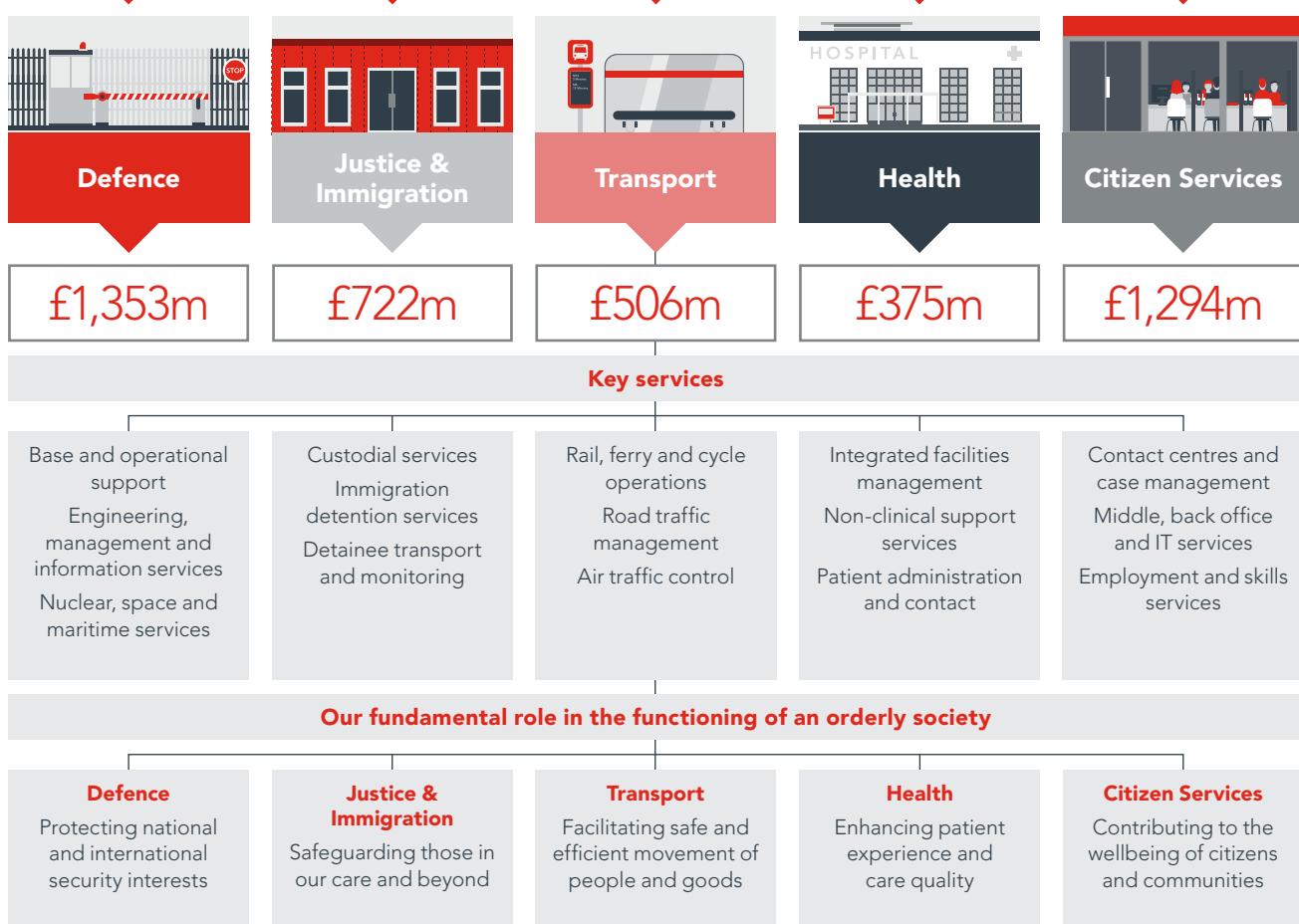
Serco's roots go back to 1929, and in 1988 the Group was listed on the London Stock Exchange. Now, Serco is a FTSE 250 company managing over 500 contracts worldwide and employing around 55,000 people across our operations.

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

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

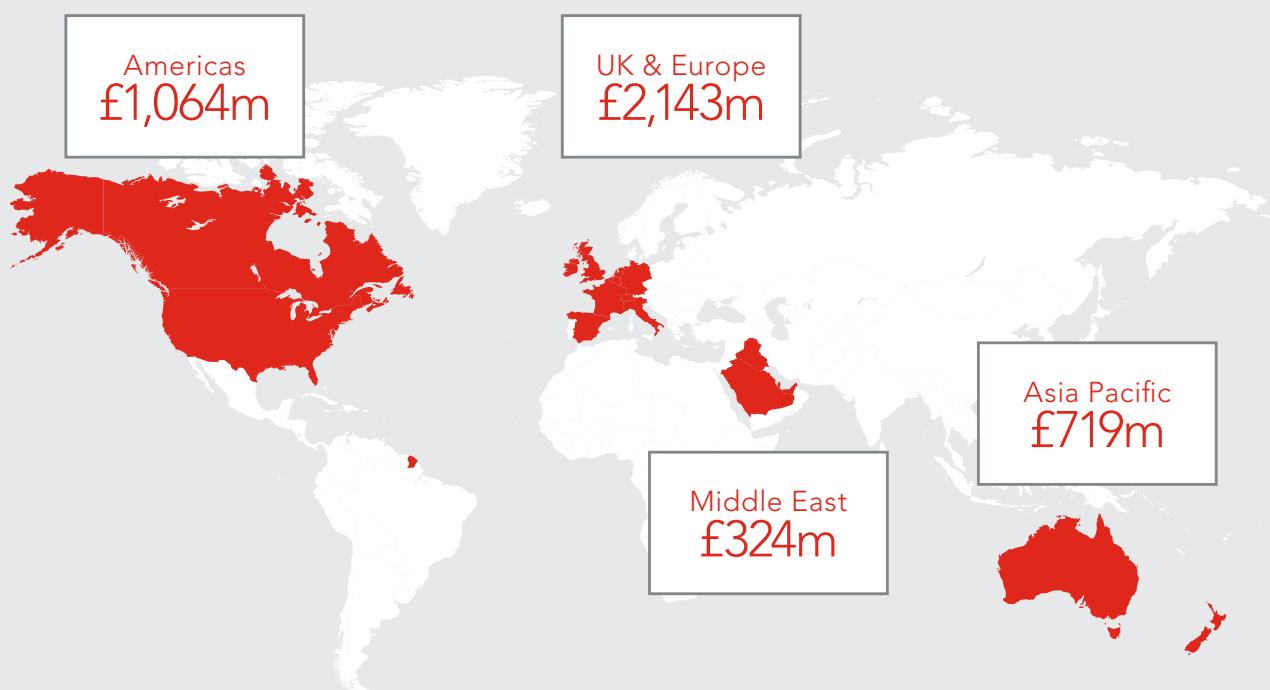
Our core sectors

Our business is focused across five core sectors, with revenue in 2020 of £3,885m or, including our share of joint ventures and associates to reflect our total scale in each sector, of £4,250m.



Where we operate

Serco's operations are across four geographic regions:

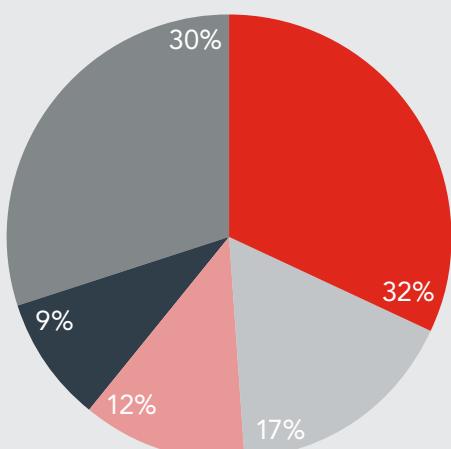


Revenue in 2020 (including share of joint ventures and associates).

Our business mix

Serco's revenue by sector and geographic division:

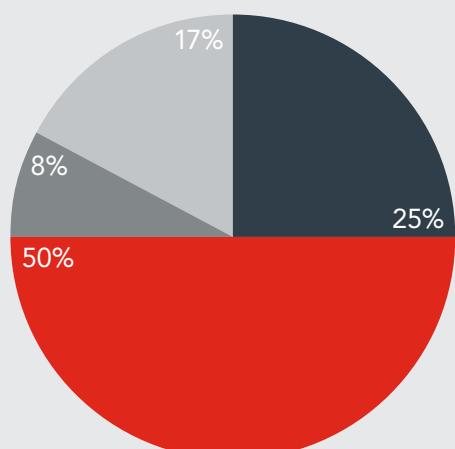
Revenue by Sector



Total revenue £4,250m

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

Revenue by Division



Total revenue £4,250m

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

P.14

See page 14 for more information on our business model

Revenue in 2020 (including share of joint ventures and associates).

Chairman's Statement



"This will be my last statement as Chairman of Serco and perhaps the one that gives me most pride to deliver."

Sir Roy Gardner
Chairman

Highlights of 2020

- Revenue grew by 20% to £3.9bn, of which 16% was organic.
- Underlying Trading Profit of £163m, an increase of 36%.
- Free cash flow of £135m, reducing covenant net debt:EBITDA from 1.3x to 0.5x.
- Business coped admirably with challenges of Covid-19.
- Further development of risk management and governance effectiveness.
- Good engagement with customers and proposition development to continue succeeding in the market for complex public services.
- Positive outlook for 2021 and beyond.
- The health of our balance sheet and the positive outlook give us the confidence to resume paying dividends to our shareholders for the first time since 2014.

"The year brought tremendous operational challenges for Serco due to Covid-19 but the business handled them admirably, thanks to the dedication of our people to delivering public services as well as the strength and agility of our business model. The steps taken since 2014 to transform the business helped make this possible with the investment we made in our systems in recent years meaning we were able to respond rapidly at scale when our government customers requested help in dealing with the challenges brought by Covid-19. I believe these successes in delivering critical public services during extraordinary times mean the company should face the future with great confidence."

Financial performance and strategy

A three-stage strategic plan was set out in 2015; Stabilise, Transform, Grow. We moved into the growth phase during 2018, built on this in 2019 and, despite the challenges of Covid-19, 2020 was a year of substantial further progress. The year saw strong growth in revenue, Underlying Trading Profit and earnings per share, a substantial reduction in net debt and the successful refinancing of our debt.

Revenue grew by 20% to £3.9bn, with organic growth of 16%. Combined with an increase in margin from 3.7% to 4.2%, this led to Underlying Trading Profit increasing 36% to £163m and underlying earnings per share increasing by 37% to 8.43p. We delivered an excellent cash performance in the period, which reduced our covenant net debt from £215m to £58m and leverage from 1.3x EBITDA to 0.5x, below the lower end of our preferred 1x-2x range. The strength of Serco's balance sheet and the resilience of our earnings meant we were able to successfully issue \$200m (£156m) of US Private Placement loan notes, with an average maturity of nearly eight years. It was the first time Serco has been able to access the US Private Placement market in more than seven years. Low leverage and debt with such long maturities provide a very strong base for the ongoing execution of our strategy. Our pension schemes remain in a strong funding position with a balance sheet accounting surplus, we continue to pay our supply chain promptly and do not utilise working capital facilities to do so.

Operationally, it was pleasing to see our government customers turn to Serco as a trusted and capable partner to help in their efforts to respond to the great challenges of Covid-19. Our agile business model meant we were able to simultaneously supply this rapid increase in demand for services and cope with abrupt reduction in volumes in other parts of our business, such as Leisure and Transport. I am delighted that in the midst of this pandemic, when the majority of our people are working in highly challenging environments on the front line, our employee engagement scores, which have risen steadily since 2013, climbed further from 71 points in 2019 to 73 points in 2020.

Order intake reduced from £5.4bn in 2019 to £3.1bn, causing our order book to dip from an all-time high of £14.1bn to £13.5bn. We had anticipated a significant reduction in order intake due to the natural lumpy nature of contract awards and this was amplified as the disruption of Covid-19 caused some decisions to be pushed back. Our win rates on the new business that was awarded as well as securing rebids and extensions on existing work remained high, at around 35% and more than 90% in our wholly-owned operations, respectively.

The strength of the business in 2020 demonstrated the value of several core pillars of our strategy. Our tight focus on government customers but with geographic and segmental diversification served us well. It provided us with opportunities that more than outweighed the negatively impacted parts of the group and all with a counterpart with excellent credit risk. Another element of our strategy is acquisitions. We announced the acquisition of one business in the year, that of Facilities First Australia for A\$78m (£44m). FFA is a specialist provider of cleaning, facility maintenance and management services to government. Its 2,500 employees and experienced management team bring to Serco new skills and reach in government facilities management, which is expected to see a significant amount of bidding opportunities in the coming years. Following the year end, we announced the proposed acquisition of Whitney, Bradley & Brown Inc for US\$295m (£215m). The acquisition will increase the scale, breadth and capability of Serco's North American defence business and will give Serco a strong platform from which to address all major segments of the US defence services market. We continue to see a focused M&A program, funding selective acquisitions that meet our investment criteria, as a key part of sustainable value creation.

Our Board, governance and evolving corporate responsibilities

There were several changes to the Board in the period as we continue to bring in Non-Executive Directors with a mix of backgrounds and experience to ensure a balanced, dynamic and effective Board. Dame Sue Owen DCB, who has held senior positions in several government departments, joined the Board as a Non-Executive Director in August 2020. In the same month, Rachel Lomax stepped down as a Non-Executive Director. I would like to thank Rachel for the extensive contribution she made to the Company since joining in early 2014. Rachel's responsibilities as Chair of the Group Risk Committee were taken on by Ian El-Mokadem. In May, I decided I would not seek another term as Chairman and asked the Board to start the process to find a successor. After a detailed succession planning process that included external candidates, John Rishton, our Senior Independent Director and a member of the Board since September 2016, was selected as my successor. John, a highly experienced executive, will take over when I stand down at the Annual General Meeting in April 2021. At the start of 2021, we announced Tim Lodge would be joining the Board in February, and will replace John Rishton as chair of the Audit Committee in April. Tim has a wealth of financial experience and a strong track record in driving commercial performance, as well as delivering strategic change and restructuring to support longer term investment and growth; he will be a very welcome addition to the Board. These continued developments are designed to drive effectiveness and support our clear belief that strong governance is a vital component in the long-term success of Serco.

In our Corporate Governance Report on pages 86 to 104, you will read that we have fully complied with the provisions of the UK Corporate Governance Code during 2020. The s172 statement we make on pages 50 to 55 shows how the Board has engaged with our stakeholders and approached the decisions we have made during the year. Covid-19 has certainly made that more challenging but this year the Board has met virtually far more than in previous years, which has allowed it to hear from and engage with stakeholders as well as ensuring it is keep up to date with how the Company has reacted during this challenging time. We had regular calls on the pandemic and the Board were involved in evaluating existing contracts, new bids, meeting senior management responsible for operational delivery and business development. Although Covid-19 meant site visits and involvement in management training, meetings and events were curtailed during 2020, we sought to preserve these important parts of the role to the extent this was possible; Non-Executive Directors undertook the key elements of Serco's internal training and attended divisional management meetings as well as contract visits by video conference. We reviewed the Terms of Reference of each of the Board's Committees, ensuring the consideration of all relevant matters and the appropriateness of all lines of communication, and these are also described in each individual Committee Report. As part of this process, I would draw your attention to our commitments to diversity.

Recognising how vitally important workforce engagement is to operational and cultural continuity, especially during periods of sustained crisis, we have focused on maintaining momentum and establishing a healthy rhythm in our Employee Voice approach, Colleague ConneXions, which was launched the previous year. Detail of our work in this area is given on page 137.

You will see how important the Environmental, Social and Governance (ESG) factors are as set out in the Corporate Responsibility framework on pages 40 to 49. We have enhanced this framework which is well embedded in the Company and, structured around our Values and Purpose, our four core stakeholders – owners, customers, employees and the wider world – and areas of interest to these stakeholders and aligned these to the ESG factors to ensure that we deliver an integrated framework. We take all of these matters extremely seriously and it is a Board focus. Our summary of Corporate Responsibility contained within this Annual Report and Accounts, and our full Corporate Responsibility Report which can be accessed on www.serco.com, set out in detail Serco's aims and actions to be a sustainable business that makes a positive difference to society.

Change of Chief Financial Officer

Angus Cockburn informed me in December of his wish to retire from full-time executive life. Angus has had an exceptional career and his work at Serco ensured the business survived then provided the base for it to deliver the high growth seen in the last three years. I'm sorry to see Angus depart and would like to thank him for the outstanding contribution he has made to the Group. At the same time, I am delighted Nigel Crossley will be his successor. Nigel joined Serco in 2014 and has been an incredibly important and high-performing part of the team during our transformation.

Chairman's Statement continued

Looking ahead

In the short term, we expect the growth seen in recent years to continue, albeit at a more normal level. In 2021, we expect revenue to grow by 7% to around £4.2bn and Underlying Trading Profit to increase to around £175m, before the proposed acquisition of WBB. Free Cash Flow should reduce year-on-year, as 2020 benefited from some one-off factors, but cash conversion will remain high, and we expect financial leverage to be in the middle of our target 1x-2x net debt:EBITDA range, even after the acquisition of FFA, the proposed acquisition of WBB, the share buyback, and a resumption of dividend payments to our shareholders.

The medium and long term outlook is harder to predict than a year ago as the lasting impact of Covid-19 is still uncertain. But we have already started the task of considering the changes and opportunities that may arise and intend to present our conclusions in the second half of 2021. Our initial view is that Covid-19 will put even more pressure on governments to provide more and better services for less, and this is positive for our market. There is likely to be an impact on the mix of demand for services provided by the private sector to governments and our business model, which is designed to be agile, is well-suited to this. We therefore see no reason to change our view that in the long term Serco should be able to grow its revenues by, on average, around 5% a year, and deliver trading margins of 5%.

Shareholder returns

This time last year we recommended paying a dividend for the first time in six years, a moment that illustrated the transformation in the company's financial health. Like many companies, we withdrew this proposal in the relatively early stages of Covid-19, when the potential impact of the pandemic was difficult to predict. We see the dividend decision this year as being one that, in addition to our shareholders, should consider our stakeholders more generally. Prior to making a decision on dividend we have refunded furlough money received from the UK government, repaid early tax deferrals where there is a mechanism to do so, and paid a bonus to 50,000 of our front-line workers. After this, and with the combination of a strong balance sheet and promising outlook for the business, the Board believes it is appropriate to resume dividends again. We see a suitable level to begin with as dividend cover of four times underlying EPS, equivalent to a payout ratio of approximately 25%. Our policy is to weight dividend payments roughly one-third : two-thirds between interim and final payments.

The Board is therefore recommending a final dividend in respect of the 2020 financial year of 1.4p. In addition, we are part way through the process of buying £40m of shares and we intend to cancel half of these. The £20m is roughly the same as the value of the 2019 final and 2020 interim dividends, had they been paid.

The Board views the 25% payout ratio as a prudent starting point. We are of the view it will enable us to balance dividends, potential other uses of capital to generate incremental value and the desire to maintain a strong balance sheet. The combination of these should enhance Serco's ability to deliver sustainable value for all of the Group's stakeholders.

Securing our future success

Serco's purpose is to be a trusted partner of governments, providing superb public services that transform outcomes and make a positive difference for our fellow citizens, whilst delivering attractive returns to our shareholders and rewarding careers to our employees. Our approach to achieving this is through aspiring to be the best-managed company in our sector, and concentrating on doing four things really well: winning good business; executing brilliantly; being a place people are proud to work; and being profitable and sustainable.

Your Board is absolutely focused on long-term, sustainable shareholder value creation, and doing so by promoting the best interests of shareholders alongside those of our employees, customers, and the societies and communities in which we work. Serco has a clear strategy to complete and embed the transformation of the business and position it for long-term success in its markets, and is on track to achieve this through a highly effective executive management team and a committed workforce that cares passionately about public service delivery.

We have made great progress in recent years turning the business around and I am delighted to report that 2020 has seen excellent growth in revenues and profits, strong cash generation, a very successful refinancing of our debt, the announcement of a bolt on acquisition, the confidence to recommend a resumption of dividends to shareholders and a continued focus to positively shape the business and its market positioning for the benefit all our stakeholders. Furthermore, we expect to build on this in 2021.

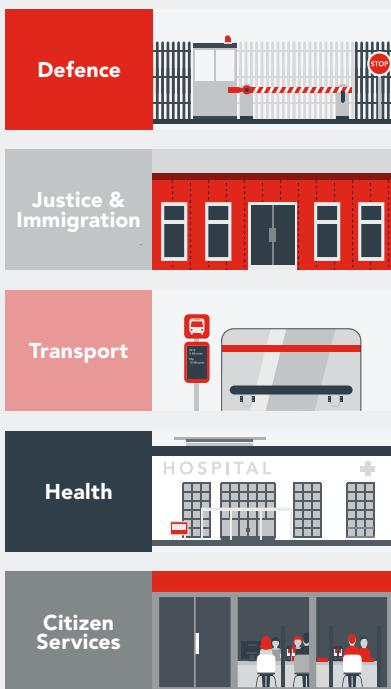
I would like to thank all colleagues in the business for their exemplary efforts during this difficult time, and for their continued support in helping Serco to be a superb provider of public services that we can all be proud of.



Sir Roy Gardner
Chairman
24 February 2021

Our Market

Our core sectors



Our markets



United Kingdom



Continental Europe



North America



Asia Pacific



Middle East

In a year when our market – and every market – has been impacted by Covid-19, and no one can be sure exactly how and when things will settle, we nonetheless believe that fundamental drivers will continue to increase demand for our services across the world.

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

Government as a purchaser of public services

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

Public services require people

The delivery of many areas of government policy is labour-intensive, and the number of people involved in the delivery of government services vastly outnumbers those involved in developing policy; in some countries, government is the largest employer – employing more people than any other sector or organisation. For example, according to the United States Bureau of Labor Statistics, nearly twice as many people (22.7 million as at January 2020) are employed by government bodies as are in manufacturing (~12.9 million as at January 2020) across the US, whilst in the UK the National Health Service is the single largest employer.

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

The private sector as a supplier of public services

Governments have used private contractors to deliver public policy, often in very sensitive areas, for centuries. In medieval times, fighting wars and tax collection were often outsourced, in whole or part, to private enterprise. The transportation of prisoners from the UK to Australia, which started in 1788 and continued until 1868, was carried out entirely by private contractors. Today, in the UK, frontline medical services by the National Health Service, which is widely perceived as a nationalised service, is largely provided by privately-owned businesses called General Practitioner Practices, the vast majority of whom are employed by private partnerships and companies rather than by the state. Some of the most sensitive and secret defence work is carried out by private companies.

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

Our Market continued

Unique demands of public service delivery, and some history

Providing government services to citizens, funded by taxpayers, is different, and in many ways more demanding, than providing services to the private sector or consumers. Politics, transparency and accountability to multiple stakeholders are sometimes seen only dimly in the private sector, but are writ large in the public sector, and need careful management. Serco has deep expertise in providing this bridge: overlaid on our private sector techniques, drive and energy is a public service ethos that means that we can help deliver government services efficiently, but in a way that recognises the need for public accountability and trust, and the fact that we are often looking after some of the most vulnerable and disadvantaged people, or most important services, in society.

Having government as your customer also means that you are exposed to the ever-changing political weather. In essence, this is no different from any other market where fashion, technology and economic conditions impact demand, but governments can change their policies and priorities with lightning speed. For nearly thirty years between 1980 and 2010, Serco grew rapidly as the market for outsourcing public services developed around the world. Inspired by Thatcherism and the policies of President Reagan, privatisation and outsourcing became popular in many countries and drove rapid growth of an industry that had barely existed before. Suppliers became highly profitable and skilled at extracting value from government contacts.

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

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

The story of the UK government services outsourcing industry has been one of acute difficulty for much of the period since 2010. Over-supply, aggressive behaviour by both government and suppliers, and the ill-advised transfer of risks that often private companies had no way to mitigate or manage has led to the near-destruction of a once thriving industry, as multiple companies have suffered huge losses on government contracts. As a consequence, the UK Government is now faced by a much more wary, and less vibrant, supply chain. Having discovered that it could attract new international competition into the market because barriers to entry seemed low, it has subsequently discovered that the barriers to exit from the market were low as well.

Having swung too far in favour of contractors, the balance of power in the public services market in the UK swung too far back to government after 2010; it is, we believe, beginning to work its way back towards a more balanced and sustainable position. Such is the way of all markets as they mature, and we believe that if governments and their suppliers recognise the consequences of their past excesses and work co-operatively it should become possible to anchor the balance of power between customer and supplier in a place which delivers value for money for taxpayers, high quality and reliable services to users, innovation and improving efficiency, as well as fair returns to suppliers which will in turn ensure that government has choice from a vibrant supply chain containing companies both large and small.

The Covid-19 pandemic has seen a further chapter in the sector's history open, with the private sector being used as a reserve force to deliver brand new services required by governments in short order at a time of national emergency. While this has been politicised by some, and used to create controversy in the UK in particular, nonetheless the private sector has proved itself an invaluable partner to governments throughout the crisis – be it through developing vaccines, lending hospital beds, providing massive Covid-19 testing and diagnostic capability, setting up emergency hospitals and more – and all at record speed.

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

Drivers of demand

Notwithstanding some unique difficulties in the UK market in recent years, the business of providing services to government remains attractive in the long term for a number of reasons. First, in many areas of public service provision, private companies, properly managed, can deliver services of higher quality and lower cost than governments can themselves. Secondly, governments will continue to face relentless pressure to deliver more and better public services, at lower cost, and that this will lead them to focus relentlessly on value for money and the quality of service provision. This pressure comes from what we call the 'Four Forces' comprising:

- the unavoidable increase, at rates above GDP growth, of demand for public services across important areas of government. Examples are the pressures on health and social care driven by ageing populations, and growing prison populations;
- the need to reduce public debt and expenditure deficits;
- rising expectations of service quality amongst public service users; and
- the unwillingness of voters and corporate taxpayers to countenance tax increases.

The third reason why the market for government services is attractive is because of its enduring nature compared to other markets. All around us – both due to Covid-19 but moreover long before it - we see markets being disrupted and long-established business models being obliterated. Publishing, transport, retailing, energy, entertainment, IT, agriculture – it is hard to find industries which were not being fundamentally challenged by technology and now even more so. We live in a world where it has become possible for the largest retailer to own no shops, the fastest-growing taxi service to own no vehicles, the largest social network to own no content, and the largest provider of overnight accommodation to own no property.

Whilst some areas of government will benefit from the ability to manage massive data and will find new ways to interact with citizens – which we are of course responding to where appropriate, for example in our Citizen Services business' deployment of digital channels and through ExperienceLab (our customer experience and service design agency) - we also believe that there will be a continuing and enduring need for the kind of frontline services Serco provide. We are confident that in thirty years' time, sick people will still go to hospitals, and when there they will have their rooms cleaned and food served predominantly by humans. That when people break the law they will be sent to prison where custody officers will look after them; and that complex defence infrastructure such as near-space radar will still be maintained predominantly by human beings, who will need to be security cleared, again by other human beings. The bank teller or lorry driver or shop assistant may be rightly fearful that technology will disintermediate their role, but a prison custody officer or hospital porter can sleep soundly in the knowledge that his or her skills will be required for years to come.

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

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

Research on UK outsourced services, commissioned by the Serco Institute, and carried out by Capital Economics, the independent economic research consultancy, has found that:

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

Our Market continued

Benefits of sector breadth and geographic reach

We focus our activities in five areas of government service: Defence, Justice & Immigration, Transport, Health and Citizen Services. Between them, these sectors account for a very large proportion of government expenditure and employ significant numbers of people in service delivery.

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

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

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

A large and growing market

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

Over the years, and most recently in 2018, we have done a lot of work to try and size the market in the sectors and geographies we currently operate in, which are clearly a subset of the global market. This is a significant exercise given the diversity of our markets and footprint, but we will soon look to refresh it again, particularly following the market changes – both shorter and longer term – brought by Covid-19. For now, our best guess is that the total annual value of government services in our target segments and geographies which could be provided by the private sector is around £300bn, of which around £100bn is delivered by private companies. Rather than concentrate on the absolute number, some key conclusions from our work are:

- the market for private sector delivery of government services is very large;
- the supply-side is fragmented; as a leading international supplier, our market share within our existing footprint, at around 3%, is small, although it is larger in some specific segments within certain sectors; and
- there is significant opportunity for growth, given that around two-thirds of the services that could be provided by the private sector are currently self-delivered by government.

In terms of market growth, in 2018 we carried out further work to assess the rate of growth in our specific sectors and geographies. When we previously did this, in 2014, we concluded that the blended rate of growth of our mix of businesses had been running at 5-7%. Largely as a function of the weighting of our revenues to the UK – around 40% of the total Group – and the well-publicised travails of our home market, caused both by Brexit and the issues in government supplier relations described above, we revised our view to be that market growth was likely to be running at around 2-3% as a weighted average across our markets. We saw little likelihood that blended rates of growth across our markets would increase much beyond this in the immediate future. At that point, we could not have predicted Covid-19, nor the huge changes and challenges this would bring to our customers and to public services. The immediate impact of Covid-19 on our markets has of course been a very mixed picture: some market segments have suffered dramatic downturns in demand (rail, leisure, air traffic control); others have seen a major upsurge, particularly with regards to new services to help address challenges created by the pandemic (contact centres for citizen enquiries, hospitals, testing and tracing services).

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

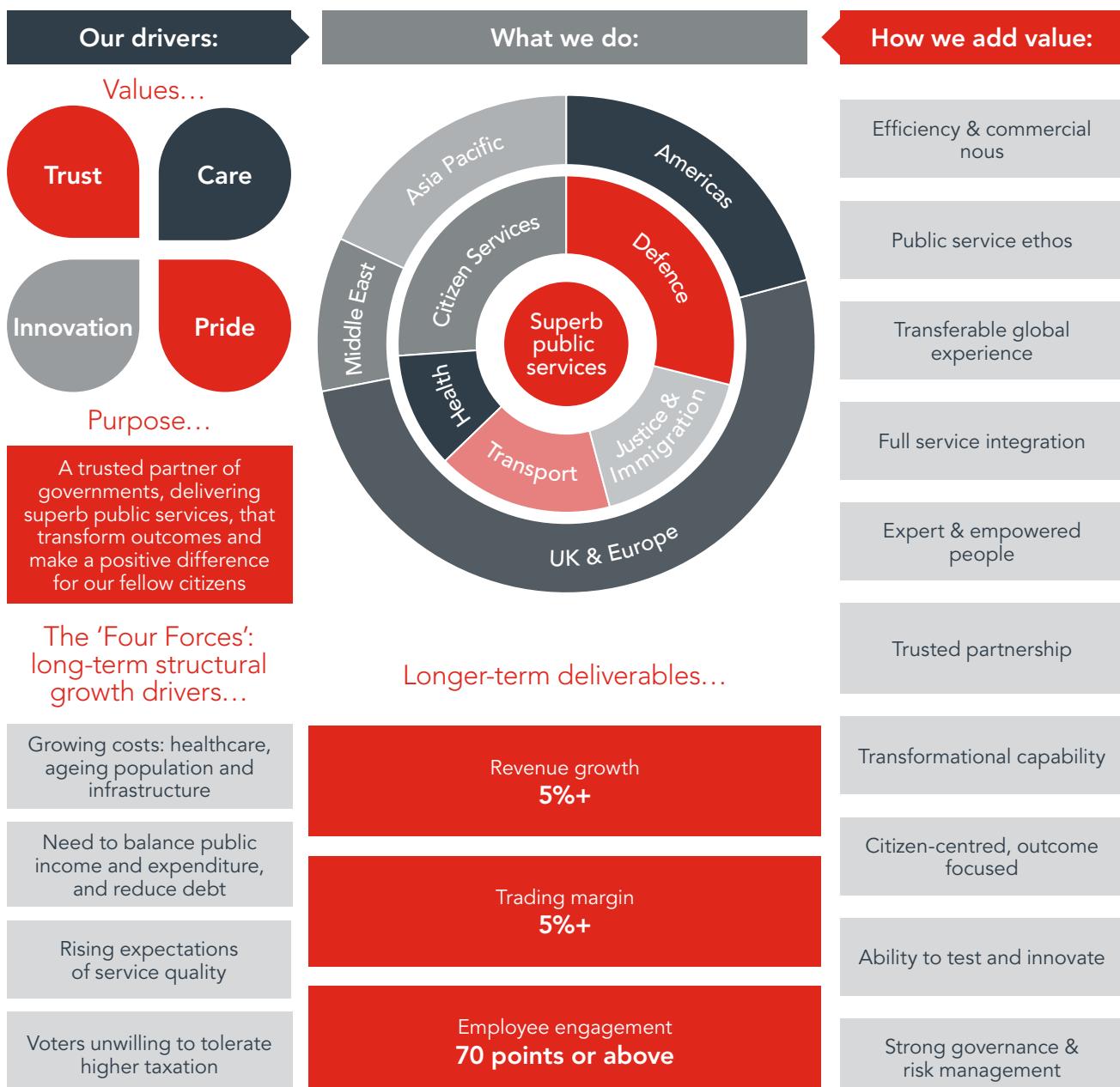
On top of this of course, we will need to factor in the regional impacts of a new administration in the United States which we feel might lead to increased spending in the Federal & Civilian space, possible new opportunities emerging as the UK adjusts to Brexit, as well as a Scottish election in 2021, an Australian Federal election by 2022, Canada in 2023, and the UK by the end of 2024 – to name just a few.

Regardless of the complications in making accurate predictions of market growth rates, we should remember that in revenue terms Serco has grown revenues by 10% compound over the last three years; this is a combination of organic growth and acquisitions, and it is clear that the market has not grown at this rate, so it is logical to assume that we have been growing market share. With a market which is so large and diverse, and whose boundaries are so hard to define, it probably a fool's errand to try to pin down growth rates to within a percentage point or two. What is important is that whether market growth is 3% or 5%, our long term target of 5% revenue growth at 5% margins is, we believe, achievable.

Our Business Model

We combine people, processes and technology in order to achieve our purpose of delivering superb public services.

Serco is not a consultancy or a technology business; we use process and technology as enabling tools, not as products to sell. Furthermore, since processes and technology depend on people, it can be simply said that the success of our strategy will depend upon how well we manage, organise, motivate, develop and select people, and the criticality of their behaviour. So the answer to 'how?' is: 'by being the best-managed business in our sector'.



Having such an ambition may sound trite, but we believe that it is a worthy and value-creating aspiration, and one that we can use to inspire our management teams and customers. In any given circumstances, and whatever the slings and arrows of fortune, well-managed businesses do better than poorly managed businesses, and the best-managed businesses do best of all.

As managers, our job is to ensure Serco delivers value to the people and institutions who have an interest in our success: to our customers and service-users, by providing high-quality, resilient and innovative public services; to our shareholders, by providing sustainable and growing returns on capital; to our lenders, by providing them with a solid and secure credit; and to our colleagues, by enabling them to have interesting and rewarding careers.

Chief Executive's Review



Rupert Soames
Group Chief Executive

"Our priority in this crisis has been to support the delivery of essential public services and, within that context, do all we can to protect our employees from harm and our shareholders from loss."

In the coming months, every company's trading statement will pay glowing tributes to employees, and thank them for their resilience and courage. I have struggled to think of words that are not trite or clichés and will not be repeated by a thousand other CEOs, so I will use instead the words of a colleague, whose job is escorting prisoners, who wrote to me in January:

"Working as a Custody Officer is both challenging and rewarding, yes, the current situation with the virus has certainly changed the way in which we work and has made day to day life more challenging for everyone within Serco but also for the entire world. My husband has cancer and also a disease which has caused him to have no immune system. People have asked me why I would continue to work knowing that every day when I go home to him, I am putting his health at risk. The answer to this question is this: if everyone took that attitude then businesses would suffer more than they are already, people like myself and my colleagues are what keep the contract running, and without my work to focus on I am sure I would have gone crazy by now. Both my husband and I know that life throws us curve balls now and again and we have to get on and make the best of it and most importantly never give in! My husband and I acknowledge how precious life is, we are as careful as we possibly can be in protecting ourselves and others and acknowledge that life has to go on.

Serco has looked after its employees very well throughout this terrible time. I am grateful to be able to work every day in a job that I love doing."

Around 90% of our 55,000 colleagues cannot work from home, because they work in places such as prisons, hospitals, ships, or trains. They have turned up each day to enable us to deliver our promise of supporting the delivery of public services; many have suffered loss, either of colleagues, friends or family, and still turned up for work. My respect and gratitude for them is unbound, and I want to extend our condolences to the families of those colleagues who have died from Covid-19 over the last year.

Summary table of financial results.

Year ended 31 December	2020	2019	Change at reported currency	Change at constant currency
Revenue ⁽¹⁾	£3,884.8m	£3,248.4m	+20%	+20%
Underlying Trading Profit (UTP) ⁽²⁾	£163.1m	£120.2m	+36%	+37%
Reported Operating Profit (i.e. after exceptional items) ⁽²⁾	£179.2m	£102.5m	+75%	
Underlying Earnings Per Share (EPS), diluted ⁽³⁾	8.43p	6.16p	+37%	
Reported EPS (i.e. after exceptional items), diluted	10.67p	4.21p	+153%	
Dividend Per Share (recommended)	1.4p			
Free Cash Flow ⁽⁴⁾	£134.9m	£62.0m	+118%	
Adjusted Net Debt ⁽⁵⁾	£57.8m	£214.5m	-73%	
Reported Net Debt ⁽⁶⁾	£460.4m	£584.4m	-21%	

Chief Executive's Review continued

Very strong year across global business; guidance increased for 2021.

Highlights

- **Revenue:** grew by 20% to £3.9bn, with organic growth of 16%, a 5% uplift from our US acquisition in August 2019 of NSBU and -1% from currency.
- **Underlying Trading Profit:** increased by 36% to £163m, with NSBU adding 8%; net impact of Covid-19 around £2m, or ~1% of UTP. Margin increased from 3.7% to 4.2%. Around three-quarters of our profit⁽⁷⁾ is now from outside the UK.
- **Reported Operating Profit:** increased by 75%, or £77m, to £179m, as a result of the 36% increase in underlying profit and an exceptional gain on disposal.
- **Earnings per Share** increased by 37% on an underlying basis⁽⁴⁾ and 153% on a reported basis.
- **Free Cash Flow⁽⁵⁾:** more than doubled, to £135m.

- **Adjusted Net Debt⁽⁶⁾:** reduced by £157m to £58m. Covenant leverage stands at 0.5x EBITDA.
- **Order Intake and Pipeline:** some customer decisions slipped from Q4 2020 to Q1 2021, leading to order intake of £3.1bn (80% book-to-bill) and significant year-on-year increase in year-end qualified pipeline of new business to £6.4bn (2020: £4.9bn).
- **Government support & employee recognition:** the Group has repaid all UK government employment and liquidity support, including £2m of furlough payments, and has made ex-gratia payments totalling £5m to around 50,000 front-line staff.
- **Dividends:** the Board recommends restarting dividends, last paid to Serco shareholders in 2014, with a payment of 1.4p in respect of the 2020 financial year.
- **Acquisitions:** in January 2021 we acquired Facilities First Australia (FFA), a leading Australian facilities management company for A\$78m. In February 2021 we announced the acquisition, subject to regulatory approval, of Whitney, Bradley & Brown Inc (WBB), a leading provider of technical and engineering services to the US military for a consideration of \$295m.
- **Outlook for 2021⁽⁸⁾:** having delivered compound annual growth in profits of 33% over the last three years, we expect revenues and trading profit to continue to grow in 2021, albeit at a slower rate than seen in recent years. Reflecting a strong start to the year, we have increased our profit guidance for 2021 by 6%, which equates to year-on-year growth at constant currency of 10%. This excludes the effect of the acquisition of WBB, Inc. Guidance will be updated for this following completion.

Turning to our financial performance in 2020, growing Revenues by 20% (2019: +15%) and Underlying Trading Profit by 36% (2019: +29%), is all the more impressive as it follows strong growth in 2019 and underlines the momentum behind Serco's return to robust financial health. This performance is particularly gratifying given the disruption caused to some parts of our business by Covid-19; despite approaching £400m of Covid-19 related revenues, the net impact of Covid-19 was around 1% of Underlying Trading Profit, and the balance of the 35% increase in profits came from the normal operations of the business.

Our free cash flow, now released from the drag of recent years of Onerous Contract Provisions, was very strong at £135m, which, combined with strong growth in EBITDA brings our covenant leverage ratio down to 0.5x, which puts us in a very strong financial position. This has enabled us to finance the recently announced acquisition of WBB from our existing debt facilities and still be around the middle of our target leverage range of 1-2 times net debt: EBITDA.

It is pleasing finally to be able to re-start paying dividends, last paid in 2014. The Board has thought carefully about this, particularly in the light of the current circumstances; in April 2020, we justified withdrawing the proposed Final Dividend in respect of 2019 saying: "At a time when the UK and other governments are helping Serco with its liquidity, it seems inappropriate to use that cash for anything other than its intended purpose of protecting the financial strength and resilience of our business". Subsequently, and for the same reason, we did not propose a dividend at the half year in August 2020. Four things have changed for us since the earlier decision-points in April and August. First, any concerns we had about liquidity have proved groundless; we have successfully re-entered the long term private placement debt market (and at

lower cost); we have been strongly cash-positive in 2020; leverage is below our target range at year end, and even after the WBB acquisition would sit comfortably within our target range. Secondly, we have refunded all employment and liquidity support paid to Serco by governments, with the exception of £12m in the USA, for which there is no mechanism for early repayment, so will be repaid as scheduled in 2021 and 2022. Thirdly, whilst the profits arising from our work on Covid-19 are ephemeral, they do not represent a material proportion of our profits in the year (net, around 1% of Underlying Trading Profit). Finally, we have sought to recognise the intense pressure and extra work that Covid-19 has brought to our staff by making ex-gratia payments totalling £5m to 50,000 of our front line colleagues. In the light of these four considerations, the Board feels it appropriate to recommend the payment of a final dividend in respect of 2020 of 1.4p per share, representing a 25% payout ratio assuming a notional 1/3rd / 2/3rd split between interim and full year dividends.

Looking ahead to 2021, guidance set out below is improved from that which we gave in December. It does not reflect the acquisition of WBB, announced on 16 February, which is subject to regulatory approval; guidance will be updated immediately after completion, which is expected to be during the course of Q2. After the dramatic growth of the last three years – with 33% compound annual growth in Underlying Trading Profit – we see 2021 as being a year of more normal rates of growth in revenues and profits; we will have some "drags" on our profitability, notably only having six months of the AWE contract, and we expect revenues related to Covid-19 services to be much stronger in the first half than in the second. However, we have had a strong start to the year, and we are therefore increasing our profit guidance for 2021, with the revised guidance equating to 10% constant currency growth in the year.

Guidance for 2021 excluding the effect of the WBB acquisition, but including Facilities First Australia

	2020 Actual	2021	
		Initial guidance	New guidance
Revenue	£3.9bn	~£4.1bn	~£4.2bn
Organic sales growth	16%	~2%	~4%
Underlying Trading Profit	£163m	~£165m	~£175m
Net finance costs	£26m	~£27m	~£27m
Underlying effective tax rate	23%	~25%	~25%
Free Cash Flow	£135m	~£75m	~£75m
Adjusted Net Debt	£58m	~£100m	~£100m

Notes to guidance: The guidance uses an average GBP:USD exchange rate of 1.37 in 2021 and GBP:AUD of 1.79. If the WBB acquisition completes in Q2, we would expect our Net Debt : EBITDA to be around 1.6x at the half year and reduce thereafter.

Notes to financial results summary table and highlights:

- (1) 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 2020 into sterling at the average exchange rates for the prior year.
- (2) Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges) and other material one-time items. A reconciliation of Underlying Trading Profit to Trading Profit and Reported Operating Profit is as follows:

Year ended 31 December	2020 £m	2019 £m
Underlying Trading Profit	163.1	120.2
Include: non-underlying items		
OCP charges and releases	5.8	0.8
Other Contract & Balance Sheet Review adjustments and one-time items	6.8	12.4
Trading Profit	175.7	133.4
Amortisation of intangibles arising on acquisition	(9.0)	(7.5)
Operating Profit before exceptional items	166.7	125.9
Operating exceptional items	12.5	(23.4)
Reported Operating Profit	179.2	102.5

- (3) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects.
- (4) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest and net capital expenditure on tangible and intangible asset purchases.
- (5) Adjusted Net Debt has been introduced by Serco as an additional non-IFRS Alternative Performance Measure (APM) used by the Group. This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities including those newly recognised under IFRS16.
- (6) Reported Net Debt includes all lease liabilities, including those newly recognised under IFRS16. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:
- (7) Refers to non-UK Underlying Trading Profit as a proportion of group Underlying Trading Profit before corporate costs. Our Underlying Trading Profit before corporate costs in 2020 was £204.3m.

As at 31 December	2020 £m	2019 £m
Adjusted Net Debt	57.8	214.5
Include: all lease liabilities accounted for in accordance with IFRS16	402.6	369.9
Reported Net Debt	460.4	584.4

Chief Executive's Review continued

Notes to financial results summary table and highlights: continued

(8) Our outlook for 2021 is based upon currency rates as at 31 January 2021. The rates used, along with their estimated impact on revenue and UTP are as follows:

Year ended 31 December	2021 outlook	2020 actual	2019 actual
Average FX rates:			
US Dollar	1.37	1.29	1.28
Australian Dollar	1.79	1.88	1.83
Euro	1.13	1.13	1.14
Year-on-year impact:			
Revenue	~(£40m)	(£24m)	+£42m
UTP	~(£4m)	(£1m)	+£4m

Reconciliations and further detail of financial performance are included in the Finance Review on page 38. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The condensed Consolidated Financial Statements and accompanying notes are on page 76.

Summary of financial performance

Revenue and Trading Profit

Reported Revenue increased 20% to £3,885m (2019: £3,248m); in accordance with IFRS this measure excludes Serco's share of revenue from joint ventures and associates of £364m (2019: £395m). Net currency movements reduced revenue by £22m or 1%, whilst the full-year effect of the acquisition of Naval Systems Business Unit (NSBU), which completed at the start of August 2019, added £150m or 5% to growth. At constant currency, the organic revenue growth was therefore £508m or 16%, accelerating from 15% in the first half of the year to 17% in the second half. The very strong revenue growth rate was a consequence of Covid-19 related services, higher demand for our immigration services, a full year contribution from the AASC asylum accommodation and support contract in the UK and the AHSC defence garrison healthcare services contract in Australia, as well as the start of new work including Clarence Correctional Centre, Gatwick Immigration & Removal Centres and Prisoner Escorting. This resulted in particularly strong organic growth in our UK&E and AsPac Divisions.

Underlying Trading Profit (UTP) increased by £43m or 36% to £163m (2019: £120m); excluding the £1m adverse impact of currency, the increase in UTP was £44m or 37%. Profits increased in all our divisions, with our UK&E and Americas businesses seeing very strong improvement. The Group's Underlying Trading Profit margin was 4.2%, an increase of 50 basis points.

In every year, Serco's results are the aggregation of pluses and minuses, as some contracts grow their profits and others reduce them. This year, some of the pluses and the minuses were extreme. Contracts that went backwards included our business in the UK supporting Local Authority Leisure Centres, which were largely closed down during the various lockdowns; our Health business bore very significant additional costs as it worked to maintain service in the face of Covid-19; our Merseyrail joint venture saw passenger volumes at a fraction of normal levels; together, these three parts of our UK operations saw their contribution reduce year-on-year by around £35m; our contract to build an ice-breaker for the Australian Government suffered losses as we had to tow the ship from its shipyard in Romania, where there was a serious Covid-19 outbreak, to Holland in order to complete construction; many of our contracts bore additional costs as they worked to deliver services in the face of Covid-19. And we also made the decision to recognise the extraordinary efforts of colleagues by making ex-gratia payments totalling £5m to 50,000 front-line staff.

A large positive was we had a number of new and re-bid contracts contributing to profits. Our Asylum Seeker (AASC) contract in the UK, which over the last five years lost around £15m-£20m on average per year, swung into profit under the new 10-year contract in 2020; there was strong demand for immigration services in Australia, which included mobilising quarantine hotels in Western Australia; our defence garrison healthcare services contract in Australia, won in 2019, made a full-year contribution in 2020; in the US, our contract with the Federal Emergency Management Agency (FEMA) saw strong growth. And we benefitted from an entirely new source of business – NHS Test & Trace where we have provided more than 25% of testing sites and half the Tier 3 tracing capacity; although these contracts are at lower margins than we would normally accept for this type of work, they generated nearly £350m of revenue, so made a material contribution and helped to reduce the impact of losses in Transport, Health and Leisure. Together, contributions from these new and growing contracts combined to outweigh the losses and reduced profits of other parts of the business that were negatively impacted by Covid-19. Importantly, of the £43m increase in UTP, the net impact on profits directly attributable to Covid-19, was £2m; the balance of £41m came from underlying growth in the business and the acquisition of NSBU.

Trading Profit was £176m (2019: £133m), £13m higher than UTP, which reflects a net £6m credit in Contract & Balance Sheet Review and one-time items (2019: net credit of £4m), and £7m of other one off items (2019: £12m) relating to the release of provisions that are no longer required. The utilisation of Onerous Contract Provisions (OCPs) fell from £41m in 2019 (excluding IFRS16-related accelerated utilisation) to just £2m in 2020. We have now very nearly completed our task of managing the £447m of loss-making onerous contracts identified in 2014; the closing balance of OCPs now stands at £15m, compared to £17m at the start of the year and the initial charge of £447m.

Reported operating profit and exceptional costs

Reported Operating Profit grew by £77m, or 75%, to £179m (2019: £103m) and was higher than Trading Profit as £9m (2019: £8m) of amortisation of intangibles arising on acquisition was more than offset by exceptional operating income of £13m (2019: costs of £23m), the largest portion of which related to our exit from the Viapath pathology services joint venture. There were no exceptional restructuring costs (2019: £13m).

Finance costs

Net finance costs were £26m (2019: £22m), with the increase driven by having a full year of property leases related to the AASC contract. The interest component of leases reported under Finance costs, as required under IFRS16, was £10m (2019: £7m). Cash net interest paid was £25m (2019: £22m).

Pensions

Serco's pension schemes are in a strong funding position, resulting in a balance sheet accounting surplus, before tax, of £80m (31 December 2019: £54m) on scheme gross assets of £1.6bn and gross liabilities of £1.5bn. The opening net asset position led to a net credit within net finance costs of £1m (2019: £2m). For the Group's main scheme, the Serco Pension and Life Assurance Scheme (SPLAS), the purchase of a bulk annuity from an insurer has the effect of fully removing longevity, investment and accounting risks for around half of all scheme members; the gross liability remains recognised on our balance sheet, but there is an equal and opposite insurance asset reflecting the perfect hedge established by the annuity.

Tax

The underlying effective tax cost was £31m (2019: £24m), representing an underlying effective rate of 23% (2019: 25%) based upon Underlying Trading Profit less net finance costs, totalling £137m (2019: £98m). The rate is higher than the UK statutory rate of corporation tax as the tax rates in our international divisions tend to be higher than the UK's rate. This is partially offset by consolidating our share of joint venture and associate earnings as, although included in profit before tax, the income has already been taxed. The rate is lower than in 2019 due to an increase in the proportion of the Group's profits arising in the UK and a reduction in the proportion of our profits made by our joint ventures and associates. We expect the rate to increase to closer to 25% in 2021, although this is sensitive to the geographic mix of our profits.

Tax on non-underlying items was a net credit of £12m (2019: charge of £3m). The £12m credit, related to the tax impact of amortisation of intangibles arising on acquisition of £2m and £10m related to non-underlying items. Tax on exceptional items was £0.4m (2019: £3m). The total tax charge was £19m (2019: £30m) and net cash tax paid was £36m (2019: £31m), which is higher than the current tax charge due to the effect of future expected cash tax deductions for which a current accounting credit is taken and due to timing differences on some tax receipts and payments, notably the cash from joint ventures and associates for losses transferred to them.

Reported result for the year

The reported result for 2020, as presented at the bottom of the Group's Consolidated Income Statement on page 39, is a profit of £134m (2019: £51m). This comprises reported operating profit of £179m (2019: £103m), reported profit before tax of £153m (2019: £81m) and tax of £19m (2019: £30m).

Earnings per share (EPS)

Diluted underlying EPS, which reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects, increased by 37% to 8.43p (2019: 6.16p). The improvement reflects the 36% increase in Underlying Trading Profit and the lower tax rate, partially offset by the increase in net finance costs and an increase in the weighted average number of shares in issue. The weighted average number of shares increased by 58m, or 5%, to 1,229m (2019: 1,171m), with the vast majority of this, 45m, the full-year effect of the May 2019 share placing. Diluted reported EPS, which includes the impact of the other non-underlying items and exceptional costs, increased by 153% to 10.67p (2019: 4.21p).

Cash flow and net debt

Free Cash Flow showed sharp improvement, increasing by £73m to £135m (2019: £62m), representing cash conversion of 120%. The improvement was a result both of the £43m increase in underlying profits as well as improved debtors collection, with an almost complete catch up on delays in processing billings on our FEMA contract in the US and successful collection of some older receivables in our Middle East business. We also benefited from £12m of Covid-19 tax deferrals in the USA, for which there is no mechanism to repay ahead of schedule. Despite organic revenue growth of just over half a billion pounds, our working capital outflow was just £5m as governments, most notably the UK Government, made significant efforts to ensure that their suppliers were paid promptly, and for our part we ensured our suppliers were equally supported. Average working capital days for the year were broadly unchanged, with creditor days reducing from 29 in 2019 to 23 in 2020; we are proud to say that 89% of UK supplier invoices were paid in under 30 days (2019: 86%) and 97% were paid in under 60 days (2019: 96%).

The cash outflows related to loss-making contracts subject to OCPs reduced, reflected in the lower rate of provision utilisation of £2m (2019: £41m). The Group did not utilise any working capital financing facilities in 2020 or the prior year, and has no such facilities in place. Of other movements within Free Cash Flow to note, cash tax paid increased due to some timing effects and capital expenditure was higher, primarily a temporary consequence of the purchase of vehicles for our new prisoner escorting contract.

Adjusted Net Debt at the end of the year fell by £157m to £58m (2019: £215m). Our key measure of adjusted net debt excludes all lease liabilities, which now total £403m (2019: £370m), including those leases now recognised under IFRS16. The adjusted measure of net debt aligns closely with the covenant on our financing facilities; our net debt for covenant purposes was £102m (2019: £235m). The £157m reduction in 2020 includes the free cash inflow of £137m, proceeds from the sale of our stake in Viapath and £12m of favourable currency moves. The closing Adjusted Net Debt of £58m compares to a daily average of £209m (2019: £231m) and a peak net debt of £356m (2019: £357m). The unusually large difference between peak, average daily and period end net debt was the result of two factors that occurred in the first half: first, in response to Covid-19 and government requests we mobilised and paid for a large amount of additional resources from March onwards, and it took until June for the contractual paperwork and the payments to catch up, so we carried an unusually high amount of working capital for much of the first six months; second, there were delays in processing billings on our FEMA contract in the US in Q1, which saw improvement in Q2 and complete catch up in the second half. Working capital normalised in the second half, with peak and average Net Debt being £208m and £137m respectively, much closer to period end than in the first half.

Reported Net Debt fell £124m to £460m (2019: £584m), notwithstanding a £33m increase in leases to £403m (2019: £370m), reflecting the continued expansion of our AASC contract.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.5x EBITDA (2019: 1.2x), being Covenant Net Debt of £102m divided by EBITDA of £225m. This compares with the covenant requirement to be less than 3.5x Net Debt:EBITDA. Our target range is 1x-2x Covenant Net Debt to EBITDA.

At our pre-close update on 17 December we announced that we intended to buy £40m of shares over the coming months, and these shares would be either cancelled, held in Treasury and/or used to satisfy the requirements of employee share schemes. As at 24 February 2021, 14.4m shares have been purchased at an average price of £1.23p. As stated below, it is now our intention to cancel £20m of the purchased shares, and apply the balance to employee share schemes. The effect of this share buyback, along with dividends and the anticipated purchase of WBB Inc, would result in our leverage for debt covenant purposes rising to around 1.6x EBITDA.

The Revenue and Trading Profit performances are discussed in more detail in the Divisional Reviews. More detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

Chief Executive's Review continued

Dividend recommendation

In the 2019 Annual Report, the Board recommended the payment of a final dividend with respect to 2019, the first time it had been able to make such a recommendation since 2014. It was a milestone in the recovery of the company. Covid-19 then intervened and in April 2020, we withdrew the proposed Final Dividend in respect of 2019 saying: "At a time when the UK and other governments are helping Serco with its liquidity, it seems inappropriate to use that cash for anything other than its intended purpose of protecting the financial strength and resilience of our business".

The Board has considered carefully the timing of the re-instatement of dividends, which, in the current circumstances is more than a simple financial calculation, given the importance of acting responsibly from a reputational perspective at this challenging time. We have also been mindful of the views of some of the institutions and agencies whose opinion shareholders may value, as well as taking into account more broadly, to the extent that we can discern them, views of other stakeholders. It would, perhaps, be the easiest thing to defer payments of dividends again, given that the pandemic is still very much with us. On the other hand, Serco as a company has been saved by its shareholders and supported on its return to growth, with £850m of additional equity injected into the company since May 2014; the Board feels very strongly that shareholders should see cash returns on their investment at the earliest moment it is appropriate and prudent for them to do so.

Four things have changed for us since the earlier decision-points of our initial Covid-19 trading update in April and our half year results August. First, any concerns we had about liquidity have proved groundless; we have successfully re-financed our long-term debt (and at lower cost); we have been strongly cash-positive in 2020; leverage, even after the WBB acquisition, will be in the middle of our target range. Secondly, we have refunded all employment and liquidity support paid to Serco by governments, with the exception of £12m in the USA, for which there is no mechanism for early repayment. Thirdly, whilst the profits arising from our work on Covid-19 are ephemeral, they do not represent a disproportionate proportion of our profits in the year (net, around 1% of Underlying Trading Profit). Finally, we have sought to recognise the intense pressure and extra work that Covid-19 has brought to our staff by making an ex-gratia payment of £5m to 50,000 of our front-line colleagues.

In the light of these four considerations, the Board feels it both appropriate and prudent to recommend the payment of a final dividend in respect of 2020 of 1.4p per share, which based on a policy of paying 1/3rd / 2/3rd split between interim and full year dividend, would represent 4x dividend cover, or a 25% payout ratio. The dividend, if approved by shareholders at the AGM on 21 April 2021, would be paid on 4 June. We also intend to cancel £20m of the £40m of shares whose purchase we announced at our pre-close Trading Update in December; the £20m would be roughly equivalent to the cash value of the 2019 final and 2020 interim dividends foregone.

As we said in last year's report, the Board regards the 25% payout ratio as a prudent starting point for dividends, and will keep dividend policy under regular consideration as we continue to implement the growth stage of our strategy. Future dividend decisions will take into account the Group's underlying earnings, cash flows and financial leverage, together with the prevailing market outlook.

The Board is mindful of the requirement to maintain an appropriate level of dividend cover, the potential alternative uses of capital to generate incremental value for shareholders, and the desire to maintain financial flexibility and a strong balance sheet that is considered appropriate for Serco's ability to deliver sustainable value for all of the Group's stakeholders.

Contract awards, order book, rebids and pipeline

Contract awards

We won £3.1bn of work in 2020, which represented a book-to-bill ratio (the relationship between orders received and revenue recognised) of around 80% (2019: 170%). We noted in last year's full year results that 2019's £5.4bn of order intake was an exceptional performance, and that we expected order intake in 2020 to be significantly lower; since 2017, our book-to-bill ratio has been approximately 115%. The natural lumpy flow of contract awards that led us to make this prediction was exaggerated in 2020 by the disruption caused by Covid-19 and, as a result, several large contract award decisions scheduled for Q4 were delayed to 2021; a consequence of this is that our reported year-end pipeline at £6.4bn was significantly larger than last year's £4.9bn. Furthermore, whilst the average duration of a new contract in Serco is about five years – so a new or rebid contract win "books" at a multiple of this year's "billing" – more than half of the £636m increase in revenues in 2020 arose from Covid-19 related work where contracts are by their nature "booked" into the order book as they are "billed". In the light of these factors, we are encouraged that our book-to-bill remained as high as 80%.

Of the order intake, approximately 60% was represented by the value of rebids and extensions of existing work and 40% comprised new business. Our win rate by value for new work was around 35%, above the average over the last five years of approximately 25%. Conversely, the win rate by value for securing existing work was around 70%, which is considerably lower than the 80-90% we typically see. The lower rate was a result of the Viapath joint venture, in which we had a 33% interest, not being selected as the preferred bidder for pathology services in London. We subsequently sold down our interest in the joint venture for a consideration of £11m. In our wholly-owned operations, the win rate by value for existing work was over 90%. The win rates by number of tenders were nearly 60% for new bids and over 90% for rebids and extensions.

Regionally, just under 50% of order intake came from the UK&E, slightly less than 30% from Asia Pacific, 20% from the Americas and the remaining proportion from customers of our Middle East business.

The largest award was our £450m contract to continue to operate the Northern Isles Ferry Services. First announced in September 2019, the contract was not included in our order intake until a procurement challenge from the unsuccessful bidder was resolved early in 2020. In Australia, we signed a six-year A\$730m (~£370m) extension to our contract to deliver support services at Fiona Stanley Hospital in Perth. Also in Australia, we successfully rebid our contract to run Acacia Prison in Western Australia. The new contract has an estimated value of A\$445m (£250m) over the initial five-year period and A\$1.4bn (£790m) if two five-year extensions are exercised. The UK business won an eight-year contract valued at just over £200m to manage the Gatwick Immigration Removal Centres. We agreed and mobilised a range of work related to helping governments tackle Covid-19. This included contracts in the UK to support the NHS Test & Trace programme, testing facilities in the UK, temporary hospitals in the UK and the Middle East, and quarantine hotels in Western Australia. In total, the contracted value of the Covid-19 work was approaching £400m.

Other notable contract awards included a nine-year £116m environmental services contract with three councils in Norfolk, a new £52m, five-year agreement for deployment of secure services for the US Department of Defense, a new win worth £43m to provide deep space surveillance support in the USA and a 14-month extension to our contract to provide contact centre services for the Australian Tax Office, valued at £44m. We were also awarded a new contract to deliver front line customer services at Dubai Airport. However, as a result of the airport closing and subsequent lower passenger volumes due to Covid-19, the contract is yet to start, so we have not included it in our order intake in the period.

Bids for new work that were unsuccessful in the period included Wellingborough Prison in the UK, Air Traffic Controller training for the Federal Aviation Administration in North America and support services for Kowloon West Cluster Hospital Authority in Hong Kong.

Order book

As a result of the lower order intake, the Group's order book reduced from £14.1bn at the start of 2020 to £13.5bn at the year end. The order book reflects any required changes in assumptions for existing contracts, including currency movements. This order book definition is therefore aligned with the IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. It is worth noting that, as it excludes unsigned extension periods, the £13.5bn would be £14.4bn if option periods on contracts in our US business were included. As option periods have always tended to be exercised in our US business, we do include these in our assessment of order intake, but in accordance with IFRS15 we do not include them in the order book until they are exercised. The order book definition also excludes our share of expected revenue from contractual arrangements of our joint ventures and associates. This would add a further £0.8bn if included within our order book, relating to the remaining period of the AWE operations and the Merseyrail franchise.

There is £2.9bn of revenue already secured in the order book for 2021, equivalent to around 70% visibility of our £4.2bn revenue guidance. The 'gap' in visibility is typically closed by our US business receiving the exercise of contract option periods and through short-term task order work on framework contracts, together with the necessary securing of contract extensions and rebids across the rest of the Group.

Rebids

As we look ahead the customary three years through to the end of 2023, across the Group there are around 75 contracts in our order book with annual revenue of over £5m where an extension or rebid will be required. Collectively these represent current annual revenue of around £1.9bn or 50% of the Group's 2021 revenue guidance. At the start of 2018 the three-year forward rebid value was £1.4bn, at the start of 2019 it was £1.2bn and at the start of 2020 it was £1.5bn. The proportion of revenue that requires securing at some point over the next three years is slightly higher than usual as the contracts related to the Covid-19 response are shorter-term in nature. Contracts that could potentially end at some point before the end of 2021 have aggregate annual revenue of around £1.1bn, which is higher than normal as it includes the Covid-19 work and our operations for the Dubai Metro, a rebid we consider to have been unsuccessful, and accounts for 3% of Group revenue and a minor profit impact. In 2022, the aggregate annual revenue due for extension or recompete is around £400m. This includes the

Australian immigration services contract due to end in December 2021 unless the option for a further extension is exercised or a rebid is won, and which currently accounts for over 5% of Group revenue.

Pipeline

Serco's measure of pipeline is probably more narrowly defined than is common in our industry; it was designed as an indicator of future growth and focuses on bids for new business only. As a consequence, on average over the last five years, less than half of our achieved order intake has come from the pipeline. It measures only opportunities for new business that have an estimated Annual Contract Value (ACV) greater than £10m, and which we expect to bid and to be awarded within a rolling 24-month timeframe; we cap the Total Contract Value (TCV) of individual opportunities at £1bn, to attenuate 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 Indefinite Delivery / Indefinite Quantity (IDIQ) contracts, which are common in the US, we only take the individual task orders into account. It is therefore a relatively small proportion of the total universe of opportunities as many of these have annual revenues less than £10m, are likely to be decided beyond the next 24 months, will be work from framework contracts, or are rebids and extensions.

On this definition our pipeline stood at £6.4bn at the close of 2020, significantly higher than the £4.2bn we reported at the start of the year and £4.1bn at the half year. As well as the usual flow of wins and losses, 2020 was particularly unusual with Covid-19 leading to changing timings on work in the pipeline plus new work helping governments respond to the pandemic. The increase in the pipeline value reflects a combination of new opportunities and award decisions that were expected in 2020, being delayed to 2021, as our government customers' timelines were disrupted by Covid-19. The upwards shift in our pipeline can be seen as a natural consequence of our order intake being lower due to delayed award decisions. The pipeline at the end of 2020 consisted of around 30 bids that have an ACV averaging approximately £35m and a contract length averaging around seven years. The UK & Europe division represents slightly more than half of the Group's pipeline, the Americas division around one-third, AsPac approximately 10% and the Middle East Division the balance.

Although excluded from our primary pipeline definition above, opportunities for new business that have an estimated ACV smaller than £10m are a significant component of the pipeline and potential growth. This is increasingly likely to be the case given the use of task orders under framework contracts. The pipeline of new business opportunities with an estimated ACV of less than £10m has increased from £1.6bn at the beginning of the year to £1.7bn. The pipeline including both large and smaller opportunities has increased from £6.5bn to £8.1bn.

As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and when they come in and out of the pipeline they can have a material effect on reported values. While the second half of 2020 did produce an increase in the pipeline, and market conditions may over time become more favourable, it is not necessarily strongly predictive of future revenues.

Chief Executive's Review continued

Operational progress, transformation, innovation and people

We have an ambition to be the best-managed business in our sector. Achieving this will require investment in people, processes and systems. We regularly update on progress, and each are described below, but Covid-19 has been hugely disruptive and has tested our systems, processes and people in unforeseen ways.

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

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

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

The first is a management structure based on our "loose-tight" model. This means that we delegate authority and responsibility for day-to-day operational management to be as close to the customer as possible, but we maintain a tight control over risk management, bidding and cost control, and we have a well-established reporting regime, where transparency and reporting bad news as soon as it happens are the orders of the day. During the crisis, we maintained the regimen of monthly reporting, and the Investment Committee, which is a standing committee of the most senior Group executives including the CEO, CFO, COO and Group General Counsel and which oversees bids and investments, met no fewer than 85 times between the 1st April and 31st December 2020. Divisional Performance Reviews, and Business Unit Performance Reviews, continued their monthly rhythm. Our cash performance was reported daily.

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

What evidence do we have of the impact of our culture and organisational philosophy? On the operational side, clearly we have the evidence of what has been delivered: quarantine hotels in Australia mobilised in a matter of days; 10,500 call handlers mobilised in four weeks for the UK Tracing programme, then reduced three months later to 5,000, then expanded two months later to approaching 10,000. A network of test centres set up and operated which between May and December tested more than 5 million people. Critical ship repairs performed under lock-down; train and metro services maintained transport services to move critical workers; multiple crews on rotating isolation to help support Navy movements; prisons adapted to 23-hour-day lockdowns and no visitors; hospital staff delivering cleaning, catering and portering with sickness absence rates of up to 25% in some contracts. Operationally, Serco has performed really well during the crisis.

But we also have the evidence of our trusty Viewpoint survey, to which 29,782 responded this year, slightly more than last year. These surveys have been running since 2011, and the "Engagement Score" they produce has pretty accurately reflected the fortunes of the company and the state of morale in Serco. Given the huge disruption experienced by so many of our colleagues; the immense changes they faced and adaptations they had to make in both their personal and working lives, I was braced for a sharp drop in response rates and scores. To my immense surprise and pleasure, I was wrong and engagement scores increased over prior years', and continue their upward march. There can be no greater tribute to the leadership shown by managers at all levels in the company that this has happened, and of all our operational and financial achievements in 2020, it is of this that I am the most proud. Of particular note is the clear correlation between the scores of People Managers (+2 at 75) and the wider workforce (+2 at 73); clearly, the experience of the workforce as a whole, and their managers, is aligned to a rare degree.

	2011	2012	2013	2014	2015	2016	2017	2018*	2019	2020
Leaders	65	56	51	38	55	72	71	69	77	83
Managers	54	51	49	n/a	59	62	65	70	73	75
All employees	45	45	42	42	53	54	56	67	71	73

* in 2018, the methodology for calculating employee engagement changed, aligned to the new specialist third party provider of the survey. As reported at the time, it is not possible to adjust historic data to restate to the new methodology, but analysis performed by the new provider in 2018 indicated that the engagement level for that year was broadly stable on the previous year's score.

One other fact worth mentioning: in 2019 we opened up the questionnaire to allow free-text answers to questions, with specific opportunities to make comments to the Board. To our surprise, the 27,000 respondents made some 50,000 individual comments. In 2020, we did the same, and this year there were 64,500 comments, of which we have picked a genuinely random sample – the good the bad and the ugly – of 1,000 and published them for public view on our website. If anyone has any doubt as to the fact that Serco colleagues are a feisty, fearless and passionate lot who care deeply about their work delivering public services and about Serco, we need look no further than those comments.

One thing that has suffered badly is our management training. Several years ago we designed and developed specific week long management training programmes with our partners at the Saïd Business School, Oxford; travel restrictions meant that we had to abandon these programmes because we believed the week long residential element was critical in being able to build networks across the company. We will reinstate these courses as soon as we can and catch up. On the other hand, we have been able to hold our commitment to recruiting graduates, and doubled our intake in 2020.

The third element that has stood us in good stead has been our investment in IT systems; over the past few years we have been migrating our key management and financial systems to the Cloud, and upgrading them at the same time. By the end of the first quarter of 2020 we had migrated the majority of our worldwide users on to Cloud-based implementations of Office 365, with the effect that, when the pandemic hit, we had an IT and support infrastructure which was able to adapt readily to remote and home working in a secure manner for most of our users. Just in time, as it turns out. Despite all the distractions of the crisis, we have not slackened off our rate of investment in new systems; we are in the process of a major upgrade of our back office systems in North America, which is almost complete at the time of writing, and we are also developing a custom-built system for the one process which we in Serco do on a truly industrial scale: recruit, manage, pay, train and organise people. This will use our existing SAP back-end, but put a much more efficient and intuitive front-end onto it. To give some idea of the scale at which Serco operates on the HR front: in 2020, including contingent labour, we recruited about 21,500 people, and created around 10,000 net new jobs.

We said at the beginning of the crisis that it would test our mettle; it has, and I am proud beyond words as to how well colleagues and the organisation as a whole have performed. For a very large business, we have shown surprising agility. For a business which sometimes looks like a collection of small businesses, we have demonstrated our ability to act with common purpose, and to maintain rigorous standards of reporting and control in confusing and difficult circumstances. For a business of any size we have shown great resilience. Perhaps the most remarkable thing is that whilst the management of some other companies, for example in travel, or hospitality, have had to manage disaster and seen their businesses going bust, and others for instance in on-line retailing may have seen the triumph of their model and their businesses boom, Serco has had to manage businesses boozing and busting under the same roof.

Perhaps the biggest lesson we have learnt over the last year is encapsulated in the words of Rudyard Kipling:-

"If you can meet with Triumph and Disaster, and treat those two impostors just the same"

Easy to say, hard to do.

The Serco Institute

From March to June 2020, during the first few months of Covid-19, and acknowledging the world was rightly rather distracted with different priorities and focus areas, the Institute purposefully paused its work and instead lent its team to help fight the virus on the frontline of London hospitals, as well as to assist the Serco Foundation's Coronavirus Community Support Fund scheme that gave over £600k to local charities fighting the pandemic. However, since restarting in the summer, the Institute has been publishing once again and making a thoughtful contribution and impact on public service thinking and our markets:

- It has produced several volumes in its new "Policy People" series - interviews with key figures from across the international public sector landscape, who share their insight and reflections on their policy experiences.
- Ahead of the Integrated Review in UK Defence, the Institute published a substantial report produced in conjunction with Kings College London's Centre for Defence Studies on the merits of the 'Whole Force' approach, including greater use of the private sector, which was launched at a roundtable hosted by the Institute with the Chief of Defence Personnel and the recent UK Minister for the Armed Forces speaking, amongst others.
- At the time of writing, as the outputs of the Institute gain traction and attention, we have seen the launch of the Serco Institute Middle East with two reports to be published based on polling residents of the UAE and KSA respectively for their views, hopes, and fears on the future of public services in their countries.
- Last but not least, the Institute has also published numerous short-form articles reacting to day-to-day or more immediate events, such as the realities of NHS Test and Trace operations, Social Value models in the UK, vaccine policy, the likely impact of the Biden administration, and more.

In terms of work soon to be published, the report the Institute commissioned from the independent economic consultancy Capital Economics on the value of outsourcing is complete and simply awaiting publication. This has provided new and persuasive evidence and data in an area where there has been no new research in nearly ten years. Some of the key conclusions are as follows:

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

Also, soon to be published is a piece of substantial research on 'Contestability' policy and the use of the private sector in delivering public services in Australia.

Chief Executive's Review continued

The Serco Institute continued

At a time when the role of the private sector in delivering public services has been questioned in some countries – particularly on the back of political controversies as to how well or not governments have dealt with the pandemic - and at a time when citizens' expectations of public services continue to increase and evolve, we feel the Serco Institute can continue to make an important contribution to understanding what works, and why, in policy delivery, and disseminating knowledge of innovations in public services.

Acquisitions

We regard acquisitions as an important part of our toolkit, which if deployed correctly, can add value and speed strategic progress; but they should be in addition to, and designed to deliver, new opportunities for organic growth. They require discipline and process, and for M&A we follow our head office mantra of having a few good people rather than a lot of mediocre ones. Much of our work we do in-house although we also use advisers where appropriate. We look at an awful lot of opportunities, and reject most of them. Generally speaking, we regard acquisitions as higher risk than organic growth, so any candidates have to meet our stringent criteria of being both financially and strategically compelling. We also recognise that acquisition opportunities come in different shapes, sizes and sectors, and a small one can be strategically important to a region, but not necessarily significant at Group level. But large or small, all acquisitions are centrally managed by Group and follow the same rigorous process.

Since 2014 we have undertaken five acquisitions:

- In 2017, we acquired BTP systems, a US defence engineering company, for \$20m (£13m).
- In 2018 we acquired parts of the Carillion Healthcare business, for £18m.
- In 2019 we undertook a major acquisition in North America in the form of the Naval Systems Business Unit of Alion, a leading provider of naval design, systems engineering and acquisition & programme management, for a consideration of \$225m (£186m).
- In January 2021, we acquired FFA, a specialist provider of cleaning, facilities maintenance and management services to governments in Australia for A\$78m (£44m) including working capital adjustments.
- On 16 February 2021 we announced the acquisition, subject to regulatory approvals, of WBB, a leading provider of advisory, engineering, and technical services to the US military, for \$295m (£215m).

The FFA acquisition was attractive because our Australian business wanted to extend its reach and capability in the government facilities maintenance and management market, for which there are numerous opportunities in the years ahead. FFA was a rare asset because of its focus on, and strong track record with, government, indeed it had originally been the management buyout of the New South Wales in-house FM operation. The purchase price was 6.2x trailing EBITDA, which we believed was a fair price for a business with relatively low margins.

The WBB acquisition, which is subject to regulatory approval, would be our largest to date. It is highly complementary to our existing Serco business in North America: like Serco, WBB is a leading provider to the US Department of Defense of Systems Engineering and Technical Assistance (SETA) services focusing in the fields of Acquisition and Programme Management, Systems Design and Engineering, Through-Lifecycle Asset Management and Mission.

It would add very significantly to the scale, breadth and capability of our North American defence business. In terms of scale, it adds around 20% to Serco's existing \$0.9bn of North American defence revenues, and about 1,000 skilled people, reinforcing our position as a significant supplier in the US defence services market, with credible positions in all arms of the Department of Defense. In terms of breadth the acquisition of WBB adds new market segments and reach within US defence. It will approximately double Serco's revenues across both the US Army and Air Force/Space Force, giving us ~\$100m businesses in each. It will give us immediate access to markets that are difficult to enter organically including Air Force programme offices, the Missile Defense Agency, Space and Missile Defense Command, the Office of the Secretary of Defense, security agencies and others. In terms of capability, WBB brings significant new areas of capability to Serco's global defence business, including Advanced Data Analytics, Organisation Design, Cyber, AI & Machine Learning, Natural Language Processing, Wargaming, Modelling, and technologies related to geo-location. Among its 1,000 employees, 80% of whom have security clearances, it has around 200 "Subject Matter Experts" many of whom are former senior US military officers who are recognised experts in their fields.

We will continue to keep our eyes and ears open for new opportunities, and focus in the meantime on delivering value from those acquisitions we have already done.

Market outlook

Our approach to strategy planning is to conduct annual planning exercises, updating five-year forward plans, using internal resources. Every 4-5 years we conduct a root-and-branch review, with external help, of our markets. The last such review was in 2018, and in our 2018 results announcement, we set out our views on our markets. We had planned to conduct an annual update in 2020, but as soon as Covid-19 struck we told those people who would normally do this work to focus on managing the business. We did, however, set all our Divisions to thinking how life might be different in a post-Covid-19 world.

It is our intention to give investors a Capital Markets Day in the second half of 2021, at which point the fog on what a post-Covid-19 world might look like will have thinned, and we will be able to give a more considered analysis. In the Our Market section of the Annual Report we set out a lot of our thinking, but below are some of our reflections on how Covid-19 may impact our market:-

- Covid-19 will probably amplify the underlying drivers of demand in our market – which in 2014 we described as the "Four Forces". They are: relentlessly increasing demand for public services; expectations of higher service quality; structural fiscal deficits; electoral resistance to tax increases. These forces will continue to encourage governments to seek innovative ways to deliver more services, of higher quality, and at lower cost (what we call 'More and Better for Less'). We believe that Covid-19 has reconnected hundreds of millions of people worldwide with government services and reminded them of the value of well organised service delivery. This will make government more confident in promoting services to citizens. But the fact is that deficits and levels of government debt have increased to levels not seen outside World War, and governments will be sharply focused on delivering "More and Better for Less". This is positive for our market.

- When faced by Covid-19, governments worldwide were surprised by two things. First, how little resilience there was in many critical self-provided government services, and second by how well the private sector was able to respond to an existential crisis. From developing vaccines in previously undreamt-of timescales, to building vast new hospitals in weeks, to manufacturing tens of thousands of ventilators, to standing up test and tracing services on a scale never before seen, governments asked the private sector to respond, and has, I suggest, been pleasantly surprised at how broad and capable the private sector has proved to be.
- We think that thoughtful governments will reflect that they need to be more diligent about how they plan for crises, and putting in place supply-chains and procurement processes that allow for the swift mobilisation of the private sector.
- In the UK in particular, many companies have avoided doing business with government as they have seen the carnage that has been wrought, some by government, some by self-harm, on the sector over the past 10 years. During the crisis, companies have seen that, particularly in crisis, government can be a good customer to have; they pay on time, and in times of trouble, demand increases. This may attract more entrants into the market, which would be a good thing. One of the greatest danger for companies like Serco, whose very existence depends upon government being confident it can test value through competition, is if there is no competition.
- Governments across the world were broadly able to maintain momentum on tender evaluation during the first six months of 2020, but in the second half many of the larger tender adjudications became delayed, and we suspect that it will take some time for backlogs to be cleared. This trend is exacerbated in the US where it is the habit of losers, particularly incumbent losers, to launch protests against procurement decisions, and Covid-19 is slowing up the process of dealing with these protests.
- With hundreds of millions of people being made unemployed, we believe that governments will invest in services to get people back into work as soon as possible. This is an area in which we have deep experience.
- We see demand for testing and contact tracing reducing during the course of 2021 and eventually being taken over by Local Authorities, with a reserve force from the private sector at the ready to deploy in case of significant outbreaks.
- We believe the arrival of the Biden administration and its response to higher debt due to Covid-19 is likely to slow the rate of growth in US defence spending. However, the need to respond to external military threats is supported across both parties and we therefore think the change of government is unlikely to have a dramatic impact on our US defence business.

Long term, we believe that the Covid-19 crisis will have an impact on the mix of demand for services provided by the private sector to governments, but we see no reason to change our view that in the years ahead Serco should be able to grow its revenues by, on average, around 5% a year, and deliver trading margins of 5%.

Guidance for 2021

At our Closed Period trading update on 17 December 2020, we provided our initial outlook for 2020 and remarked that we anticipated a year of stable revenue, UTP and earnings for the existing business, with a small uplift to reflect the acquisition of FFA. We also noted that, in common with many other businesses, we face a lot of uncertainty in 2021, and the outlook has a wider-than-usual margin for error. Since that date, and having had a very strong start to the year, we have revised upwards our view of Underlying Trading Profit. We have also revised guidance to take account of currency rates and to take into account the impact of the resumption of dividend payments announced with our 2020 results. With lower volumes expected from Covid-19-related work in the second half, along with the exit from our activities at the Atomic Weapons Establishment at the end of June 2021, we expect trading to be stronger in the first half than in the second. This guidance does not include the effect of the acquisition of WBB Inc, which is still subject to regulatory approval; guidance will be updated following completion, which we expect to achieve in Q2. In our statement announcing the transaction, we stated that we expected WBB to generate revenue in calendar 2021 of around \$230m (£168m), EBITDA of \$29m (£21m) and UTP of \$28m (£20m), before exceptional transaction and integration costs; naturally, the proportion of this that would accrue to Serco in 2021 would depend on the timing of completion.

Revenue: Revenue in 2021 is expected to be around £4.2bn, approximately 5% higher than the £3.9bn outturn for 2020. This assumes 4% from the acquisition of FFA, organic growth of 4% and a 1% adverse impact from currency. We will have an ongoing positive contribution from several of the contracts that have supported growth in the second half of 2020, including Prisoner Escorting and Custody Services, Gatwick IRC and Clarence Correctional Centre. Predicting the outcome for our Covid-19 related work is difficult due to the speed of change with the pandemic and the potential for rapid changes in demand from our government customers. Our current expectation is that the level of work will be lower in 2021 but the range of potential outcomes is wide.

Underlying Trading Profit: UTP is expected to be around £175m, including approximately £6m from FFA and a currency headwind of £4m, based on recent exchange rates. The year will benefit from the annualisation of our new contracts from 2020 and we anticipate some improvement in the parts of our business negatively impacted by Covid-19 in 2020. These should offset the cessation of our involvement in the Atomic Weapons Establishment at the end of June 2021, higher insurance costs and a lower level of profit on our Center for Medicare & Medicaid Services (CMS) contract as the high volumes we saw in 2020 fall away; we also expect to see a reduced contribution from our Anti-Terrorism / Force Protection (ATFP) framework contract for US Naval Facilities due to the typical phasing of work over the contract life.

Net finance costs and tax: Net finance costs are expected to be around £27m. This is similar to 2020 as the lower level of debt is temporarily offset by us paying interest on both our new US private placement notes and the existing notes that will mature in May and October 2021 as well as the acquisition of FFA. The underlying effective tax rate is expected to continue at around 25%, although this is sensitive to the geographic mix of our profit and any changes to current corporate tax rates.

Chief Executive's Review continued

Guidance for 2021 continued

Financial position: We expect Adjusted Net Debt to be to approximately £100m. Strong cash generation will be balanced by us repaying about half the of the £12m in US employment tax deferrals in 2020, the acquisition of FFA and the £40m of our own shares being purchased. Free Cash Flow is expected to reduce in 2021 due to the repayment of US tax deferrals, the purchase of shares for employee share schemes and because 2020 benefitted from catch up on delays in processing billings on our FEMA contract in the US.

Our outlook for 2021 is based upon recent currency rates. The rates used, along with their estimated impact on revenue and UTP, are shown in the table on page 4.

Board

There have been numerous changes to the Board during the year, which are described in the Chairman's Statement. There are two in particular I would like to comment on. The first is the departure of Serco's Chairman, Sir Roy Gardner who had the courage to join Serco in 2015, at a time when few others would. He has been immensely supportive of the executive and has been a font of wise advice, for which I and my colleagues are enormously grateful. I greatly look forward to working with new incoming Chairman, John Rishton, who has been on the Serco Board since 2016. The second is the departure of my longstanding colleague Angus Cockburn, who is to step down from the Board at the AGM. Angus was instrumental in persuading me to join Aggreko in 2003, and we have worked together, with only a six-month break, since then. He is a prince amongst men, and a giant amongst CFOs. Fortunately, in 2014 he took the trouble to recruit and groom a brilliant successor, Nigel Crossley, who will seamlessly take on Angus's work.

Summary and concluding thoughts

In this section of my report last year, the preoccupation was how we should adapt to being a "normal" company after four turbulent years and how we should respond to the increased focus of stakeholders on Environmental, Social and Governance (ESG) issues.

On ESG, we have tried hard to respond in a thoughtful way to the need for continuous improvement. We think that our reporting has much improved, and although it will have negative consequences for our profits, the loss of our contracts at AWE will allay the concerns of those stakeholders who felt uncomfortable with us being centrally involved with the production of nuclear weapons. However, there will always be certain parts of our business which will cause concern to some. Most notably the fact that we do on governments' behalf some of the hard things that citizens expects their governments to do, like deport some people and hold others in prison; all on behalf of democratically elected governments, but unpalatable to some.

In terms of business operations, 2020 was a salutary example that, in the words of Robert Burns, "the best laid schemes o' mice an' men gang aft a-gley." Covid-19 upended the best-laid plans of CEOs, let alone of mice. I am beyond proud of the way colleagues managed their way through this crisis, and beyond pleased with the way our "loose-tight" management structure, our reporting, our processes and our IT systems were able to react with agility, pace and precision to an existential, and completely unexpected, crisis and deliver an outstanding financial outcome.

So, what does this say of the future? Naturally we will want to point to the wisdom of our investment in management, systems, processes, and the creation of an operating platform that is able to work across different geographies and segments of the government services marketplace. But we have been lucky, too. Lucky to have had our balance sheet crisis before most of our peers, and been able to learn the salutary lessons and disciplines that brought with it; lucky that when Covid-19 struck, our balance sheet was repaired and our operating platform was well invested; lucky that when governments needed us, we had earned our right to be "in the room". And that combination of skill and luck has enabled us to deliver 33% compound growth in profits over the last three years, even in the teeth of a crisis as grave as Covid-19.

Maybe now, in 2021, we can think once again of the ambition we set ourselves a year ago of being a more "normal" company. That we can grow our margins to 5% and our revenues at 5%, quietly and diligently serving governments, avoiding risk and losses, and repeating to ourselves the mantra that "no deal is better than a bad deal". All the while paddling furiously below the surface trying to do better than that; investing in our people and systems as well as searching for value-enhancing acquisition such as NSBU, FFA and WBB. And holding fast to our ambition to be thought of as the best-managed business in our sector.

And we intend to stick with the strategy we developed in 2014:

What we do: we are an international business providing people-enabled services, supported by best-in-class systems and processes, to governments.

How we do it: we use a management framework, as set out below.

Our Values: Trust, Care, Innovation, Pride

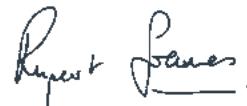
Our Purpose: to be a trusted partner of governments, delivering superb public services, that transform outcomes and make a positive difference for our fellow citizens.

Our Organising Principles: loose-tight, disciplined entrepreneurialism.

Our Method: being the best-managed business in the sector.

Our Deliverables: high and rising employee engagement, margins of ~5%, growing revenues at ~5%.

We intend to continue working hard to deliver this strategy.



Rupert Soames

Group Chief Executive
Serco – and proud of it.
24 February 2021

Divisional Reviews

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

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

Year ended 31 December 2020						
£m	UK&E	Americas	AsPac	Middle East	Corporate costs	Total
Revenue	1,777.4	1,064.3	718.9	324.2	–	3,884.8
Change	+31%	+16%	+16%	(7%)		+19.6%
Change at constant currency	+31%	+17%	+18%	(7%)		+20.3%
Organic change at constant currency	+31%	+1%	+18%	(7%)		+16.2%
UTP	57.0	100.8	32.6	13.9	(41.2)	163.1
Margin	3.2%	9.5%	4.5%	4.3%	(1.1%)	4.2%
Change	39bps	51bps	-50bps	31bps	34bps	50bps
Contract & Balance Sheet Review adjustments	5.8	–	–	–	–	5.8
Other one-time items	6.8	–	–	–	–	6.8
Trading Profit/(Loss)	69.6	100.8	32.6	13.9	(41.2)	175.7
Amortisation of intangibles arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Operating profit/(loss) before exceptional	67.6	93.8	32.6	13.9	(41.2)	166.7

Year ended 31 December 2019						
£m	UK&E	Americas	AsPac	Middle East	Corporate costs	Total
Revenue	1,361.7	915.7	621.4	349.6	–	3,248.4
UTP	38.4	82.1	31.3	13.9	(45.5)	120.2
Margin	2.8%	9.0%	5.0%	4.0%	(1.4%)	3.7%
Contract & Balance Sheet Review adjustments	0.3	9.5	–	–	(6.2)	3.6
Other one-time items	9.6	–	–	–	–	9.6
Trading Profit/(Loss)	48.3	91.6	31.3	13.9	(51.7)	133.4
Amortisation of intangibles arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Operating profit/(loss) before exceptional	47.1	85.4	31.2	13.9	(51.7)	125.9

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 22-38. 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 39-76. Included in note 2 to the Group's Consolidated Financial Statements the accompanying notes are the Group's policies on recognising revenue across the various revenue streams associated with the diverse range of goods and services discussed within the Divisional Reviews. The various revenue recognition policies are applied to each individual circumstance as relevant, taking into account the nature of the Group's obligations under the contract with the customer and the method of delivering value to the customer in line with the terms of the contract.

Divisional Reviews continued

UK & EUROPE



Serco's UK & Europe Division supports public service delivery across all five of the Group's chosen sectors: our Justice & Immigration business provides a wide range of services to support the safeguarding of society, the reduction of reoffending, and the effective management of the UK's immigration system, and includes prison management as well as the provision of housing and welfare services for asylum seekers; in Defence, we are trusted to deliver critical support services and operate highly sensitive facilities of national strategic importance; we operate complex public Transport systems and services; our Health business provides primarily non-clinical support services to hospitals; and our Citizen Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to support public sector customers in the UK and international organisations across Europe, including the European Patent Organisation and the European Space Agency. On a Reported Revenue basis, Serco's operations in the UK represent approximately 43% of the Group's reported revenue, and those across the rest of Europe approximately 3%.

The division had a very strong year, and the UK had the most to cope with in terms of Covid-19, with some businesses going backwards and others growing strongly. Revenue for 2020 was £1,777m (2019: £1,362m), an increase of 31%. Reported revenue excludes that from our joint venture and associate holdings which largely comprise the operations of AWE and Merseyrail. At constant currency, the growth in revenue was also 31%, or £415m. The high organic growth resulted from a combination of additional work related to Covid-19, our Asylum Accommodation and Support Services Contracts (AASC) contracts, the start of our agreement to manage the Gatwick Immigration Removal Centres and mobilisation of our new Prisoner Escorting contract. Work supporting our customers' response to Covid-19 included the NHS Testing and Contact Tracing programmes, and increased customer service work, including NHS 111. At the same time, Covid-19 caused an abrupt reduction in demand in our Leisure business and on our contract to operate the Northern Isles Ferries. The Caledonian Sleepers contract saw a sharp reduction in passenger volumes and services as a result of Government limitations on travel, but alongside these service changes, Emergency Measures Arrangements were agreed with the customer. The current EMA comes to an end in March 2021 and we have commenced discussions with the customer about the future trading arrangement, including the possibility of an extension or new EMA.

Underlying Trading Profit (UTP) was £57m (2019: £38m), representing a margin of 3.2% (2019: 2.8%) and growth of 48% at constant currency. The increase in our profit was driven, in large part, by our AASC contracts moving from losing money in 2019, as mobilisation costs were incurred, to profitability, and by our additional Covid-19 work. There was a £2m non-recurring benefit to UTP as we exited the Viapath pathology services joint venture. Trading Profit includes the profit contribution (from which interest and tax have already been deducted) of joint ventures and associates. If the £365m (2019: £395m) proportional share of revenue from joint ventures

and associates was included and the £3m (2019: £6m) share of interest and tax cost was excluded, the overall Divisional margin would have been 2.8% (2019: 2.7%). The joint venture and associate profit contribution was lower at £13m (2019: £27m), due to the impact of Covid-19 on Merseyrail passenger numbers and lower pricing on AWE.

Within UTP there was a reduced rate of OCP utilisation of £1m (2019: £33m excluding IFRS16-related accelerated utilisation), as we draw towards the end of our efforts over the last six years to reduce these large loss-making contracts. Trading Profit of £70m (2019: £48m) was above UTP due to a £6.8m credit, relating to a settlement in favour of the Group included within other one-time items (2019: £9.6m net credit) and a £5.8m credit in Contract & Balance Sheet Review adjustments (2019: £0.3m net credit).

The UK & Europe Division's order intake was £1.5bn, or 48% of that for the whole Group. The largest award was our £450m contract to continue to operate the Northern Isles Ferry Services. First announced in September 2019, the contract was not included in our order intake until a procurement challenge from the unsuccessful bidder was resolved earlier this year. The second largest contract award in the period was a new agreement to manage the Gatwick Immigration Centres, valued at approximately £200m. We also agreed various shorter-term contracts with the government to provide services in response to Covid-19.

Of existing work where an extension or rebid will be required at some point before the end of 2023, there are less than 30 contracts with annual revenue of £5m or more within the division. In aggregate, these represent around 40% of the current level of annual revenue for the division. The largest is the NHS Test & Trace contract, which, due to its nature, we don't expect to continue, at least at its current level. The larger contracts to rebid include, in 2021, our contract with the Department for Work and Pensions and, in 2022, our Royal Navy fleet support contract known as Future Provision of Marine Services (FPMs) and our UK MOD Skynet satellite support operations.

The UK & Europe pipeline has increased materially in 2020 as a result of new opportunities and awards that were expected in 2020 being delayed to 2021. Opportunities in the new bid pipeline include several defence support opportunities, justice tenders including the new build prison manage and operate contracts, and environmental services work in Citizen Services. A significant proportion of the UK pipeline relates to work for the Defence Infrastructure Organisation (DIO). We are bidding this in a joint venture and, if successful, we would recognise only Serco's share of profit after interest and tax, not revenue.

The announcement in early November that the Ministry of Defence intended to take back in-house the management of the Atomic Weapons Establishment as from the end of June 2021, was clearly a major disappointment as we have been involved with the management of AWE for over 20 years. The contract contributed £15m to UTP in 2020, and the financial consequences of losing the contract will be split between 2021 and 2022.

AMERICAS



Sectors we operate in:

- Defence
- Transport
- Citizen Services

Revenue

£1,064m

2019: £646m

Group revenue

27%

Underlying Trading Profit (UTP)

£101m

2019: £45.7m

Group UTP (before Corporate costs)

49%

Our Americas Division accounts for 27% of Serco's reported revenue, and provides professional, technology and management services focused on Defence, Transport, and Citizen Services. The US Federal Government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to some US state and municipal governments.

Revenue for 2020 was £1,064m (2019: £916m), an increase of 16% in reported currency. In US dollars, the main currency for operations of the Division, revenue for the year was equivalent to approximately US\$1,369m (2019: US\$1,172m). The Naval Systems Business Unit (NSBU) acquisition, completed at the start of August 2019, drove growth from acquisitions of 17%, while the strengthening of the pound against the dollar decreased revenue by £8m or 1%. Organically, revenue was stable as growth in the US Federal Emergency Management Agency (FEMA) contract framework and the US Pension Benefit Guaranty Corporation (PBGC) contract was offset by the loss in 2019 of our contract to provide traffic management services to the US state of Georgia Department of Transportation (GDOT) and lower volumes on our Consolidated Afloat Networks Enterprise Services (CANES) contract, which was coming off strong demand and task order processing in 2019. CANES had seen particularly strong demand and new task order wins in 2019; it is a contract to assemble off-the-shelf components for the US Navy and attracts with relatively low margins and by its nature has volumes which vary by significant amounts from quarter to quarter.

Underlying Trading Profit grew strongly to £101m (2019: £82m), representing a margin of 9.5% (2019: 9.0%) and growth of £19m or 23%. Constant currency growth, after an adverse currency movement of less than £1m, was 24%. Around half of the growth came from the NSBU acquisition and half was organic. Despite revenue being flat organically, profit improved as the additional FEMA and PBGC work more than offset the reduced contribution from CANES and GDOT, and due to a step up in profit on our Anti-Terrorism / Force Protection (ATFP) framework contract for US Naval Facilities. The ATFP contract has been successfully rebid in 2021 but the typical phasing of this work over the contract life means, even if we successfully retain the contract, we anticipate a lower level of revenue and profit at the beginning of the new agreement. Following a strong 2019, profit was broadly flat on our health insurance eligibility support contract for the Center for Medicare & Medicaid Services (CMS). The temporary uplift in volume related work experienced in 2019 continued into the first half of 2020 before stepping down in the second half, as expected, once the circumstances that led to the extra activity were resolved.

Within Underlying Trading Profit there was no OCP utilisation (2019: £4m), as the Ontario Driver Examination Services (DES) contract is no longer an onerous contract. There were no Contract & Balance Sheet Review adjustments (2019: £9.5m net credit), so Trading Profit was £101m (2019: £92m).

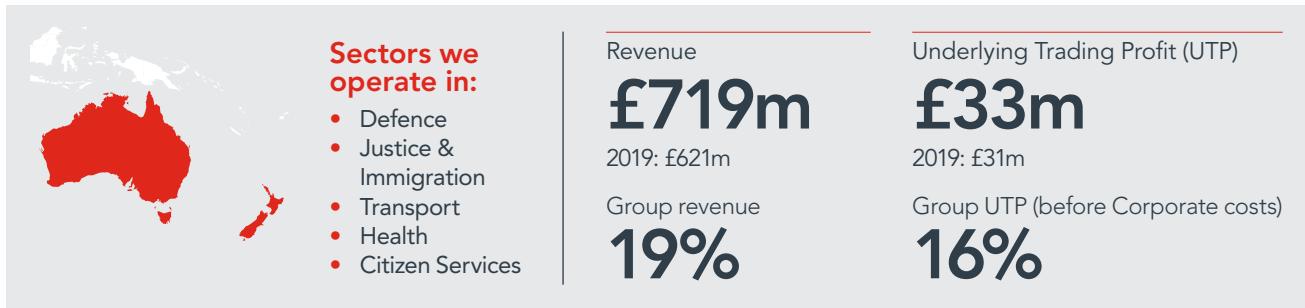
Americas represented around £0.6bn (\$0.8bn) or 19% of the Group's order intake. The largest award for new work was from the U.S. Space Force to manage, operate and maintain the Ground-Based Electro-Optical Deep Space Surveillance (GEODSS) system. The contract has an eight-month base period and six one-year option years with a total value of \$57m. We also secured additional field office support services work for the Pension Benefit Guaranty Corporation, following our initial contract win in 2019.

Our rebid and extended win rate was in excess of 90% in the year. This included the rebid of our contract to support the US Army's civilian readiness training and talent management efforts. We also resecured places on the IDIQ frameworks for both ship and shore-based C4ISR systems modernisation services over the next ten years that replace the previous GIC frameworks.

Of existing work where an extension or rebid will be required at some point before the end of 2023, there are around 25 contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent around 60% of the current level of annual revenue for the division. Those coming up for rebid or extension in 2021 include our SEA 21 contract for managing lifecycle maintenance of US Navy surface ships and our support services at the 5 Wing Canadian Forces Base in Goose Bay; and in 2022, the Federal Aviation Administration's (FAA) Contract Tower (FCT) Program and resecuring a position on the successor framework for CANES. In 2023, our CMS contract is scheduled to be retendered. Our pipeline of major new bid opportunities due for decision within the next 24 months includes a broad spread of defence support functions, including those added with the NSBU acquisition. Our Citizen Services business unit also had a number of wins during the year, and building further the pipeline in this area remains a target.

Divisional Reviews continued

ASPAC



Serco operates in Australia, New Zealand and Hong Kong in the Asia Pacific region, providing services in each of the Justice, Immigration, Defence, Health, Transport and Citizen Services sectors. The AsPac Division accounts for 19% of the reported revenue for the Group.

Revenue for 2020 was £719m (2019: £621m), an increase of 16% in reported currency. In Australian dollars, the main currency for operations of the Division, revenue for the year was equivalent to approximately A\$1,343m (2019: A\$1,137m). The weakening of local currencies against sterling reduced revenue by £14m or 2%; the organic change at constant currency was therefore growth of 18%, or £112m. The largest contributor to this growth was the AHSC defence garrison healthcare services contract in Australia, which started operations on 1 July 2019. Other notable drivers of growth were Clarence Correctional Centre, where operations commenced in July, increased activity for our immigration business and additional work with Services Australia (formerly the Department of Human Services), where increased business resulted indirectly from the impact of Covid-19.

Underlying Trading Profit was £33m (2019: £31m), representing a margin of 4.5% (2019: 5.0%) and an increase of 4%. Excluding the adverse currency movement of £0.4m, the increase at constant currency was 6%. We saw good profit growth from the AHSC contract, this being its first full year of operation, as well as the additional work with Services Australia. The margin reduced by around 50 basis points due to a drag from Clarence Correctional Centre, which was break even, construction delays on Australia's new Antarctic research icebreaker vessel, as a result of Covid-19, and additional overheads of around £3m, including £1m of front-line worker bonuses.

There was OCP utilisation of £0.8m (2019: £3m) within Underlying Trading Profit. There were no Contract & Balance Sheet Review adjustments (2019: £nil), so trading profit was therefore £33m (2019: £31m), the same as Underlying Trading Profit.

AsPac represented around £0.9bn or 29% of the Group's order intake. Having had significant success in winning in recent years, it was a relatively quiet year for new work. We did however have a very strong year on rebids and extensions, with our win rate by value approaching 100%. Our contract to deliver prison services at Acacia Prison for the Government of Western Australia was successfully rebid. Serco has managed operations at the prison, which is Western Australia's largest prison and the second largest in Australia, since 2006. The initial 5-year period has an estimated value of A\$445m or approximately £250m. The contract has provision for two further 5-year extensions with potential value to Serco over the full 15 years, including indexation, of approximately A\$1.4bn (£790m). We signed a variation and extension contract with the government of Western Australia for the Fiona Stanley Hospital in Perth. The new contract will see continued delivery of support services at the hospital, albeit with a reduced number of service lines.

The contract has an estimated value of approximately \$730m (~£370m) over its six-year term, including indexation. We also extended our contract to provide contact centre services to the Australian Tax Office to April 2021 and to Services Australia to June 2021. Related to Covid-19, we agreed work with the government for services, including to provide accommodation in mid-2020 for more than 1,300 quarantined travellers in Western Australia and additional contact centre work. Of existing work where an extension or rebid will be required at some point before the end of 2023, there are 10 contracts with annual revenue of over £5m within the AsPac division. In aggregate, these represent just over half of the current level of annual revenue for the division. This high proportion reflects that the Australia onshore immigration services contract requires further extension or rebid again at the end of 2021, with this accounting for around 25% of divisional revenue. Others that will require extending or rebidding include, in 2021, the Services Australia framework contract, the Australian Tax Office framework contract and the Fleet Marine Service Contract.

Our pipeline of new bid opportunities is currently weighted towards the health segment. The largest is to provide health services as part of the redevelopment and expansion project of the existing Frankston Hospital in Victoria. Rebuilding the pipeline across the Justice & Immigration, Defence, Citizen Services, Transport and Health sectors remains a target, and we are expecting further opportunities in the coming years.

The AsPac pipeline is in a rebuilding phase, with the growth team looking to scope future opportunities over the short to medium term. Our pipeline of new bid opportunities is currently weighted towards health facilities management. We are expecting further opportunities to join the pipeline in the Justice and Defence segments. AsPac will be working with its newly acquired subsidiary, FFA, to develop and execute a strong pipeline in the facilities management and cleaning sectors.

MIDDLE EAST



Sectors we operate in:

- Defence
- Transport
- Health
- Citizen Services

Revenue

£324m

2019: £350m

Group revenue

8%

Underlying Trading Profit (UTP)

£14m

2019: £14m

Group UTP (before Corporate costs)

7%

Operations in the Middle East Division include Transport, Defence, Health and Citizen Services, with the region accounting for approximately 8% of the Group's reported revenue.

Revenue for 2020 was £324m (2019: £350m), a decrease of 7% in reported currency. The weakening of local currency against sterling decreased revenue by £3m or less than 1%; the organic change at constant currency was also a decline of 7%. The Middle East segment has faced the largest negative impact from Covid-19 as there has been a sudden reduction in activity in parts of the transport portfolio and, unlike in the UK, limited Covid-19 response work to act as a counterbalance. There was growth in revenue from expanded services to Mashroat in Saudi Arabia and the Dubai Metro. These were outweighed by Covid-19 leading to reduced revenue on various contracts including Baghdad Air Traffic Control, health FM in Saudi Arabia and Dubai Airport facilities management. There was also a drag from the Cleveland Clinic contract, which was lost in 2019.

Underlying Trading Profit of £14m (2019: £14m) was stable year-on-year, representing a margin of 4.3% (2019: 4.0%). Excluding the adverse currency movement of £0.6m, the increase at constant currency was 1%. Although the reduction in revenue on our air traffic control work and health FM contracts in Saudi Arabia negatively impacted profit, this was offset by improved profitability on some of our work in Saudi Arabia. There are no OCP contracts in the Division and therefore no OCP utilisation within Underlying Trading Profit. There were no Contract & Balance Sheet Review adjustments in the latest or prior year. Trading Profit was therefore £14m (2019: £14m).

The Middle East represented £0.2bn, or 6%, of the Group's order intake, not helped by disruption from Covid-19. We were awarded a new contract to deliver front line hospitality customer services at Dubai Airport. However, as a result of the airport closing and subsequent lower passenger volumes due to Covid-19, the contract start was delayed. It began in January 2021 at a lower level than originally anticipated. As a result, we have included it in our order intake at a reduced amount. We did, however, secure a five-year contract to continue running the monorail for Nakheel on the Palm Jumeirah and successfully rebid our contract for the delivery of air navigation services at Sharjah Airport.

Of existing work where an extension or rebid will be required at some point before the end of 2023, there are around 10 contracts with annual revenue of over £5m within the Middle East division. In aggregate, these represent around 65% of the current level of annual revenue for the division. The high proportion reflects that the Dubai Metro contract is due for rebid in 2021, with this accounting for around 30% of current divisional revenue. We consider this rebid to have been unsuccessful. Further extensions or rebids include the Dubai and Baghdad ANS contracts, the Middle East Logistics and Base Support Services (MELABS) contract and Saudi rail operations.

CORPORATE COSTS

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

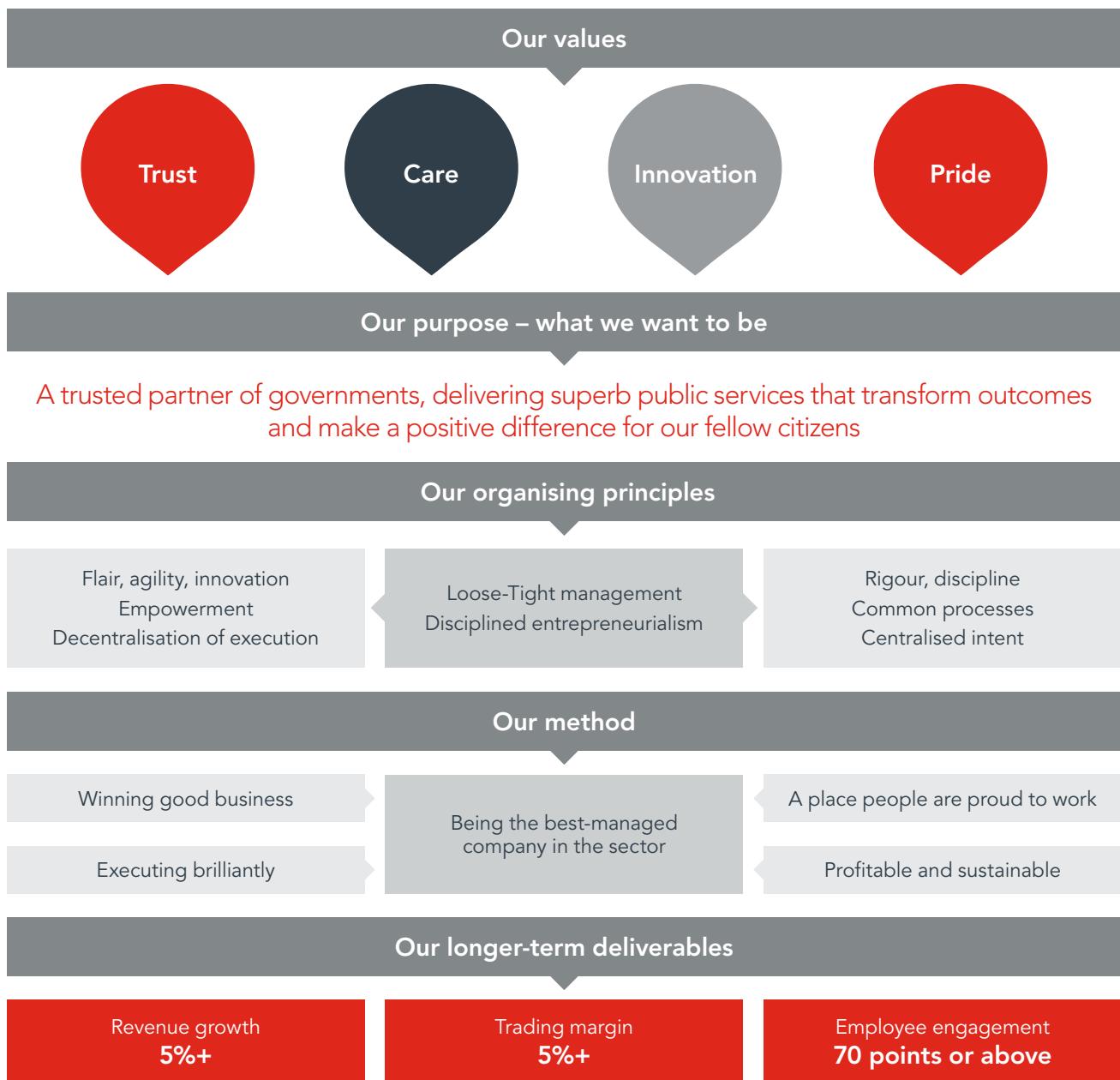
Corporate costs at the Underlying Trading Profit level reduced by £4m to £41.2m (2019: £45.5m).

Corporate costs at a UTP level have reduced due to lower travel, lower PSP costs as the issue of awards was delayed in the year, and favourable estimates in provisions for disputes held centrally which do not relate to specific contracts or operation.

Our performance framework and strategic priorities

We are great believers in succinctness and simplicity.

Accordingly, we have managed to fit our performance framework and strategic priorities – of what might be considered a complex and diverse business – into a single graphic that we use throughout Serco.



The purpose of the performance framework is to provide a structure which will deliver value to our customers, shareholders, and to the people who work in the business. Like the Business Model, therefore, it ends with our deliverables and starts with our Values.

Our values

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

officer makes a cup of tea for a suicidal prisoner at two o'clock in the morning; why a housing officer leaves the comfort of an office to guide a nervous asylum seeker's child to school on their first day; why an engineer crawls into that impossibly small space in the foetid bowels of an aircraft carrier to make sure the cable-ties are secured just right so they will stay in place in storm or battle. It is because they care about their work, they recognise the importance of what they do, and they take immense pride in it. Before our customers

will give us sensitive work, they have to trust us. And to win business we have to come up with innovative solutions which will enable governments to deliver more, and better, for less. This is why our Values of Trust, Care, Innovation and Pride are so important. We don't pretend to be saints, or to be holier-than-thou; we are not so naïve as to believe that in a workforce of over 50,000 people there will not be some uncaring bad eggs, and we can reliably say that around the world, every day, at least one of our employees or subcontractors is not doing the right thing; this is one of the reasons why we invest so much time and effort into controls and assurance processes. But the overwhelming majority of our colleagues are decent, hard-working, committed, and want to make a positive difference to those they serve. Never have we seen this more evident than in 2020, when throughout the Covid-19 crisis Serco colleagues stuck by their commitment to deliver to customers and citizens despite the risks that doing so posed to themselves and to their families. In this, we reflect the values of our customers, which they call a "public service ethos", and we call our Values.

Our organising principles

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

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

Tom Peters: *In Search of Excellence*

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

Jim Collins: *Good to Great*

Organisationaly we structure ourselves with three types of function: Divisions, Group and Shared Services. All operational delivery is executed through four geographic Divisions: UK & Europe, the Americas, Asia Pacific and the Middle East. Within their domains, Divisions are responsible for everything involved in winning and delivering contracts; 98% of our employees work in these Divisions.

A lean Group function provides governance, strategy, asset allocation, policy-setting and controls and assurance roles, as well as certain specialist consolidation and functional roles in Finance, Legal, Risk, Insurance and HR; the Group also manages Centres of Excellence (CoEs) which provide focused expertise and support to the Divisions, and enable sharing of best practice and the development of common propositions in areas such as Justice & Immigration and Health. Shared Services provide common functional and processing support in areas such as IT, HR and finance to the Divisions.

Our method – the strategic priorities to achieve our aspiration

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

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

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

Our longer-term deliverables

Our revenues were in organic decline for each of the five years of 2014 through to 2018, turning to growth in 2019 (8%), and again in 2020 (17%). Our underlying trading margin declined to a nadir of 2.3% in 2017 and has now had three years of improving, to 4.2% in 2020.

Our view is that while organic revenue growth seen in 2020 cannot continue at that same level (17%), and we see 2021 as a year of much more modest growth, overall the 'Four Forces' we described some years back will remain more relevant than ever post-Covid-19. We believe the imperative for governments to provide more, and better, for less will become even more urgent in the years ahead, and to deliver those objectives governments will need the skills, resources, innovation and nimbleness of the private sector. Our view is that Serco is well-positioned to respond to this across our different geographies and sectors, and that on average we will be able to deliver revenue growth of around 5%.

When it comes to margin, we are inching ever closer to our 5% target, and despite the competitiveness of some of our markets, we can see plenty of opportunity in the years ahead to close the remaining gap through an increasing focus - organically and inorganically - on our higher margin segments, and through deploying our operational excellence methodologies, technology, data, and specialist workforce management techniques to increase our operational productivity.

Strategy implementation

In 2014 we identified three distinct phases in the implementation of our strategy; Stabilise, Transform & Grow.

We are now well past the first two stages and established into the Growth phase – delivering 10% compound growth in revenues and 33% compound growth in Underlying Trading Profit over the last three years.

This has been achieved by winning new business; acquiring businesses; and improving efficiency.

Winning business

As a result of improving our win rates and rebid rates in our sectors and geographies, between 2017 and 2020 our order book increased from £10.7bn to £13.5bn, helped by wins such as:

2017

- New Grafton Correctional Centre: ~A\$2.6bn
- University Hospital Southampton NHS Foundation Trust: ~£125m
- US Army base modernisation services and in particular IT support: ~US\$140m
- Navy Fleet Readiness Centers: ~US\$101m

2018

- Center for Medicare & Medicaid Services (CMS): <US\$900m
- Naval Electronic Surveillance Systems (NESS): ~US\$232m
- Peterborough City Council: ~£105m
- Federal Emergency Management Agency: <US\$600m

2019

- UK Asylum Accommodation and Support Services: ~£1.9bn
- England and Wales Prisoner Escort & Custody Services: ~£0.8bn
- Australian Defence Force Health Services: ~A\$1bn
- Australian immigration services: ~£0.4bn
- Adelaide Remand Centre: ~A\$115m
- US Pension Benefit Guaranty Corporation: <US\$112m

2020

- Northern Isles Ferry Services: £450m
- Fiona Stanley Hospital extension: ~A\$730m
- Acacia Prison: ~A\$445m
- Gatwick Immigration Removal Centres: ~£200m
- International Covid-19 support: ~£400m

Acquiring businesses

We have also made a number of acquisitions, including:

Improving efficiency

In particular this reflects the success to date in reducing the businesses' operating costs; in 2018 they were more than £1bn lower than in 2014. The majority of this reduction in operating costs relates to costs removed from contracts which have ended and businesses disposed of, but it is certainly an achievement to have reduced costs broadly in line with revenues. Importantly, our cost reduction also includes over £100m removed through our programmes to deliver overhead savings by reducing the number of management layers, implementing better procurement and driving greater efficiency in the operation of shared services.

After three years of outflows, positive Free Cash Flow was achieved in 2018 and improved significantly in both 2019 and 2020. The outflows related to onerous contracts reduced by two-thirds between 2015 and 2019 and the OCP utilisation fell to just £2m in 2020, while working capital and cash flow management have also normalised.

Summary

We believe we have the right strategy for our business, and every year since 2015 we have delivered results which have been in line or ahead of our plan, which is no mean achievement. So far, so good, and 2018, 2019 and 2020 have seen Underlying Trading Profit grow by 34%, 29%, and 36% respectively; in 2020 we have achieved organic revenue growth of 17%. But the long-term test of the strategy will be our ability to deliver further margin increases to at least 5%, together with continued profitable revenue growth when the markets stabilise post-Covid-19 and those market segments negatively impacted restore themselves, and yet the emergency support we have provided to governments fades away. This has been an unusual year like no other. Looking ahead to 2021, we expect revenues and trading profit to continue to grow, albeit at a slower rate than seen in recent years. In summary, our plan, first devised in 2014, seems to have worked.

Key Performance Indicators

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

For each KPI we explain the definition, relevance to our strategy and the performance in 2020. We have made no changes in 2020 to the KPIs presented and therefore there is comparability and consistency with our focus in the business and the guidance that we issue. The Finance Review provides further detailed definitions and reconciliations of our use of Alternative Performance Measures (APMs). Information on our carbon emissions can be found within our summary of Corporate Responsibility at Serco pages 46 to 49. A large number of other corporate responsibility Key Performance Measures can also be found on those pages, as well as in our more detailed corporate responsibility report for the year which is available on our website www.serco.com.

1. Underlying Trading Profit (UTP)

2020	£163.1m
2019	£120.2m
2018	£93.1m
2017	£69.3m
2016	£82.1m

2. Underlying Earnings Per Share (EPS), diluted

2020	8.43p
2019	6.16p
2018	5.21p
2017	3.36p
2016	4.06p

Definition

Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), and other material one-time items as set out in the Finance Review on pages 56 to 69.

Relevance to strategy

The level of absolute UTP and the relationship of UTP with revenue – i.e. the margin we earn on what our customers pay us – is at the heart of our 'profitable and sustainable' business objective, as well as being an output of 'winning good business' and 'executing brilliantly'. We describe on page 32 that the delivery of strategic success, after the completion of further transformation, has potential in the longer term to deliver revenue growth of 5%+ and trading margins of 5%+.

Performance

The outcome was an improvement over the £145m we expected at the start of the year. The 36% increase on 2019 was driven by new contract awards, including work related to helping our government customers respond to Covid-19, which drove particularly strong organic revenue growth in the UK and AsPac divisions, the contributions from acquisitions and a generally strong operating performance across the Group. The underlying margin rose by 50bp from 3.7% to 4.2%.

Definition

Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects. It takes into account any non-controlling interests share of the result for the period, and divides the remaining result that is attributable to the equity owners of the Company by the weighted average number of ordinary shares outstanding, including the potential dilutive effect of share options, in accordance with IFRS.

Relevance to strategy

EPS builds on the relevance of UTP, and further reflects the achievement of being 'profitable and sustainable' by taking into account not just our ability to grow revenue and margin but also the strength and costs of our financial funding and tax arrangements. EPS is therefore a measure of financial return for our shareholders.

Performance

The 37% increase on 2019 reflects the strong UTP growth as described and a lower underlying effective tax rate, partially offset by the increase in net finance costs and an increase in number of shares in issue resulting from the Placing in May 2019 of additional shares to fund the NSBU acquisition.

Key Performance Indicators continued

3. Free Cash Flow (FCF)



Definition

Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases.

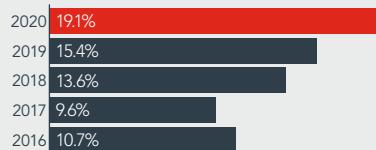
Relevance to strategy

FCF is a further reflection on how 'sustainable' our profits are, as well as the sustainability of the overall business, by showing a measure of how much of our effort turns into cash to reinvest back into the business or to deploy in other ways. Furthermore, 'winning good business' should reflect that which generates appropriate cash returns, and 'executing brilliantly' should include appropriate management of our working capital cash flow cycles.

Performance

The improvement includes that from increased UTP together with excellent cash collection, including of some older receivables. Despite organic revenue growth of just over half a billion pounds, our working capital outflow was just £5m as governments, most notably the UK Government, made significant efforts to ensure that their suppliers were paid promptly, and for our part we ensured our suppliers were equally supported. The Group does not utilise any factoring or other working capital facilities.

4. Underlying Return on Invested Capital (ROIC)



Definition

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

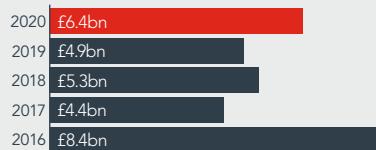
Relevance to strategy

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

Performance

The improvement in ROIC reflects both the increase UTP as described, together with a slightly lower invested capital base. Despite the strong revenue and profit growth there was no material impact on working capital. This was due to strong receivable collections and because a significant proportion of the organic growth, particularly around assisting government responses to Covid-19, had no material impact on working capital.

5. Pipeline of larger new bid opportunities



Definition

The estimated aggregate value at the end of the reporting period of new bid opportunities with Annual Contract Value (ACV) greater than £10m and which we expect to bid and awarded within a rolling 24-month timeframe. It does not include 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 – Indefinite Delivery / Indefinite Quantity.

Relevance to strategy

The pipeline provides a key area of potential for 'winning good business' and therefore is a major input to being 'profitable and sustainable'. The size of the pipeline and our win-rate conversion of the bids within it will also ultimately be at the heart of successfully achieving ongoing progress in the third and final stage of our strategy implementation – the 'Grow' stage.

Performance

Our pipeline stood at £6.4bn at the close of 2020, significantly higher than the £4.9bn we reported at the start of the year and £4.1bn at the half year. As well as the usual flow of wins and losses, 2020 was particularly unusual with Covid-19 leading to changing timings on work in the pipeline plus new work helping governments respond to the pandemic. The increase in the pipeline value reflects, in large part, award decisions that were expected in 2020, being delayed to 2021, as our government customers' timelines were disrupted by Covid-19. The upwards shift in our pipeline can be seen as a natural consequence of our order intake being lower due to delayed award decisions. The pipeline at the end of 2020 consisted of around 30 bids that have an ACV averaging approximately £35m and a contract length averaging around seven years. The UK & Europe division represents slightly more than half of the Group's pipeline, the Americas division around one-third, AsPac approximately 10% and the Middle East Division the balance. As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and it is not necessarily strongly predictive of future revenues.

6. Order book



Definition

The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Multiple Award Contracts (MACs) or IDIQ contract or framework vehicles, where Serco cannot estimate with sufficient certainty its expected future value of specific task orders that may be issued under the IDIQ or MAC; in these situations the value of any task order is recognised within the order book when subsequently won. In 2018, the definition was aligned with IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods, but the £13.5bn would be £14.4bn if option periods in our US business were included.

Relevance to strategy

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

Performance

The order book reduced from £14.1bn to £13.5bn in 2020 as a result of order intake in the year falling from £5.4bn in 2019 to £3.1bn, a book-to-bill rate ratio of 80%. We noted last year there would be a step down from the exceptional 2019 performance, due to the natural uneven flow of contract awards and this was exaggerated as disruption caused by Covid-19 meant many contract award decisions scheduled for Q4 2020 were delayed to 2021. In the midst of such a challenging period for governments and on the back of an outstanding prior year, we are encouraged that our book-to-bill remained as strong as 80% and the order book sits at such a high level.

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



Definition

Major incidents are classed as fatalities, fractures, amputations, dislocations, loss of sight, chemical and hot metal burns, electrical burns, unconsciousness caused by asphyxia or exposure to a harmful substance, and acute illness resulting from substance inhalation or ingestion. During 2019 we reviewed the classification of incidents reported through workers compensation insurance in the AsPac and Americas divisions. Several incidents were identified in claims where the severity of injuries met the criteria for what Serco defines as a 'Major Injury' but the incidents had not been recorded as such. This resulted in an increase in incidents classified as major. To ensure completeness, a review of all incidents from 2015 to date was undertaken. This is reflected in restating the historical frequency rates.

Relevance to strategy

Delivering excellent service to our customers, and therefore 'executing brilliantly', requires us to operate in the safest way possible. Safety also has a direct bearing on the commitment and engagement of our people, which is central to achieving 'a place people are proud to work'.

Performance

There were 105 million hours worked in 2020 and 43 major injury incidents reported, resulting in a frequency rate of 0.41 incidents per 1 million hours worked. Although significantly below 2018 level of 0.50, the 2020 rate was above the 2019 level of 0.39 and exceeded our target of 0.38. Performance has been mixed in 2020. While many parts of the business saw reduced levels of incidents, there have been increases in other areas. Part of the increase related to an anticipated rise in the level of risk from new contracts and changes in the risk profile of existing contracts. This was compounded by adverse impacts associated with Covid-19, with the difficult circumstances leading to increased levels of violence and aggression towards our staff. Focus on reducing levels of violence and aggression remains a priority area of focus across our whole business.

Further performance data and details of initiatives implemented to improve performance are covered in the Corporate Responsibility Report.

8. Employee engagement



Definition

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

Relevance to strategy

Employee engagement reflects 'a place people are proud to work', which is crucial to delivering outstanding customer service and achieving our strategic aims. Under the new scoring methodology, a score of 70 points or above was our target for 2020, which aligns with the global cross-sector benchmark provided by the specialist third party provider of our survey.

Performance

The 2020 Viewpoint survey was based on some 29,782 employees responding anonymously, representing a response rate once again of over 71% which is considered very strong versus the benchmark from the specialist third party provider of the survey. The result for 2020 has achieved the improvement in overall employee engagement a year earlier than we targeted. As with all employee engagement surveys, sustaining the improvement is our focus. The Viewpoint results are cascaded throughout the organisation and detailed plans of activity have been put in place to focus on areas highlighted by the detailed scoring analysis and the comments raised. In addition to completing the survey questions, some 64,550 individual comments were submitted, with 65% of respondents choosing to do so, which is considered to be a very positive reflection of the culture of openness and care of our employees.

Covid-19 – Our Response

Covid-19 has created unprecedented challenges for business and the world of work. Here we provide an overview of Serco's response through these extraordinary times.

Whilst our footprint is international, the nature of Covid-19 and its different impacts at different stages in different regions has meant we have taken a local approach with central coordination to remain flexible and share best practice as it developed. In our trading statement on Covid-19, issued on 2nd April 2020, we set out our operational priorities:

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

Whilst there are common factors in delivery of essential public services, each customer takes their own nuanced approach. We have, therefore, had to react to rapidly changing requirements, relying greatly on the ingenuity, flexibility and commitment of our colleagues.

We have achieved this through our 'loose-tight' model by devolving responsibility as close as possible to the people delivering to our customers, which has given us agility, supported by a framework of controls and processes enabling us to maintain assurance and risk management. This is balanced with our culture. Over the past five years, we have laid much emphasis on our Values of Trust, Care, Innovation and Pride. These played a significant part in sustaining the ability of the business to deliver under extreme and unprecedented pressure. Trust allowed our customers to give us contracts at short notice. Pride and Care meant that colleagues cared enough, and had enough pride in their work, to deliver on our promises even when under intense pressure. Innovation enabled us to find new ways of service delivery and scale up internal processes.

Supporting our people

Throughout, we have been clear and decisive about seeking to protect people and address wellbeing concerns, such as the impact on homeworkers and those in hospital environments, and equipping managers to support their teams.

Our commitment to health, safety and wellbeing was already reflected in its recent elevation as a Group Principal Risk, reflecting our commitment to the health and wellbeing of colleagues and service users. From a safety perspective, we implemented Covid-19 action and adaptation plans across our Business Units and Contracts and deployed High Visibility Safety Awareness resources, including collateral to support our Covid-19 response.

We built on work already started on employee wellbeing, including launching our new Group Strategy for Employee Health & Wellbeing (EHW), strengthening EHW governance and policy, and enhancing EHW communications, services and training. We launched a series of weekly virtual wellbeing events, invested in specialist mental health awareness training to upskill our managers, launched a new mental health app and improved our Employee Assistance Programme. We introduced tailored risk assessments for homeworking colleagues and commissioned a study on the longer-term effects of homeworking; and continued investing in workforce management and remote working solutions, enabling enhanced flexibility and support in response to colleague and customer needs.

We streamlined our recruitment and onboarding processes, leading to significant efficiencies in bringing new colleagues into Serco; and maintained our Graduate Programme in all regions.

We increased the depth, breadth and frequency of colleague communications using a range of platforms. Covid-19 pages were added to Divisional and Group intranets. Weekly Thursday 'Thank You' communications were shared company-wide, celebrating an individual or team. These continued through the year. Regular virtual town halls and video messages from leaders were used to engage colleagues. This commitment to engagement with colleagues was reflected in the results of the Company's employee survey in 2020 – in which the question, 'my manager cares about my wellbeing', scored an average 76 out of 100, up 12 from 2019. We also consulted leaders and managers globally on our Covid-19 response, achieving an overall engagement score of 84.

Our people have had a huge diversity of experiences. For some there was new work and new areas to cover; for others there was significant reduction in work or closure of Contracts. We have risen to the challenges in standing up and deploying large numbers of people on short notice whilst seeking to ensure they are onboarded, integrated, aligned with how we do business, and safe.

For colleagues who have suffered Covid-19, and for the bereaved families of those we have lost, we have worked to provide support during this difficult time.

Recognising the extraordinary efforts of our colleagues around the world during the pandemic, we distributed a one-off ex-gratia payment to around 50,000 of our front-line colleagues, totalling £5m.

Supporting our customers

Just as we have been tested, Covid-19 has tested our customers.

Some parts of our business were severely affected, such as our leisure business and our rail and ferry Contracts. However, there have also been positive impacts with the support of the UK Government's mobilisation of test centres and call handling within the NHS Test and Trace programme. Similar demand for call centres has been seen in Australia.

In Defence in the US, UK and Australia, most of the work we do has been designated essential to national security. We have continued this work while adjusting our provision of services to deal with resource challenges and social distancing requirements.

In Justice and Immigration, we have worked with authorities to manage the operational implications of a highly contagious virus in prisons. Keeping those in our care healthy and safe has continued to be our top priority. Our teams have delivered a range of innovative approaches whilst also serving and supporting the local communities where they are based.

Covid-19 has presented transport infrastructure worldwide with huge, new challenges. By continuing to operate our services with increased and innovative health and safety solutions, Serco has played a vital role in getting key workers from A to B during the crisis.

In Health, demand is unprecedented, as are the challenges of meeting that demand. In every hospital we serve we have increased our cleaning regimes, managed increased patient flow, new equipment, systems and processes, and supported additional temporary care facilities.

Across all our businesses, it has been gratifying to see customers turning to Serco as a trusted and capable partner to help them deal with the enormous challenges they have faced.

Supporting our communities

Throughout 2020, whilst working to ensure continuity of essential public services and addressing unprecedented challenges in their own lives, our teams have rallied hard to help charities and community groups combat the challenges posed by Covid-19. The Serco Foundation – our independent charitable trust – launched the Coronavirus Community Support Fund. All Serco colleagues were invited to nominate not-for-profit organisations helping fight the Covid-19 emergency in their local communities to receive financial support. The Fund made more than £600,000 of grants to 300 organisations. Recipients in c.20 countries included hospices, education and healthcare organisations, mental health specialists, respite care and community food schemes. For more information, visit www.sercofoundation.org

Supporting our shareholders

Throughout, the Executive and Board have maintained contact with principal stakeholders including shareholders, and published trading statements on the impact of the crisis. We maintained internal governance processes, including Divisional Performance Reviews and monthly reporting, and the Investment Committee, which oversees bids and investments, met no fewer than 85 times. We also ensured effective governance was deployed to maintain robust risk-based decision making focused on sustaining the viability and value of the Company.

The Board took an active role, meeting with increased frequency to discuss the evolving risk and impact on the Company's existing business and operational requirements, and the additional requirements of governments worldwide. For example, items considered by the Board and its Committees included: the potential impact of Covid-19 on the supply chain, endorsing temporary changes to procurement processes; the potential impacts across the Group principal risks and associated internal controls, along with the emerging risk landscape; and how fundamental human and social needs, rights and expectations are managed through the Group's immediate and longer-term response to Covid-19.

Anthony Kirby, Group Chief Operating Officer, was appointed as Executive Sponsor of the response initiative and established a Group Pandemic Steering Committee which met through the initial stages of the pandemic. Meetings focused on status updates and actions to mitigate challenges and risks, receiving reports from the Divisions on current status, risks and impacts. This was used to inform the Executive Committee and the Board.

Formal crisis plans were invoked, the objectives of which were to protect lives, respond to short-term actions and long-term strategic imperatives, enable the continuation of critical public service delivery, protect Serco's reputation and protect the long-term viability and financial stability of the Group. Our response was tied to local guidance, so while we adopted a consistent approach where practical, our response was tailored to meet legislative guidance in each geography where we operate. Each Division set up its own Divisional Pandemic Steering Committee with the same purpose as the Group Committee. Divisions worked collaboratively to share best practice.

We managed a coordinated response between Group and the Divisions to assess the impact of Covid-19 and associated emerging risks. Divisional risk leads completed risk assessments of Contracts to prioritise activities and resource allocation. Contracts completed Covid-19 safety and remote working risk assessments. Business continuity and crisis management plans and processes were leveraged and served the business well, evident through operational preparedness, resilience and response.

The Global Procurement team established a task force to track, manage and mitigate the Covid-19 risks posed by our extensive supply base, including supply shortages, lack of available labour or supply networks and price volatility. The situation was monitored daily. The team worked around the clock to establish supply routes, set up centralised buying and warehousing and a 24-hour procurement support line. We implemented faster supplier onboarding to meet acute business need for critical goods and services. Recognising the potential impact on our capacity to assess and address risks, we deployed our emergency onboarding process. By May, supply chains for most product lines had stabilised.

A wide range of relevant policies were reviewed or introduced, including those relating to travel, health and safety, personal protective equipment (PPE) usage, hand washing, social distancing, home working and access to offices, and numerous new guidance documents were produced.

Riding the storm

As the situation has settled into a steadier state, we have taken time to reflect on our response and where we should sustain focus. There are several processes and capabilities we recognise we need to maintain, at least until vaccinations have occurred and society re-emerges from lockdowns. These include our strong focus on health and safety, engagement and wellbeing, including mental health and understanding the long-term effects of this situation on our people; close collaboration and joined-up messaging with our local customers; social distancing; and supporting all individuals in 'shielding' and vulnerable categories.

There are also practices and enabling tools we have adopted during Covid-19 that we should continue to use and build on because they work well or better in some cases. These include maintaining home working in certain activities and services; new approaches for cross-Divisional and Business Unit collaboration, including the sharing of skills and resources; agile solution design and development; a stronger focus on supporting and improving work-life balance; new approaches for remote recruitment and onboarding; building stronger partnerships and enhanced relationships with key suppliers; new technologies for communication and collaboration; and leveraging our investment in resource modelling and forecasting.

We recognise that there is light at the end of the tunnel, but will not let up our efforts. We will all need to adapt to the longer-term impact – not just on our people, but also on our customers – and the changing needs of all our stakeholders. We will hold firm to our commitment to support the delivery of essential public services and, within that context, seek to protect our employees and service users from harm and our shareholders from loss.

Additional information is available throughout our Annual Report, including: Our market (pages 09 to 13); Chief Executive's Review (pages 15 to 26); ESG Impact & Integrity (pages 40 to 49); Section 172 (1) Statement (pages 50 to 55); Principal risks and uncertainties (pages 72 to 78); Viability Statement (pages 79 to 80); Remuneration Report (pages 105 to 133); Notes to the consolidated financial statements (pages 158 to 210).

ESG Impact and Integrity

Corporate Responsibility at Serco

Here we summarise our position, approach and progress in delivering our Environmental, Social and Governance commitments.

Further information for all items summarised here is available in our full Corporate Responsibility Report 2020 and policy and governance guide, Inside Corporate Responsibility at Serco, both of which are available online, with case study examples, at www.serco.com/about/corporate-responsibility

"A core part of our work for governments, delivering public services that transform outcomes and make a positive difference for our fellow citizens, is a strong focus on Environmental, Social and Governance issues, which we have maintained for many years."

Rupert Soames
Serco Group plc Chief Executive

Reflections on the year

The Coronavirus pandemic has wrought havoc across businesses, governments and the lives of billions of people. As a major supplier of public services, we have been deeply affected from the start, and from the start we made our priorities clear:

"Our priority in this crisis is to support the delivery of essential public services and, within that context, do all we can to protect our employees from harm and our shareholders from loss."

Trading update 2nd April 2020.

The scars of the pandemic will remain with us all for years to come: millions dead before their time; governments left with current account deficits and burdens of debt which would have previously been considered the height of folly; whole industries bankrupted; others growing fast. Changes in the way people work and consume goods and services, which have been gradually creeping up on us, suddenly accelerated and became part of a 'new normal'.

The way important changes happen 'gradually, and then suddenly' was famously observed in Ernest Hemingway's 1926 novel, *The Sun Also Rises*:

"How did you go bankrupt?" Bill asked.

"Two ways," Mike said. "Gradually, and then suddenly."

This resonates with our thinking about Corporate Responsibility (CR). Just as a government's first responsibility is to protect its citizens, so a company's first responsibility is to protect its shareholders and other stakeholders. And just as there are many ways in which governments can fail in their responsibility to protect their citizens, there are many ways in which companies can fail in their responsibilities to shareholders and other stakeholders.

CR, commonly subdivided into three core components of Environmental, Social and Governance (ESG), encompasses a number of issues which investors now recognise can damage the value of a company, or even bankrupt it, every bit as much as failures of financial control or competitiveness. And they need constant attention, because, like bankruptcy, they can wreak their destructive havoc 'gradually, and then suddenly'.

We believe that CR should not be seen as something whose only purpose is to protect from harm. Done well, it builds strength and resilience in a corporation. We believe that the effectiveness of our response to the Covid-19 crisis is in part due to our painstaking work, led by the Board, around risk management, culture and CR. The value of this work, built up gradually over recent years, suddenly became evident in 2020.

Our Values of Trust, Care, Innovation and Pride gave us an effective cultural framework that enabled us to adapt to rapidly changing customer requirements and deliver services at speed, to high levels of quality and assurance.

- Trust was important because it allowed our customers to give us contracts at short notice, knowing that they could trust us to deliver, and importantly, to adapt our services if circumstances changed. A culture of mutual trust and respect amongst Serco management also enabled us to mobilise rapidly and effectively in the face of large and rapidly changing requirements.
- Pride and Care were important because they meant that colleagues cared enough, and had enough pride in their work, to understand the importance of delivering on our promises even when under intense pressure.
- Innovation was important because we had to invent completely new ways of service delivery and scale up internal processes to levels at which we had never used them before. By way of example, around the world between 1st January 2020 and 31st December 2020, we hired around 20,000 people directly or indirectly. And we have adapted our systems to allow thousands of people to work from home, rather than sitting at desks in large offices. All this was done at breakneck speed, but without breaking necks.

Our 'loose-tight' management philosophy performed exceptionally well during the crisis:

- Devolving power and responsibility to sit as close as possible to the people delivering to our customers has given us great agility. This applies as much to businesses which have shrunk during the crisis as to those that have seen significant growth.
- A well-established framework of controls and processes, along with a culture of compliance and transparency, have enabled us to maintain assurance and risk management without which such rapid change would have been extremely risky.

All of these things are fruits of a focus on CR, built into the culture, processes and systems of the business over several years.

We moved into 2020 with clear objectives across our CR agenda, focused on consolidating progress and building greater momentum in addressing our ESG priorities. Even as the impact of Covid-19 impelled us to ramp up and accelerate existing plans in some areas – such as our ambitions for enhancing colleague experience, wellbeing and connectivity – we have held to our priorities in all areas, recognising that our material issues remain material issues, even in the face of a global health crisis.

This includes our new Group Strategy for Environment – focusing on climate-related risks and opportunities – and ongoing drive to mature our governance around an increasingly integrated and clearly defined ESG agenda that is closely aligned to our purpose – focused on protecting shareholder interests by managing our business in a way consistent with the broader interests of society.

Here – and in greater detail in our full CR Report – we summarise our impact, progress and performance in delivering our commitments across our ESG priorities. Brought together in one model, our CR Framework – see page 43, we drive them forward as continuously maturing and integrating systems of policy, people and process – governed by our Values and bound by our purpose, with appropriate Board and Executive oversight and dedicated leadership at all levels.

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

Our ESG commitment

As a public company, our job is to create value for shareholders, delivering competitive returns on their capital. They expect us to increase our profits over time; without profits we could not generate or attract investment or deliver services or employ people. However, for those profits to be sustainable and grow over the long-term, the Company needs to operate and behave with the utmost integrity, and in a way that is responsible and consistent with the broader interests of society. This is true of all public companies, but it is particularly important to Serco, as our customers are governments, and governments want their suppliers to behave in a way that is consistent with their public policy objectives. Furthermore, much of the work we do for governments is in sensitive areas such as immigration, justice, defence, health and citizen services. Often our role is on the front line, working on behalf of governments to deliver their policies in the most effective and efficient manner in the interests of both taxpayers and service users.

Our focus on the issues now often collectively referred to as ‘ESG’ predates the widespread use of the phrase in stakeholders’ thinking. Whilst the first mention of ESG in our Annual Reports may have been in our 2019 report, we have been committed to delivering and communicating our position and performance across these criteria for many years, recognising the relevance to our profitability and sustainability of all that we do in those areas. And we have worked to expand and deepen our reporting whilst strengthening our transparency, not just in our Annual Report, but through an evolving online suite of dedicated resources which includes our full CR Report. Our 2020 CR Report is the 18th we have published – the first was in 2003. Beyond the change in the naming convention of ESG, managing these issues and taking them seriously is something we have been doing for a long time.

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

Implications of Serco being a supplier of services to governments

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

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

As a supplier of government services, we are expected by our customers to help them do some of these hard-edged things. So Serco helps governments maintain weapons; we help governments keep people in custody; we help governments deport people; and we help them manage the consequences of difficult spending decisions.

We use our governance processes to pick and choose which governments we will deal with, and which services we offer; by way of example, we might be happy to provide air traffic control services to a particular government, but not custodial services if we do not think that their justice system aligns with our Values. However, the vast majority of our customers are democratically elected governments, pursuing policies which are publicly acknowledged and which are legal; we therefore have to be suitably cautious when thinking that we might super-impose our own morals on theirs. Although there are occasions when we have refused to do certain types of work for governments, that is by exception and, on the whole, where they lead within the law and in accordance with our Values, we follow.

As a consequence, and entirely properly, we too are subject to scrutiny by opposition parties, by the press and by campaigning organisations. And in many cases, this scrutiny is all the fiercer because to some people the idea that private companies deliver sensitive government services is in and of itself anathema. In the normal course, therefore, we face a level of scrutiny and public discussion around our services which is greater than would be the case for companies doing business with each other. The failure of a construction company to deliver a multi-million pound new office building on time to another company is unlikely to be a matter of public consequence or commentary.

ESG Impact and Integrity

Corporate Responsibility at Serco continued

Implications of Serco being a supplier of services to governments continued

If Serco fails to pay the correct overtime to a teacher employed by a local council, however, it can be the lead story on local press, radio and TV for a month, and our failure will be accessible via online search engines in perpetuity. Almost every service we run is subject to public scrutiny, and quite rightly so. However, in the same way that much of the scrutiny and comment aimed at governments is often far from impartial or fair or based on facts, so we must have broad shoulders and accept that we will often be unfairly criticised in public.

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

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

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

Our decisions are carefully governed through our Business Lifecycle process of rigorous review and qualification, which we apply to our business activities – managing risk and taking many factors into account, including social and environmental impact.

Recent enhancements include our guidance for New Country Due Diligence, which prescribes the extent and depth of due diligence required before the decision to do business in a new country can be made.

For more information, see Inside Corporate Responsibility at Serco, available at www.serco.com/about/corporate-responsibility.

Our involvement in Yarl's Wood Immigration Removal Centre

On behalf of the UK Home Office, we manage the Yarl's Wood Immigration Removal Centre, which historically has been used to house women in the final stages of their deportation. The process of removing women from the country tends to be very much more controversial than that of removing men, and Yarl's Wood has been subject to numerous campaigns from groups who have sought to delay removal of individuals or to press for the closure of Yarl's Wood in its entirety. This attracts a great deal of press attention and commentary. Some is fair, balanced and objective; much is unfair, unbalanced and subjective. All of it is available to anyone searching on the internet.

On the other hand, Yarl's Wood performs an essential service in the eyes of the UK Government: assisting with the delivery of its immigration policies. Partly as a response to all the campaigning groups, Yarl's Wood is also subject to significant volumes of supervision and inspection. There is an Independent Monitoring Board (IMB), who have access to Yarl's Wood 24/7, and who report annually to the Home Secretary; the Home Office are co-located on site; in addition to the IMB reports, in the last five years there have been no fewer than six independent reports, two from Her Majesty's Inspector of Prisons, one from the Home Office – 'The Shaw Review', one from the National Audit Office, one from the Care Quality Commission, and one independently commissioned by Serco – 'The Lampard Review'. Whilst not uncritical, and urging improvement in some areas, these paint a generally humane picture of life at Yarl's Wood and are at variance to the claims of some of the campaign groups as reported in the press.

Whilst there is no avoiding the fact that the women held at Yarl's Wood are not happy to be there – deportation is a hard-edged and difficult part of government policy – we know of no government which does not do it as part of the implementation of their immigration policy. The important thing is that it should be done humanely and well, and the people managing it should be constantly held to high standards.

We invite anyone wishing to judge Serco's track record in this area to read the various reports:

- Independent investigation into concerns about Yarl's Wood Immigration Removal Centre; www.verita.net
- Yarl's Wood Immigration Removal Centre; www.justiceinspectorates.gov.uk
- Review into the Welfare in Detention of Vulnerable Persons – A report to the Home Office by Stephen Shaw; www.gov.uk/government/publications
- Annual Report of the Independent Monitoring Board at Yarl's Wood Immigration Removal Centre for the reporting year 1 January – 31 December 2019; www.imb.org.uk
- Care Quality Commission – Yarl's Wood Immigration Detention Centre; www.cqc.org.uk

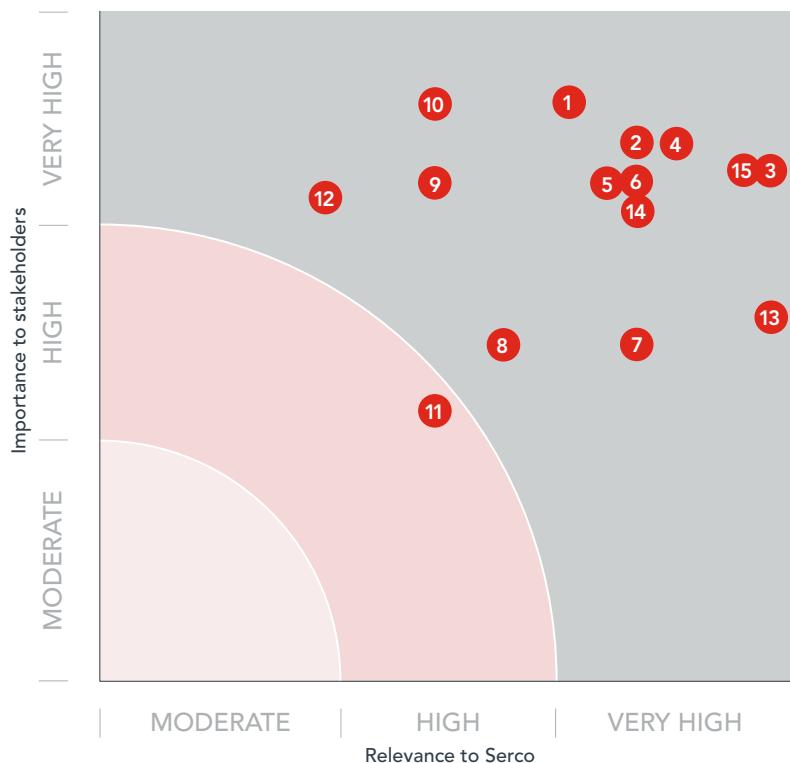
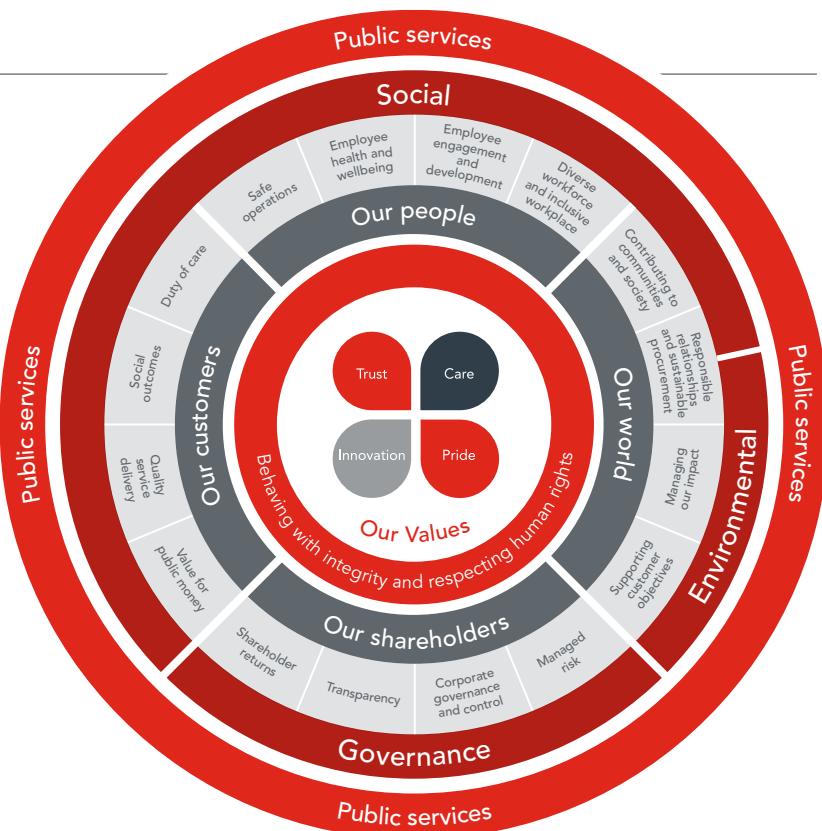
Corporate Responsibility defined

'Corporate Responsibility' is our chosen term for referring collectively to our principal areas of responsibility and sustainability. We define and drive our ESG agenda through our CR Framework, with oversight from the standing Corporate Responsibility Committee of the Serco Group plc Board.

The framework brings all our ESG priorities together in one model, structured around our key stakeholder groups. This enables us to maintain focus on achieving an optimal balance of sustainable value creation for all.

Each element in our framework is embedded in how we manage our business, with dedicated leadership at all levels.

The Serco CR Framework was updated in 2020 to maintain alignment with our evolving materiality assessment and ESG agenda. We have updated the structure of our reporting accordingly, focusing first on our Social priorities and then looking at Environmental and Governance.



Staying focused on what matters most to our business and stakeholders

We continually challenge ourselves to make sure we understand and provide appropriately for what matters most regarding our role in society, the impact that we have and the value we create. To help us ensure that our ESG agenda remains closely aligned to stakeholder interests and the needs of the business, we use an independent materiality assessment aligned to external best practice and based on:

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

Our materiality assessment was updated in 2020 to reflect the increased relevance and importance of employee health and wellbeing and environmental factors.

① Behaving with integrity and respecting human rights

Our customers

- ② Duty of care/Social outcomes
- ③ Quality service delivery
- ④ Value for public money

Our people

- ⑤ Safe operations
- ⑥ Employee health and wellbeing
- ⑦ Employee engagement and development
- ⑧ Diverse workforce and inclusive workplace

Our world

- ⑨ Contributing to communities and society
- ⑩ Responsible relationships and sustainable procurement
- ⑪ Managing our environmental impact
- ⑫ Supporting customer environmental objectives

Our shareholders

- ⑬ Shareholder returns / Transparency
- ⑭ Corporate governance and control
- ⑮ Managed risk

ESG Impact and Integrity

Corporate Responsibility at Serco continued

Reporting on our ESG priorities

We have published a CR Report since 2003. We seek not only to meet our reporting obligations but to provide assurance that we are properly addressing our ESG responsibilities and communicating our position and performance across ESG criteria. This year, amongst all other developments, we have:

- expanded our data disclosure to include additional items;
- prepared to report against the Task Force on Climate-related Financial Disclosures (TCFD) as of 2021; and
- made it easier to navigate our reporting by ESG criteria at www.serco.com/about/corporate-responsibility/esg

Contributing to the United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (UN SDGs) are one of a number of initiatives and goals that help inform our thinking and approach. We are proud that many of our operations and ESG initiatives have linkage to UN SDGs. For example:

- We help governments to deliver reliable, high-quality services which represent good value for the taxpayer; in many cases this involves providing citizens (or people who aspire to be citizens) with services at difficult times in their lives, or providing services which support critical national infrastructure and assets. Doing these things well is an important contribution to society, and in so doing we support the UN SDGs 11 (Sustainable Cities and Communities) and 16 (Peace, Justice and Strong Institutions).
- We serve society by employing more than 55,000 people, and giving them jobs which are fairly paid, a safe and healthy workplace where diversity is positively valued, careers which allow them to develop and achieve to the best of their abilities, and ensuring that they are treated with respect. In so doing we support the UN SDGs 1 (No Poverty), 3 (Good Health and Wellbeing), 4 (Quality Education), 5 (Gender Equality), 8 (Decent Work and Economic Growth) and 10 (Reduced Inequalities).
- In our interactions with others – be they suppliers, politicians, competitors, lenders or investors – we contribute to society by being straightforward, transparent, respectful and fair. In so doing we support the UN SDGs 12 (Responsible Consumption and Production) and 16 (Peace, Justice and Strong Institutions).
- The Company and its employees pay tens of millions of pounds in taxes. In so doing we support the UN SDGs 12 (Responsible Consumption and Production) and 16 (Peace, Justice and Strong Institutions).

CR in action at Serco

Beyond this report, our organisation is alive with engagement, leadership and action. Each component in our CR Framework represents a continuously improving system of people, projects and processes – managed by global teams and fulfilled by our employees. We have set out some examples of how our people have worked to bring our commitments to life in the section 'Delivering our ESG Commitments in 2020', on the following pages. We publish many more case study examples at www.serco.com/about/corporate-responsibility/case-studies

The Serco People Report

We are deeply proud of all that our people do to serve our customers, communities and citizens around the world. In the People Report we offer richer insight into their work, motivations and experiences. It features interviews and stories about employees from every sector and region, each exploring different aspects of the colleague experience and how Serco people make a difference every day. In addition, we provide an update on what we are doing to make Serco a better, safer and more rewarding place where people are proud to work. The Serco People Report is available at www.serco.com/about/people-report

UN SDGs we contribute to as a public service provider

Our contribution is through the services we provide to citizens and society, and how we provide them, particularly through our focus on:

- the health, safety and wellbeing of the public and making a real difference to people's lives; and
- helping governments to raise standards of public service whilst enabling them to deliver better for less.



UN SDGs we contribute to as an employer

Our contribution is through how we attract, select, manage, develop and look after our employees, particularly through our focus on:

- the health, safety and wellbeing of our people;
- employee engagement and development; and
- building a diverse workforce and creating inclusive workplaces.



UN SDGs we contribute to through our commitment to limit our environmental impact

Our contribution is through limiting the impact of our operations on the environment through more sustainable business practice for our customers and wider stakeholders.



UN SDGs we contribute to as a participant in global industry, infrastructure and the wider economy

Our contribution is through how we manage, grow and govern the business, particularly through our focus on:

- protecting stakeholder interests and creating long-term, sustainable value;
- effective and transparent direction, control and assurance of the business at all levels; and
- ethical standards and sustainability throughout the business and our supply chain.



Delivering our ESG commitments in 2020

Here we share select headlines of our impact, progress and performance in the last year. We have updated the structure of our reporting, focusing first on our Social priorities and then looking at Environmental and Governance.

Further information, including future ambitions, is available in our full CR Report at www.serco.com/about/corporate-responsibility and, specifically regarding our response to Covid-19, on pages 38 to 39 of our Annual Report.

Social

We strive to understand the challenges that shape our chosen markets and help our customers address them – to be a trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference for our fellow citizens. Throughout 2020, our priority has been to protect people and public services – helping governments around the world to address the challenges of Covid-19 and helping society continue to function. We have worked to ensure safe and secure continuity of service whilst providing additional support to our customers and the public through the creation of entirely new services.

We are committed to promoting and enabling the diversity, development, wellbeing and safety of our people, and to be the employer of choice for public services – recruiting, developing and retaining exceptional leaders and high-performing workforces to deliver our commitments to our customers and service users. This year, we have focused on safety, wellbeing and connectivity for our people as well as for our service users – including our many thousands of employees who are working from home to support their colleagues braving frontline environments. Diversity and Inclusion factors have guided our approach. We have continued to support our maturing diversity networks as they grow in reach and impact, empowering our colleague communities and helping us build momentum behind targeted action plans.

We work to build strong, reliable and service-enhancing supply chains, partnerships and relationships with our communities – aligned to ethical standards and sustainability, generating greater value for society and enhancing social outcomes. Our widespread, regular close engagement with local communities, charities and partners took on new meaning and urgency in 2020. Around the world, our teams have rallied hard to help not-for-profit organisations and community groups, with support from the Serco Foundation. At the same time, we have continued working to drive our ethical standards deep into our supply chain, with increased focus this year on the threat of modern slavery, and, aligned to the new Social Value policy launched by the UK Government in December 2020, continued developing our new Social Value strategy.

2020 update summary

- Global response to Covid-19, focused on maintaining essential operations and protecting service users and employees, formed around rapid deployment of robust continuity and contingency plans in all Business Units with oversight and coordination from dedicated Group and Divisional steering committees.
- New and innovative service solutions developed at speed to help governments manage the impact and spread of Covid-19. We are now working with our customers to predict longer-term impacts, forecasting future requirements and designing new service solutions to meet those needs.
- Global Centres of Excellence, Communities of Practice and Operational Excellence programme continuously improving efficiency, productivity and developing best practice in public service delivery.
- Research and development of public service solutions for the future through the Serco Institute, www.sercoinstitute.com; for example, our 2020 report, 'The Whole Force by Design: Optimising Defence to Meet Future Challenges'.
- New High Visibility Safety Awareness resources deployed globally, including Covid-19 collateral; and new Health, Safety and Environment (HSE) education modules launched for our mandatory all-employee training programme, Serco Essentials.
- New Group Strategy and global Oversight Group for Employee Health & Wellbeing (EHW) launched, focused on mental and financial wellbeing as well as musculoskeletal and inactivity risks.
- EHW communications, services and training rapidly grown and enhanced, including: new mental health apps; improved access to Employee Assistance Programmes for all employees; new mental health awareness training for all managers; tailored risk assessments for homeworking colleagues; and a new ongoing series of weekly virtual wellbeing events.
- Employee engagement at an all-time high of 73 (up two points from 2019).
- Expanding depth, breadth and frequency of Colleague ConneXions (Employee Voice) events, increasing meaningful engagement between Non-Executive Directors and employees; schedule now includes virtual site visits and involvement in employee network events, as well as 14,278 comments to the plc Board received through our 2020 employee survey.
- Ranked in the top 10% of employers in the UK Inclusive Employers Standard, achieving Silver (up from Bronze in 2019).
- Awarded Disability Confident Leader (Level 3 accreditation) and joined the Valuable 500, a growing global movement revolutionising disability inclusion through business leadership.
- Signed the UK Race at Work Charter, publicly formalising our commitment to racial equality and inclusion and creating a stronger platform for future progress.
- Published our fourth Gender Pay Gap Report on www.serco.com, sharing our UK pay gap data (10.9% in 2020, up 0.7 percentage points from 2019) and communicating our progress in all regions to attract more women into traditionally male-dominated roles and provide equal and inclusive support to enhance wellbeing and opportunities for development and progression.
- Continued to strengthen our core diversity networks (Serco Inspire, Serco Embrace, SercoUnlimited and In@Serco – addressing gender, race and culture, disability and LGBT+, respectively) and exploring other opportunities, such as our new SercoVets network for veteran employees.
- Serco Graduate Programme extended to all regions.
- More than £600,000 awarded to 300 employee-nominated not-for-profit organisations around the world by the Serco Foundation Coronavirus Community Support Fund. List of recipients available at www.sercofoundation.org

ESG Impact and Integrity

Corporate Responsibility at Serco continued

Social continued	2020 update summary continued
	<ul style="list-style-type: none">• Significant resource committed to developing and implementing a unique approach to Social Value, which will better enable our contracts around the world to deliver positive social outcomes for citizens.• Implementation of refreshed ethical due diligence process and new screening tool completed, and Third-Party Due Diligence Manual published, covering suppliers, agents, strategic partners and customers.• Supplier Management programme for business-critical suppliers implemented.• New global Modern Slavery Oversight Group established and work with Stronger Together continued in order to drive improvement, including new programme of enhanced supply chain risk assessment and due diligence.• Trust and Integrity workshop delivered in person to all leaders by Group Chief Executive and Group General Counsel and Company Secretary through annual Leadership Conferences carried out in each Division.• Values and Integrity Networks established in all Divisions and a comprehensive review of human rights risks and mitigation undertaken across our Justice and Immigration operations worldwide.
Environmental <p>We help governments around the world to address complex challenges and enhance social wellbeing, resilience and prosperity.</p> <p>Alongside our customers and other stakeholders, we recognise that environmental sustainability is a critical factor in the wellbeing of society.</p> <p>We also recognise that the impacts of climate and environmental emergencies will be felt ever more acutely across the public service landscape, driving evolution, adaptation and innovation in order to keep pace with the changing needs of society.</p> <p>This year, the Board endorsed a new Group Strategy for Environment, strengthening our environmental agenda and aligning it more closely to our purpose.</p> <p>Our specialist teams in every region have been working to recalibrate our environmental commitments and management around future risk and opportunity, customer objectives and broader environmental impact factors.</p> <p>At the same time, they have continued working to build a strong culture of ownership among our people, harnessing the ethos of proactive environmental responsibility that permeates our workforce.</p>	2020 update summary <ul style="list-style-type: none">• Endorsed a standalone Group Strategy for Environment to sharpen focus and direction on delivering longer-term Group Environment, Energy and Sustainability (EES) commitments in our operations and supply chain. To address key challenges and opportunities over the next ten years, we are focusing on enhancing understanding of our environmental and climate risks and opportunities; evolving our business lifecycle process to capture and cost carbon and environmental risks; reducing business travel, emissions and carbon; measuring and reducing the impact of our supply chain; and embedding environmental behaviours in Group culture.• Set carbon reduction targets aligned to climate science and a commitment to net zero in our own assets, leases and business travel by 2030.• Oversight and leadership strengthened with new global Environment Oversight Group and appointment of a Group Director of HSE and a Group Head of EES.• Task Force on Climate-related Financial Disclosures (TCFD) working group established and risk leads in each Division engaged to develop and deliver a detailed plan for our first full TCFD disclosure, to publish alongside our Annual Report 2021. Initial review of climate-related risks and relevance to business strategy across sectors and regions completed, and means of integrating process into our Enterprise Risk Management approach determined. A more detailed overview and update is provided in our full CR Report at www.serco.com/about/corporate-responsibility• Improved Carbon Disclosure Project (CDP) score of B (up two scoring categories from 2019) for our approach to climate change.• New High Visibility Environmental Awareness resources and education modules deployed globally.• New employee-led environmental engagement and improvement programme, Serco Goes Green, launched in the UK and Middle East following its successful Serco Europe launch in 2019.• Rapidly growing portfolio of environmental impact projects within our global Operational Excellence programme.• New sustainable procurement goals developed with Action Sustainability for a Sustainable Procurement Charter outlining our priorities, minimum standards for suppliers and ambitions to generate additional value for society, economy and environment from our supply chain.• World Environment Day and our annual Zero Harm Week programme of engagement, education and awareness events delivered in every region.• Continuous improvement programmes maintained in our most energy and carbon intensive Business Units and Contracts.

Governance

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

In the last six years, we have made significant reforms, including the restructure of our corporate governance framework and rewriting our management system.

In so doing, we have made sure to drive our Values deep into our operations and decision-making, seeking to ensure that they challenge us always to strive for integrity, improvement, innovation and balance between stakeholder interests.

From 2019, we have been embedding the core elements of our transformation whilst launching new programmes of continuous improvement and working to mature our governance around an increasingly integrated ESG agenda.

The onset of Covid-19 and our response to it has not suppressed this. Nor has it disrupted delivery of our annual risk and governance processes across the organisation, or our focus on maximising shareholder value through sustainable, profitable growth per our strategy and performance framework. And throughout, we have maintained our open and comprehensive schedule of shareholder engagement and reporting, including regular trading updates, announcements and meetings with investors and analysts, with additional communication regarding Covid-19 and its impact.

2020 update summary

- Key activities of the Board of Directors in promoting effective governance and compliance with the UK Corporate Governance Code during 2020 are reported in our Corporate Governance Report on pages 81 to 140, including our Corporate Responsibility Committee Report on page 101.
- In the absence of dividends, we use share price performance (SPP) as a measure of shareholder returns. Calendar year SPP has been -3%, +69% and -26% in 2018, 2019 and 2020, respectively. While SPP is influenced by many factors, we consider earnings per share (EPS) and returns on invested capital delivered (ROIC) particularly important. Underlying diluted EPS grew by 55%, 18% and 37% in 2018, 2019 and 2020, respectively, while underlying ROIC has been 13.6%, 15.4% and 19.1% for those years. The Group's order book was £12.0bn, £14.1bn and £13.5bn at the end of 2018, 2019 and 2020, respectively, despite disruption from Covid-19. For more information and broader discussion and analysis on our progress and performance in 2020, as well as our guidance and outlook, see Key Performance Indicators (pages 35 to 37), Chief Executive's Report (pages 15 to 26), Directors' Report (pages 134 to 140) and Financial Statements (pages 141 to 222).
- Recognised as the most admired company in our sector in Management Today's 'Britain's Most Admired Companies Awards 2020', for the second year in succession. Also rated top in our sector for Quality of Management, Effective Use of Corporate Assets, Inspirational Leadership and Effective Corporate Governance.
- Year One report under the Deferred Prosecution Agreement delivered to the UK Serious Fraud Office.
- Strengthened ESG measures in our incentives through the incorporation of specific ESG scorecards into annual bonus and long-term incentive awards. In 2021, the scorecards are focused on governance processes, stakeholder engagement, operational health and safety, colleague diversity and engagement, and environmental performance and management of environmental risks. For more information, see Remuneration Report (pages 105 to 133).
- Maturity of our financial assurance programme reviewed, and preparation undertaken for any new requirements which may be legislated following the Independent Review into the Quality and Effectiveness of Audit performed by Sir Donald Brydon.
- Group-wide programmes to strengthen internal control and compliance assurance through our three lines of defence.
- Group principal risks reviewed to ensure they remain current, with 'Health, safety and wellbeing' added to better reflect our focus and commitment to employees and service users.
- Impact of Covid-19 and associated emerging risks assessed as a coordinated Group and Divisional response, leveraging the increasing maturity of our Enterprise Risk Management (ERM) approach – in particular our crisis management and business continuity capability. Focus and plans across principal risk areas adjusted accordingly.
- For more information about our ERM approach and principal risk mitigation plans, see Principal Risks and Uncertainties (pages 72 to 78) and Group Risk Committee Report (pages 91 to 93).
- Published an anti-bribery and corruption supplement on www.serco.com, further demonstrating our zero tolerance to bribery and corruption, supporting our principal risk, 'Failure to act with integrity', and detailing our policies, standards and procedures, including those for due diligence.
- Recognised for our commitment to anti-bribery and transparency by the Transparency International Defence Companies Index on Anti-Corruption and Corporate Transparency with a 'High' commitment rating (Band B).
- Online guide to all policy and governance underpinning our approach to ESG, Inside Corporate Responsibility at Serco, available online at www.serco.com/about/corporate-responsibility

ESG Impact and Integrity

Corporate Responsibility at Serco continued

CR performance and disclosure data

Here we share select Social and Environmental items from our full range of CR performance and disclosure data, including gender diversity and carbon emissions. Select indicators relating to Governance also feature elsewhere in this Annual Report.

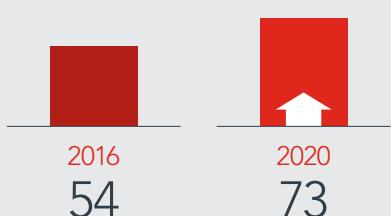
The complete data set can be found in our full CR Report, available at www.serco.com/about/corporate-responsibility.

Upheld cases of corrupt or anti-competitive behaviour or human rights violations

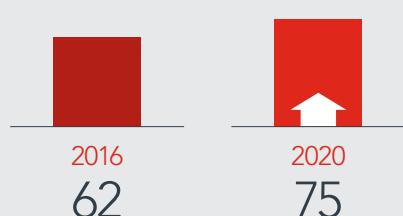
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2016 - 2020

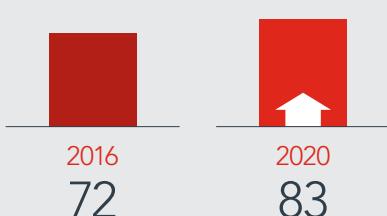
Employee engagement
(2016: %; 2020: avg. score)



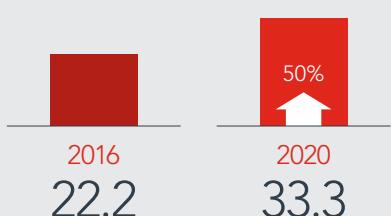
People manager engagement
(2016: %; 2020: avg. score)



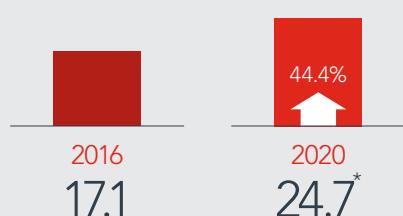
Leadership engagement
(2016: %; 2020: avg. score)



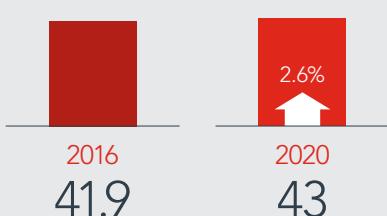
Serco Group plc Board
(% women)



Executive Committee and Direct Reports
(% women)



All other employee levels
(% women)



Lost Time Incident Frequency Rate
(Per 1m hours worked)



Employee turnover (%)



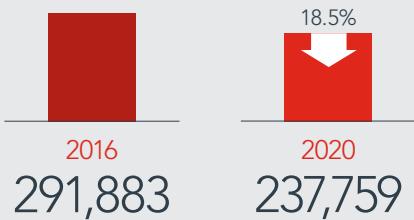
Carbon emissions headcount intensity (Scope 1+2)
(tCO₂e/FTE)



Note:

* Difference between 2020 percentage and 25% represents less than 1 FTE. This is the figure given as part of the UK Hampton-Alexander review. The average percentage of women at this level in 2020 is higher than 25%. 2020 percentage represents a decrease on 2019 – see our full CR Report. The gender diversity in our Global Leadership Team (347 senior leaders) was 29.1% on 31 December 2020. It is well recognised by the Board that the Company needs to improve female representation in its Executive Committee and its direct reports. The Company has an active and targeted plan to improve this in 2021.

Carbon dioxide equivalent
(Scope 1+2)
(tCO₂e)



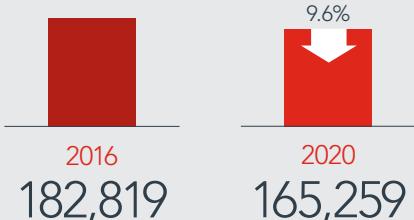
UK
(tCO₂e)



Rest of world
(tCO₂e)



Scope 1 – Combustion of fuels and
operation of facilities
(tCO₂e)



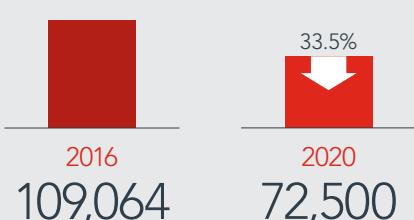
UK
(tCO₂e)



Rest of world
(tCO₂e)



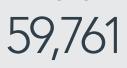
Scope 2 – Grid electricity purchased
for own use (location-based)
(tCO₂e)



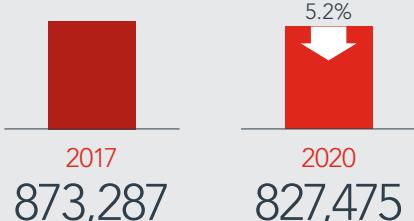
UK
(tCO₂e)



Rest of world
(tCO₂e)



Energy consumption used to calculate
Scope 1+2 emissions
(MWh)



UK
(tCO₂e)



Rest of world
(tCO₂e)



Notes:

Data is for the total Group unless otherwise stated. Data excludes joint ventures to enable like-for-like comparison.

Data is as reported internally in January 2021 unless otherwise stated. Additional data may arise after this date. Where this occurs, numbers will be corrected in the following year's report.

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

Please refer to our full CR Report for data commentary and Group targets, www.serco.com/about/corporate-responsibility. Other targets are managed at local and regional levels.

Section 172 (1) Statement

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

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

Board Engagement with Stakeholders

The Board is committed to enhancing engagement with all of our stakeholders. The Board considered that, during these unprecedented times, our stakeholders would benefit from understanding more about the approach taken by the Company to meeting the challenges and the impact on the ongoing performance of the Group due to Covid-19. The Board met virtually on some occasions during the year and a number of additional meetings were held to discuss how the Company was meeting the challenges it faced. The Board also received regular briefings from management in the form of written reports. Over the year, the Board met 16 times. There have been regular communications with the wider business over this time and members of the Board were able to attend divisional management conferences before the full impact of Covid-19 meant such events were not possible as well as attending Colleague ConneXion and Inclusion Hub events, management meetings and contract visits virtually. The Board prides itself on the Company's strong focus on transparency and it was keen to keep the market aware of developments so, in addition to the Company's scheduled programme of announcements, the Board approved the release of unscheduled Trading Updates which included the impact of Covid-19 on the business on 2 April 2020 and 16 October 2020.

Covid-19 has had a significant impact on all of the Company's stakeholders and the Company's response is set out throughout this year's Annual Report and also in the Covid-19: Our response report on pages 38 and 39.

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

- Regular reports and presentations at scheduled Board and Committee meetings, including operational reports presented by the Chief Executive and updates from the Chief Financial Officer, Chief Operating Officer, Group General Counsel and Company Secretary and other senior management on a range of issues including financial matters, approach to ESG matters, health and safety, assurance and controls ethics and compliance, people matters (including employee engagement) and investor feedback.
- Unscheduled Board and Committee meetings if the Board needs to be informed of matters or when a decision is required before scheduled Board meetings such as Covid-19 developments, trading updates, bids, refinancing or M&A opportunities.
- Regular communication from the Executive Directors, senior management and subject matter experts in a number of areas.

- A rolling agenda of matters to be considered by the Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids, acquisitions, refinancing, share buybacks, dividends and other matters, including any factors which are relevant to major decisions taken by the Board through the year in line with the Delegation of Authority and Terms of Reference for each Board Committee.
- The risk management process and other routine Audit Committee, Corporate Responsibility Committee, Group Risk Committee, Nomination Committee and Remuneration Committee agenda items, as described later in this report on pages 91 to 102 and 105 to 133.

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. The Board recognises that such delegation needs to be much more than simple financial authorities and it covers areas such as risk and new sector or country approaches. You will find detailed in the Annual Report a summary of the governance structure, which covers the values and behaviours expected of our employees; the standards they must adhere to; how we engage with stakeholders; and how the Board looks to ensure that we have a robust system of control and assurance processes (see pages 40 to 49).

Our Corporate Responsibility ('CR') framework is structured around our key stakeholders and this year we have focused even more on our approach to and progress in delivering our ESG commitments. We summarise our progress and performance in the ESG Impact and Integrity section of this Annual Report on pages 40 to 49.

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our Shareholders			
<p>Engagement with and receiving the support of our shareholders is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity – all of which are critical for building trust.</p> <p>Details of notifiable interests in the shares of the Company are set out on page 138 of the Directors' Report.</p>	<ul style="list-style-type: none"> Shareholders receive regular trading updates in addition to the half and full-year results reports and accompanying presentations and in addition, as highlighted above, we have issued two unscheduled trading updates as well as numerous other announcements on a wide range of matters. Attendance by the Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team to discuss relevant developments in the business at our post-results road shows and programme of investor conferences. During 2020, this engagement was conducted mainly through conference calls and online presentations, however this did not prevent or reduce the cadence and frequency of such engagement. We regularly talk to our debt investors including lending banks and US private placement note holders and we had a successful refinancing in October. We have bi-annual update calls with our debt investors after the results announcements. We consult with institutions, proxy advisers and ESG analysts as shareholders value their opinions. We have discussions with pension trustees, major shareholders and debt holders and seek their views and feedback on specific topics. We issued more than 116 announcements throughout the year regarding contract awards, contract losses, changes to the Board, material shareholdings, refinancing and corporate transactions, including details of how the Company was responding to the challenges presented by Covid-19, details on the share buy-back programme, key contract wins, extensions and losses, details on the US private placement debt issue and acquisitions. These announcements also drive ad hoc engagement with investors and are available on the Company's website. The Head of Investor Relations and the Group Treasurer provide regular reports to the Board. The AGM provides the Board with an opportunity to communicate with private and institutional investors. Due to the impact of Covid-19 and the 'Stay at Home Measures' introduced by the UK Government, the 2020 AGM took place as a closed meeting. Although it was not possible for the Board to meet with our shareholders in person at the 2020 AGM, all shareholders were invited to submit questions to the Board via email prior to the meeting. 	<ul style="list-style-type: none"> The Company's performance against our strategy. The Company's approach to meeting the challenges brought by Covid-19. Developments in our customer markets and the competitive landscape. Opportunities for acquisitions. Capital allocation considerations. Implementation of the Remuneration Policy. The proposed 2021 Remuneration Policy. Market soundings with major shareholders seeking their views on a range of issues, such as dividends and share buy-backs. Refinancing. 	<ul style="list-style-type: none"> Shareholders' opinions were, and continue to be, taken into consideration when developing and reviewing the Company's strategy and performance, Directors' remuneration policy, and our capital structure and dividend policy. We consulted with shareholders concerning the decision to defer the payment of the cash element of the bonuses earned by the Executive Directors in respect of their 2019 performance. The feedback received from major shareholders helped inform the Board's decision to approve the acquisition of Whitney, Bradley and Brown, Inc as well as the acquisition of Facilities First in Australia. The Board's decision to withdraw the payment of dividends to shareholders earlier in 2020, and the decision to reinstate the payment of dividends to shareholders in early 2021, took account of the views expressed by analysts, agencies and investors. It is key we have their support in maintaining an appropriate level of dividend cover, considering the potential alternative uses of capital to generate incremental value for shareholders and working to ensure that Serco maintains financial flexibility and a strong balance sheet. Divisional and Leadership Conferences were held in January and February 2020, which the Non-Executive Directors attended. At these conferences, one of the sessions featured interviews with and feedback from five key shareholders on their views of the Company and their perspective on key challenges and opportunities. This was very well received and enabled not only the Board but the wider senior leadership team to hear from shareholders.

Section 172 (1) Statement continued

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our People	<p>Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.</p> <p>Stakeholder concerns</p> <p>Through our annual Viewpoint survey and other dialogue with colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as Serco, our colleagues express their opinions across a very wide range of areas. However there are currently three main areas of concern raised by colleagues on a regular basis: career progression opportunities, connection and collaboration within Serco, and having a voice in decision making within the business.</p> <p>Our People Report, available on the Company's website www.serco.com, sets out the work we are undertaking to make Serco a better, safer and more inclusive place to build a career.</p>	<ul style="list-style-type: none"> We seek feedback from our people annually through the Company-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business. Kirsty Bashforth, Non-Executive Director and Colleague Voice representative on the Board, reported to the Board the feedback received from our people at virtual engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. Dame Sue Owen, Non-Executive Director, was appointed as our new Colleague Voice representative on the Board in January 2021, succeeding Kirsty Bashforth. The Serco Inclusion Hub provided a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Members of the Board and executive teams have participated in a number of the Serco Inclusion Hub events. Regular reports on the activities of each network are received by the Board through the regular People reports provided by the Group Chief Operating Officer. Members of the Board met with employees during virtual contract visits and with management at virtual meetings and events, such as Town Hall meetings, and attendance at the Divisional and Leadership Conferences in January and February 2020. Regular reports from the Group Chief Operating Officer, Group HSE Director and the Group Reward Director concerning health and safety matters, workforce and management diversity, gender pay gap, workforce remuneration and related policies. 	<ul style="list-style-type: none"> Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+. Matters impacting employees on the frontline of our contracts. Talent and leadership succession. Employee health, safety and wellbeing. Feedback received from employees through the Viewpoint survey and the actions proposed by management in response. The Viewpoint survey contains a field to give direct feedback to the plc Board and 14,278 comments were received in the 2020 survey. The Board considered the impact on employees of the development opportunities that potential acquisitions and contract bids would afford our employees, and the impact on the Company's ability to attract and retain staff. The Board continued to endorse the Employee Voice and Colleague ConneXions initiatives, and the Serco Inclusion Hub. Discussions at the Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during face-to-face visits and attendance at the Divisional and Leadership Conference, as well as virtual contract visits undertaken by the Board in each Division. At these contract visits and events, the Directors meet and hear directly from Serco employees on a variety of topics. In addition, the direct feedback from the Viewpoint survey gives real insight into employee concerns. Much of the discussions related to the impact of Covid-19 on the wellbeing of colleagues working on the front line and those working from home, and sought to ensure their safety and wellbeing. As a result, there was an even greater focus on Health, Safety and Environmental factors during 2020. The feedback received from employees resulted in the Board endorsing the expedition of the delivery of the Wellbeing Strategy, including the introduction of a number of employee support initiatives and the introduction of wellbeing training for managers. The Board endorsed the introduction of an International All Employee Share Plan, the rules for which will be submitted for Shareholder approval at the Company's 2021 Annual General Meeting.

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our Customers			
<p>As an international B2G business our customers are many and varied, consisting of local, regional and national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers.</p> <p>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.</p> <p>Stakeholder concerns</p> <p>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 value for money. This requires us to have both a deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently.</p> <p>In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East, the growing drive for social value outcomes in the UK, and the importance of supporting aboriginal communities more effectively in Australia. It is critical that we maintain a detailed appreciation of these priorities so that we can respond accordingly.</p>	<ul style="list-style-type: none"> The Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions and while this has been more challenging due to Covid-19, meetings have been possible. The Divisional Performance Reviews, that are made available to the Board, also contain details on customer issues and engagement. Members of the Board attended virtual contract visits and joined management meetings where they had the ability to hear about our customers and, whilst they have been a lot less frequent this year, some face-to-face contract visits did take place which enabled some of the Board to speak directly to customers. Our 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Board and are made available every month and discussed at the Board meetings. Our Divisional Chief Executives present regularly to the Board and other colleagues also present regularly on operational matters, customer satisfaction and Business Development. We were also joined at the Board this year by one of our key customers, which gave the Board an opportunity to receive feedback and engage directly with the customer. Our annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next five years. Due to Covid-19 and the need for the business to focus on operations, we conducted a lighter process in 2020. As in previous years, this process culminates in a day-long Board Strategy Day during which the Board debates current and future customer requirements at length. The Serco Institute, often in conjunction with customers, looks at macro societal issues and the research and development of public service solutions. 	<ul style="list-style-type: none"> Customer and Serco strategy and operational performance. The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK. New and future customer requirements and trends, such as increased focus on environmental, social, and governance matters. Specific bid and business development opportunities. The overall performance of the sector. Serco innovations in response to customer trends and needs. Early engagement concerning the solutions and support that the Company could offer in light of the rapidly changing environment due to Covid-19 and working with customers to predict the longer term impacts. <ul style="list-style-type: none"> Understanding the new and developing challenges faced by customers was key in giving the Board confidence that the Company could effectively and efficiently provide the support needed to meet the demands of government responses to Covid-19. The Board deployed customer insight in approving the changes to operating models to minimise impact to operations during the pandemic. The Board deployed its customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which the Board scrutinises. Following customer engagement and insight gathered from the annual strategy process, the Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2020–2021. The Board continued to drive the Executive Directors to act on new customer trends and priorities as a result of engagement in 2020, including our plans on ESG and sustainability, social value, and voluntary, community, and social enterprise organisations. 	

Section 172 (1) Statement continued

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our Suppliers			
Suppliers have an important role to play in Serco being a superb provider of public services. We aim to build honest, respectful and transparent relationships with suppliers who have high levels of regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.	<ul style="list-style-type: none"> Direct engagement via the Chief Executive and Group Chief Financial Officer. Reports concerning operational matters from senior management on specific business units. Regular reports from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers. Regular reports from the Chief Financial Officer, including on creditor payable days. 	<ul style="list-style-type: none"> Due diligence processes. Supplier relationships. Supply chain management. Fair payment practices. Modern slavery risk. The impact of Covid-19 on the supply chain and on our suppliers. The impact of Brexit on our supply chain and assessment of the risks posed by Brexit. 	<ul style="list-style-type: none"> The management of suppliers has been discussed at the Board level. The Board considered the potential impact of Covid-19 on the supply chain and endorsed temporary changes to procurement processes to support suppliers to mitigate the impact of Covid-19. Key risks in relation to the supply chain were considered when reviewing the approach to due diligence of suppliers, particularly in light of the impact of Covid-19 on the operating environment. Feedback on the performance of key financial suppliers was considered periodically during the year, with performance being discussed at the Audit and Group Risk Committees, and feedback provided to the Board concerning the discussions.
Stakeholder concerns			
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.			

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our Communities and Environment			
<p>Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government.</p> <p>Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.</p> <p>We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.</p>	<ul style="list-style-type: none"> Regular operational reports from the Chief Executive. Reports concerning operational matters from senior management on specific business units. Meetings with users of the services we provide on behalf of our customers during contract visits by the Board. Attendance by the Board at Serco Institute events. Reports from management on the work undertaken as part of Colleague ConneXions. Review of the work of the Serco Foundation. The Director, Business Compliance & Ethics and the Group Head of Environment, Energy and Sustainability provide regular updates on human rights matters, the Speak Up service, and environmental concerns. 	<ul style="list-style-type: none"> Further information concerning CR matters is provided in the CR Report on the Company's website. Political environment. Impact on the community of pursuing business development opportunities. 	<ul style="list-style-type: none"> Discussion of the impact of Covid-19 on communities and how Serco can help. Focus on physical assaults in prisons under our justice contracts in the UK, Australia and New Zealand. Endorsement of the modern slavery statement. Review and endorsement of the Environmental Strategy, and approved carbon reduction targets, and a commitment to net zero in our own assets, leases and business travel by 2030, strengthening our environmental agenda and aligning it more closely to our purpose. Meeting with users of the services we provide on behalf of our customers during contract visits by the Directors facilitates a deeper discussion of operational matters. This has been more challenging due to Covid-19 and instead more regular updates were received from management on matters impacting service users. In considering business development proposals from senior management, this also enables the Board to better assess service user needs and the ability to provide the services under the contract to the standards expected, and identify any gaps in capabilities.
Stakeholder concerns			
<p>Our communities are primarily concerned with the impact of our operations on society, the economy, and the environment – locally and beyond - and that we operate and conduct our business as a respectful and responsible neighbour.</p>			

Finance Review



Revenue of £3,884.8m grew by 20% which included 16% organic helped by Covid related contracts. Underlying Trading Profit up by 37% to £163.1m with margin improving by 50bps to 4.2%. Strong Free Cash Flow of £134.9m with Adjusted Net Debt reducing by £156.7m to £57.8m.

Angus Cockburn
Group Chief Financial Officer

2020 Highlights

- Strong revenue growth in year with a significant portion being from organic business including Covid-19
- 37% growth in Underlying Trading Profit and 50 bps improvement in margin through revenue growth and strong cost control
- Excellent Free Cash Flow generation reducing Adjusted Net Debt to a low level
- Dividend reinstated for the first time since 2013

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

For the year ended 31 December 2019	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	3,248.4	–	3,248.4	–	3,248.4	–	3,248.4
Cost of sales	(2,941.5)	13.2	(2,928.3)	–	(2,928.3)	–	(2,928.3)
Gross profit	306.9	13.2	320.1	–	320.1	–	320.1
Administrative expenses	(214.2)	–	(214.2)	–	(214.2)	–	(214.2)
Other exceptional operating items	–	–	–	–	–	(23.4)	(23.4)
Other expenses	–	–	–	(7.5)	(7.5)	–	(7.5)
Share of profits in joint ventures and associates, net of interest and tax	27.5	–	27.5	–	27.5	–	27.5
Profit before interest and tax	120.2	13.2	133.4	(7.5)	125.9	(23.4)	102.5
Margin	3.7%		4.1%		3.9%		3.2%
Net finance costs	(21.8)	–	(21.8)	–	(21.8)	–	(21.8)
Profit before tax	98.4	13.2	111.6	(7.5)	104.1	(23.4)	80.7
Tax charge	(24.4)	(4.5)	(28.9)	1.5	(27.4)	(2.7)	(30.1)
Effective tax rate	24.8%		25.9%		26.3%		37.3%
Profit for the period	74.0	8.7	82.7	(6.0)	76.7	(26.1)	50.6
Minority interest	0.2		0.2		0.2		0.2
Earnings per share – basic (pence)	6.31		7.05		6.54		4.31
Earnings per share – diluted (pence)	6.16		6.89		6.39		4.21

Alternative Performance Measures (APMs) and other related definitions

Overview

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

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

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

The methodology applied to calculating the APMs has not changed during the year.

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Consolidated Income Statement on page 153, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous year's results, reported revenue is recalculated by translating non-Sterling values for the year to 31 December 2020 into Sterling at the average exchange rate for the year ended 31 December 2019.

For the year ended 31 December	2020 £m
Reported revenue at constant currency	3,908.8
Foreign exchange differences	(24.0)
Reported revenue at reported currency	3,884.8

Finance Review continued

Organic Revenue at constant currency

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

There is one acquisition excluded for the calculation of Organic Revenue in the year to 31 December 2020, which is the acquisition of the Naval Systems Business Unit ("NSBU") from Alion Science and Technology Corporation on 1 August 2019.

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

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

	2020 £m
For the year ended 31 December	
Organic Revenue at constant currency	3,646.1
Foreign exchange differences	(21.8)
Organic Revenue at reported currency	3,624.3
Impact of any relevant acquisitions or disposals	260.5
Reported revenue at reported currency	3,884.8

	2019 £m
For the year ended 31 December	
Organic Revenue at reported currency	3,138.4
Impact of any relevant acquisitions or disposals	110.0
Reported revenue at reported currency	3,248.4

Revenue plus share of joint ventures and associates

Reported revenue, as shown on the Group's Consolidated Income Statement on page 153, excludes the Group's share of revenue from joint ventures and associates, with Serco's share of profits in joint ventures and associates (net of interest and tax) consolidated within reported operating profit as a single line in the Consolidated Income Statement. The alternative measure includes the share of joint ventures and associates for the benefit of reflecting the overall change in scale of the Group's ongoing operations, which is particularly relevant for evaluating Serco's presence in market sectors such as Defence and Transport. The alternative measure allows the performance of the joint venture and associate operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post-tax result.

	2020 £m	2019 £m
For the year ended 31 December		
Revenue plus share of joint ventures and associates	4,249.9	3,643.0
Exclude share of revenue from joint ventures and associates	(365.1)	(394.6)
Reported revenue	3,884.8	3,248.4

Alternative profit measures

	2020 £m	2019 £m
For the year ended 31 December		
Underlying Trading Profit	163.1	120.2
Non-underlying items:		
OCP charges and releases	5.8	0.8
Other Contract & Balance Sheet Review adjustments and one-time items	6.8	12.4
Total non-underlying items	12.6	13.2
Trading Profit	175.7	133.4
Operating exceptional items	12.5	(23.4)
Amortisation and impairment of intangibles arising on acquisition	(9.0)	(7.5)
Operating profit	179.2	102.5

Underlying Trading Profit (UTP)

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

Charges and releases on all Onerous Contract Provisions (OCPs) that arose during the 2014 Contract & Balance Sheet Review are excluded from UTP in the current and prior years. Charges associated with the creation of new OCPs identified are included within UTP to the extent that they are not considered sufficiently material to require separate disclosure on an individual basis. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual year. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £1.8m in 2020 (2019: £53.6m). The utilisation, which neutralises the in-year losses on previously identified onerous contracts, is significantly lower than the prior year as the number of onerous contracts within the Group has significantly reduced, as many have come to an end or have ceased to be onerous.

Rewards to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review are reported alongside other one-time items where the impact of an individual item is material. Items recorded within this category during 2020 include the settlement of contractual disputes arising on one of the Group's ongoing contracts which represents final settlement of the issues under discussion.

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

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

The non-underlying column in the summary income statement on pages 56 to 57 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Trading Profit

The Group uses Trading Profit as an alternative measure to operating profit, as shown on the Group's Consolidated Income Statement on page 153, by making two adjustments.

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

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

UTP at constant currency

UTP disclosed above has been translated at the average foreign exchange rates for the year. In order to provide a comparable movement on the previous year's results, UTP is recalculated by translating non-Sterling values for the year to 31 December 2020 into Sterling at the average exchange rate for the year ended 31 December 2019.

	2020 £m
For the year ended 31 December	
Underlying Trading Profit at constant currency	164.5
Foreign exchange differences	(1.4)
Underlying Trading Profit at reported currency	163.1

Alternative Earnings Per Share (EPS) measures

	2020 pence	2019 pence
For the year ended 31 December		
Underlying EPS, basic	8.61	6.31
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	1.29	0.23
EPS before exceptional items, basic	9.90	6.54
Impact of exceptional items	0.99	(2.23)
Reported EPS, basic	10.89	4.31
For the year ended 31 December	2020 pence	2019 pence
Underlying EPS, diluted	8.43	6.16
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	1.27	0.23
EPS before exceptional items, diluted	9.70	6.39
Impact of exceptional items	0.97	(2.18)
Reported EPS, diluted	10.67	4.21

Finance Review continued

EPS before exceptional items

EPS, as shown on the Group's Consolidated Income Statement on page 153, includes exceptional items charged or credited to the income statement in the year. EPS before exceptional items aids consistency with historical operating performance.

Underlying EPS

Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on pages 56 to 57.

Alternative cash flow and Net Debt measures

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect cash flow from operating activities before exceptional items, which is the measure shown on the Consolidated Cash Flow Statement on page 157. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates and exclude net interest paid, the capital element of lease payments and net capital expenditure on tangible and intangible asset purchases.

For the year ended 31 December	2020 £m	2019 £m
Free Cash Flow	134.9	62.0
Exclude dividends from joint ventures and associates	(19.8)	(25.4)
Exclude net interest paid	24.6	21.0
Exclude capitalised finance costs paid	0.9	1.2
Exclude capital element of lease repayments	100.8	70.2
Exclude proceeds received from exercise of share options	(0.1)	(0.2)
Exclude purchase of intangible and tangible assets net of proceeds from disposal	29.2	23.3
Cash flow from operating activities before exceptional items	270.5	152.1
Exceptional operating cash flows	(2.0)	(49.2)
Cash flow from operating activities	268.5	102.9

UTP cash conversion

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

For the year ended 31 December	2020 £m	2019 £m
Free Cash Flow	134.9	62.0
Add back:		
Tax paid	35.9	31.2
Non-cash R&D expenditure	0.1	0.1
Net interest paid	24.6	21.0
Capitalised finance costs paid	0.9	1.2
Trading Cash Flow	196.4	115.5
Underlying Trading Profit	163.1	120.2
Underlying Trading Profit cash conversion	120%	96%

Net Debt and Adjusted Net Debt

We present an alternative measure to bring together the various funding sources that are included on the Group's Consolidated Balance Sheet on page 156 and in the accompanying notes. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net Debt includes all lease liabilities, whilst Adjusted Net Debt is derived from Net Debt by excluding liabilities associated with leases.

The Adjusted Net Debt measure was introduced because it more closely aligns to the Consolidated Total Net Borrowings measure used for the Group's debt covenants, which is prepared under accounting standards applicable prior to the adoption of IFRS16 Leases.

Principally as a result of the Asylum Accommodation and Support Services Contract ("AASC"), the Group has entered into a significant number of leases which contain a termination option. The use of Adjusted Net Debt removes the volatility that would result from estimations of lease periods and the recognition of liabilities associated with such leases where the Group has the right to cancel the lease and hence the corresponding obligation. Though the intention is not to exercise the options to cancel the leases, it is available, unlike other debt obligations.

For the year ended 31 December	2020 £m	2019 £m
Cash and cash equivalents	335.7	89.5
Loans payable	(388.8)	(305.0)
Lease liabilities	(402.6)	(369.9)
Derivatives relating to Net Debt	(4.7)	1.0
Net Debt	(460.4)	(584.4)
Add back: Lease liabilities	402.6	369.9
Adjusted Net Debt	(57.8)	(214.5)

Pre-tax Return on Invested Capital (ROIC)

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

Invested Capital excludes right of use assets recognised under IFRS16 Leases. This is because the Invested Capital of the Group are those items within which resources are, or have been, committed, which is not the case for many leases which would previously have been classified as operating leases under IAS17 Leases where termination options exist and commitments for expenditure are in future years.

For the year ended 31 December	2020 £m	2019* £m
ROIC excluding right of use assets		
Non current assets		
Goodwill	669.6	674.2
Other intangible assets - owned	80.6	96.5
Property, plant and equipment - owned	54.2	47.3
Interest in joint ventures and associates	19.2	23.6
Trade and other receivables	25.3	26.5
Current assets		
Inventory	21.4	18.3
Contract assets, trade and other receivables	609.6	607.4
Total invested capital assets	1,479.9	1,493.8
Current liabilities		
Contract liabilities, trade and other payables	(576.2)	(557.0)
Non current liabilities		
Contract liabilities, trade and other payables	(56.9)	(72.7)
Total invested capital liabilities	(633.1)	(629.7)
Invested Capital	846.8	864.1
Two-point average of opening and closing Invested Capital	855.5	782.7
Trading Profit	175.7	133.4
ROIC%	20.5%	17.0%
Underlying Trading Profit	163.1	120.2
Underlying ROIC%	19.1%	15.4%

* During the year ended 31 December 2020, the Group finalised fair value measurements for a number of contracts which had previously been provisionally valued associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in Note 7 to the Consolidated Financial Statements.

Overview of financial performance

Revenue

Reported revenue increased by 19.6% in the year to £3,884.8m (2019: £3,248.4m), a 20.3% increase in constant currency. Organic revenue growth at constant currency was 16.2%. This is in line with the trading update issued on 17 December 2020 where revenue was expected to be £3.9bn for the year ended 31 December 2020.

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

Trading Profit

Trading Profit for the year was £175.7m (2019: £133.4m).

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

Finance Review continued

Underlying Trading Profit

UTP was £163.1m (2019: £120.2m), up 35.7%. At constant currency, UTP was £164.5m, up 36.9%. This is in line with the trading update issued on 17 December 2020 where UTP was expected to be between £160m and £165m for the year ended 31 December 2020.

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

Excluded from UTP were net releases from OCPs of £5.8m (2019: net releases of £0.8m) following the detailed reassessment undertaken as part of the budgeting process. Also excluded from UTP were net releases and additional profits of £6.8m (2019: net releases and additional profits of £12.4m) relating to items identified during the 2014 Contract & Balance Sheet Review and other one-time items.

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

Joint ventures and associates – share of results

In 2020, the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited ("AWE") and Merseyrail Services Holding Company Limited ("Merseyrail"), with dividends received of £15.5m (2019: £17.6m) and £1.5m (2019: £7.8m) respectively. Total revenues generated by these businesses were £1,106.8m (2019: £1,065.4m) and £150.7m (2019: £177.9m) respectively.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWE on 30 June 2021. The terms of the exit are in the process of being negotiated and since the full services under the contract have not been completed, judgement has been taken in relation to the milestone achievements which are to be agreed and an estimate of costs incurred in delivering services which cannot be recovered. The agreement in respect of both of these items are to be finalised, however the final outcome is not expected to have a material impact on the Group's Financial Statements.

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

For the year ended 31 December	2020 £m	2019 £m
Revenue	365.1	394.6
Operating profit	15.4	33.8
Net investment revenue	–	0.3
Income tax charge	(2.7)	(6.6)
Profit after tax	12.7	27.5
Dividends received from joint ventures and associates	19.8	25.4

The change in revenue and profits on the prior year is due to changes in the underlying operating performance of the Group's material joint ventures particularly with respect to the impact of Covid-19 on the Merseyrail joint venture, as well as the disposal, on 31 May 2020, of the Group's 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). The decrease in dividends received is mainly due to reduced profits, most notably in respect of the Merseyrail joint venture, where passenger volumes were impacted by Covid-19.

Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the performance of the Group.

For the year ended 31 December	2020 £m	2019 £m
Exceptional items arising		
Exceptional profit on disposal of subsidiaries and operations	11.0	–
Other exceptional operating items		
Restructuring costs	0.1	(12.8)
Costs associated with UK Government review	(1.3)	(25.2)
Movement in other provisions and other items	2.6	19.3
Reversal of impairment in interest in joint venture and related loan balances	2.5	–
Costs associated with the acquisition of Naval Systems Business Unit	(1.5)	(4.7)
Costs associated with the acquisition of Facilities First Australia	(0.9)	–
Other exceptional operating items	1.5	(23.4)
Exceptional operating items	12.5	(23.4)
Exceptional tax	(0.4)	(2.7)
Total exceptional operating items net of tax	12.1	(26.1)

Exceptional items arising

The Group disposed of its interest in Viapath with effect from 31 May 2020. The Group had historically impaired its investment in Viapath as it was not receiving any returns from this joint venture due to the level of investment being made back into the business, therefore the carrying value of the Group's investment in Viapath was nil. Following the announcement during the first half of 2020 that Viapath had been unsuccessful in the tender process to provide pathology services to five South East London hospitals as well as associated GP surgeries, the Group exited the joint venture, selling its stake to the remaining two investors. In May 2020, the proceeds received by the Group in exchange for its holding in the joint venture represents the profit on disposal of £11.0m.

At the same time as disposing of the Group's interest in Viapath, certain historical balances were recovered which had previously been impaired. Since the impairments associated with those balances were historically treated as exceptional items, the reversals of these impairments have been treated consistently. The exceptional credit of £2.5m consists of the recovery of a loan from the Group into the joint venture of £1.2m, the exceptional element of the recovery of profit share which was previously considered to be irrecoverable and the reversal of impairment.

Other exceptional operating items

The Group recognised the final costs associated with the Strategy Review during 2019 and, on review, certain costs which had been accrued but were not incurred were released back to exceptional operating items resulting in a credit to exceptional items of £0.1m during 2020 (2019: exceptional restructuring costs of £12.8m). Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the year totalled £7.2m (2019: £8.9m) and were included within operating profit before exceptional items.

There were exceptional costs totalling £1.3m (2019: £25.2m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2020. The 2019 costs included £22.9m for the fine and associated costs which resulted from the SFO's investigation into Serco companies.

During 2019, the Group reached a legal settlement in relation to a commercial dispute which resulted in the release of a provision which accounted for the majority of the £19.3m exceptional credit. The treatment of the release as exceptional was consistent with the recognition of the charge associated with the same legal matter in 2014. During 2020, the Group reached an agreement with its insurer for the reimbursement of £2.6m of legal fees associated with the matter and, consistent with the treatment of other associated amounts, this has been treated as an exceptional credit.

The Group completed the acquisition of Naval Systems Business Unit ("NSBU") from Alion Science and Technology in 2019. The transaction and implementation costs incurred during 2020 of £1.5m (2019: £4.7m) have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs incurred during the year ended 31 December 2019. No further costs associated with this acquisition are anticipated to be recognised as exceptional.

On 17 December 2020, the Group announced it had reached an agreement to acquire Facilities First Australia Holdings Pty Limited ("FFA" or "Facilities First Australia") and the acquisition was completed on 4 January 2021. Acquisition costs totalling £0.9m have been incurred during 2020 in respect of the FFA acquisition and have been treated as exceptional in accordance with the Group's accounting policies. Further details on this post year end transaction are provided in Note 38 to the Consolidated Financial Statements.

Exceptional tax

Exceptional tax for the year was a charge of £0.4m (2019: charge of £2.7m) which arises on exceptional items within operating profit. This charge arises mainly in connection with the reimbursement of legal fees from our insurer. The charge is partially offset by tax deductions related to the acquisition of Naval Systems Business Unit.

Finance costs and investment revenue

Investment revenue of £1.9m (2019: £2.7m) consists primarily of interest accruing on net retirement benefit assets of £1.2m (2019: £2.1m). The finance costs of £27.8m (2019: £24.5m) include interest incurred on the US private placement loan notes and the revolving credit facility of £15.3m (2019: £13.9m) and lease interest payable of £9.5m (2019: £6.9m) as well as other financing related costs including the impact of foreign exchange on financing activities.

Of the increase in lease interest paid, the majority relates to the Group's Asylum Accommodation and Support Services contract ("AASC"). The lease costs on the COMPASS contract (the predecessor contract to AASC) in 2019 were recorded as operating lease costs due to the short-term transitional arrangement under IFRS16 Leases. Leases under the AASC contract were accounted for in accordance with IFRS16 from the point at which service users moved to AASC, typically 1 July 2019 for the North West region and 1 September 2019 for the Midlands and East of England region.

Tax

Tax charge

Underlying tax

In 2020 we recognised a tax charge of £31.2m on underlying trading profits after finance costs. The effective tax rate (22.7%) is slightly lower than in 2019 (24.8%). This reduction compared to 2019 is largely due to the utilisation of previously unrecognised deferred tax in the UK used to offset current UK taxable profits. The impact is partially offset by disallowable items in the current year being higher than in 2019 and also the impact of reduced profits from our joint ventures whose post tax profits are included in our pre-tax results.

Pre-exceptional tax

We recognised a tax charge of £18.9m (2019: £27.4m) on pre-exceptional profits which includes underlying tax (£31.2m), tax credit from amortisation of intangibles arising on acquisition of £1.8m and a £10.5m credit arising on non-underlying items. This £10.5m credit consists of tax items that are in themselves considered to be non-underlying:

- During the current year we have recognised an additional £9.5m (2019: £0.8m) of deferred tax asset in relation to the increase in expected UK future tax rate from 17% to 19% and anticipated additional utilisation of UK losses to reflect the improved forecast for taxable income of our UK operations.
- Generally, movements in the valuation of the Group's defined benefit pension schemes and the associated deferred tax impact are reported in the Statement of Comprehensive Income (SOCI) and do not flow through the income statement, therefore do not impact profit before tax or the tax charge. However, the net amount of deferred tax recognised in the balance sheet relates to both the pension accounting and other timing differences, such as recoverable losses. As the net deferred tax balance sheet position is at the maximum level supported by future profit forecasts, the increase in the deferred tax liability associated with the pension scheme (with the benefit reported in the SOCI) leads to a corresponding increase in the deferred tax asset to match the future profit forecasts. Such an increase in the deferred tax asset therefore leads to a credit to tax in the income statement. Where deferred tax charges or releases are the result of movements in the pension scheme valuations rather than trading activity, these are excluded from the calculation of tax on underlying profit and the underlying effective tax rate. These amounted to a £5.9m credit for 2020 (2019: £2.7m charge).
- An amount of £4.9m has been charged to non-underlying tax in respect of the derecognition of balance sheet liabilities following the implementation of IFRS16 Leases in 2019, a portion of which was not tax effected. Since the adjustment does not relate to the current year, it is considered to be non-underlying.

The tax rate on profits before exceptional items, at 13.4%, is lower than the UK standard corporation tax rate of 19%. This is due mainly to the impact of the non-underlying tax items noted above together with the impact of utilising previously unvalued deferred tax in the UK to offset current year profits (reducing rate by 3.6%) and the impact of our joint ventures whose post-tax results are included in our pre-tax profits (reducing rate by 1.8%). This is only partially offset by higher tax being suffered on overseas profits due to their higher statutory tax rates (increasing rate by 5.1%). To the extent that the UK generates significant taxable profits or losses, our tax charge in future years could continue to be materially impacted by our accounting for UK deferred taxes.

Finance Review continued

Exceptional tax

Analysis of exceptional tax is provided in the Exceptional items section above.

Contingent tax assets

At 31 December 2020, the Group has gross estimated unrecognised deferred tax assets of £1.0bn (tax effected: £198m), which are potentially available to offset against future taxable income. These principally relate to tax trading losses of £846m. Of these tax losses, £698m have arisen in the UK business (tax effected: £133m). £558m (tax effected £106m) of the unrecognised deferred tax asset would be expected to be brought onto the balance sheet as the UK trading profits improve.

A £30.6m UK tax asset has been recognised at 31 December 2020 (2019: £21.1m) on the basis of forecast utilisation against future taxable income.

Taxes paid

Net corporate income tax of £35.9m (2019: £31.2m) was paid during the year, relating primarily to our operations in AsPac of £21.2m (2019: £19.4m), North America of £14.7m (2019: £12.1m), Europe of £1.3m (2019: £1.1m) and Middle East of £0.8m (2019: £1.1m). The Group's UK operations have transferred tax losses to its profitable joint ventures and associates giving a cash tax inflow in the UK of £2.1m (2019: £2.5m).

The amount of tax paid (£35.9m) differs from the tax charge in the period (£19.3m) mainly due to the effect of deferred tax credits on costs incurred in the current year which will lead to tax deductions in future years. In addition, taxes paid to/received from Tax Authorities can arise in different periods to the associated tax charge/credit and there is also a time lag on receipts of cash from joint ventures and associates for losses transferred to them.

Further detail is shown below of taxes that have been paid during the year. Amounts below categorised as corporation tax paid differs from the above as it only includes amounts paid to and received from Tax Authorities, therefore excludes amounts received from our joint ventures and associates. Withholding taxes, which form part of the net income tax paid, are shown within other taxes.

Total tax contribution

Our tax strategy of paying the appropriate amount of tax as determined by local legislation in the countries in which we operate, means that we pay a variety of taxes across the Group. In order to increase the transparency of our tax profile, we have shown below the cash taxes that we have paid across our regional markets.

In total during 2020, Serco globally contributed £686.1m of tax to governments in the jurisdictions in which we operate.

Taxes by category

For the year ended 31 December 2020	Taxes borne £m	Taxes collected £m	Total £m
Corporation tax	37.9	–	37.9
VAT and similar	10.0	185.1	195.1
People taxes	119.2	328.5	447.7
Other taxes	5.1	0.3	5.4
Total	172.2	513.9	686.1

Taxes by region

For the year ended 31 December 2020	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	80.8	263.2	344.0
AsPac	42.2	154.8	197.0
Americas	47.0	93.2	140.2
Middle East	2.2	2.7	4.9
Total	172.2	513.9	686.1

Corporation tax, which is the only cost to be separately disclosed in our Consolidated Financial Statements, is only one element of our tax contribution. For every £1 of corporate tax paid directly by the Group (tax borne), we bear a further £3.54 in other business taxes. The largest proportion of these is in connection with employing our people.

In addition, for every £1 of tax that we bear, we collect £2.98 on behalf of national governments (taxes collected). This amount is directly impacted by the people that we employ and the sales that we make.

Dividends

When dividend payments were suspended in 2014, the Board committed to resuming dividend payments to Serco's shareholders as soon as it judged it prudent to do so. During 2020, a final dividend was proposed in respect of the year ended 31 December 2019, however this was withdrawn in April 2020 as the potential impact on the Group of the Covid-19 pandemic was unknown. This remained the case when the Group announced its half year results during August 2020.

After reassessing the Group's liquidity and repaying all direct Government support the Group received in respect of the pandemic where there was a mechanism to do so, combined with the strength of the balance sheet at the end of 2020 and positive forecast performance into 2021 and beyond, the Board is recommending the payment of a final dividend in respect of the 2020 financial year of 1.4p, aligned to the recommended dividend and outlook as described in the Chief Executive's Review. The Group has also announced its intention to repurchase shares equivalent to an amount of £40m in 2021, of which £20m will be cancelled and the remainder used for existing share schemes. The dividend, subject to shareholder approval at the Annual General Meeting on 21 April 2021, would be paid on 4 June 2021.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,229.1m for the year ended 31 December 2020 (2019: 1,171.4m) and diluted weighted average number of shares was 1,254.3m (2019: 1,199.0m).

In the year, 10,000,000 (2019: 13,600,000) shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share plan schemes.

In May 2019, the company completed a placement of 111,216,400 new ordinary shares of 2p each raising net proceeds of £138.7m. There were no such placements in 2020.

Basic EPS before exceptional items was 9.90p per share (2019: 6.54p); including the impact of exceptional items, Basic EPS was 10.89p (2019: 4.31p). Basic Underlying EPS was 8.61p per share (2019: 6.31p).

Diluted EPS before exceptional items was 9.70p per share (2019: 6.39p); including the impact of exceptional items, Diluted EPS was 10.67p (2019: 4.21p). Diluted Underlying EPS was 8.43p per share (2019: 6.16p).

Cash flows

The UTP of £163.1m (2019: £120.2m) converts into a trading cash inflow of £196.4m (2019: £115.5m). The improvement in 2020 cash generation reflects the increase in profitability from revenue growth, delivery of cost efficiencies and improvements made in managing working capital within the Group throughout the year. The improvement in Trading Cash Flow is driven by operating profit before exceptional items increasing by £40.8m, a marginal increase in working capital outflow to £5.3m (2019: £0.1m) and a reduction in OCP utilisation to £1.8m (2019: £53.6m), although in 2019, £12.7m of the utilisation was not related to a cash cost but rather was related to the impairment of right of use assets created on adoption of IFRS16 Leases within onerous contracts. The working capital outflow of £5.3m is considered to be low given the fact that the Group experienced significant organic growth year on year. The improvement is a result of improved collections, particularly in the US and Middle East where there was a significant increase in receivables on certain contracts at the end of 2019, and better management of debtor days across the Group. The movement in working capital also benefits from £12.4m of tax deferrals in the US as a result of Covid-19. This amount is currently planned to be paid in equal instalments in 2021 and 2022. The amount has not been repaid early in a manner consistent with deferrals received in other jurisdictions, owing to the absence of a mechanism to do so.

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the year was an inflow of £134.9m compared to £62.0m in 2019. The improvement in FCF is largely as a result of improved trading cash inflows as discussed above.

The movement in Adjusted Net Debt is a reduction of £156.7m in 2020, a reconciliation of which is provided at the bottom of the following table.

The net cash inflow on acquisition and disposal of subsidiaries of £6.1m (2019: outflow £183.9m acquisition and £9.3m deferred consideration) includes £11.0m of consideration received by the Group for its share of the Viapath joint venture. Offsetting this are costs associated with the acquisition of Naval Systems Business Unit including deferred consideration and working capital adjustments as well as costs associated with the acquisition of Facilities First Australia Holdings Pty Limited.

Exceptional cash outflows of £2.0m as shown below differ to the net exceptional credit on other exceptional operating items of £1.5m due to cash payments associated with costs provided for in 2019.

For the year ended 31 December	2020 £m	2019 £m
Operating profit	179.2	102.5
Remove exceptional items	(12.5)	23.4
Operating profit before exceptional items	166.7	125.9
Less: share of profit from joint ventures and associates	(12.7)	(27.5)
Movement in provisions	16.2	(43.1)
Depreciation, amortisation and impairment of owned property, plant and equipment and intangible assets	39.2	43.3
Depreciation, amortisation and impairment of leased property, plant and equipment and intangible assets	93.9	75.6
Other non-cash movements	8.5	9.3
Operating cash inflow before movements in working capital, exceptional items and tax	311.8	183.5
Working capital movements	(5.3)	(0.1)
Tax paid	(35.9)	(31.2)
Non-cash R&D expenditure	(0.1)	(0.1)
Cash flow from operating activities before exceptional items	270.5	152.1
Dividends from joint ventures and associates	19.8	25.4
Interest received	0.3	0.4
Interest paid	(24.9)	(21.4)
Capital element of lease repayments	(100.8)	(70.2)
Capitalised finance costs paid	(0.9)	(1.2)
Purchase of intangible and tangible assets net of proceeds from disposals	(29.2)	(23.3)
Proceeds received from exercise of share options	0.1	0.2
Free Cash Flow	134.9	62.0
Net cash inflow/(outflow) on acquisition and disposal of subsidiaries, joint ventures and associates	6.1	(193.2)
Issue of share capital	–	138.7
Movements on other investment balances	0.5	0.2
Capitalisation and amortisation of loan costs	–	0.1
Exceptional items	(2.0)	(49.2)
Exceptional proceeds from loans receivable	1.2	–
Exceptional distribution from joint venture	1.9	–
Cash movements on hedging instruments	2.4	(2.0)
Foreign exchange gain on Adjusted Net Debt	11.7	2.1
Movement in Adjusted Net Debt	156.7	(41.3)
Opening Adjusted Net Debt	(214.5)	(173.2)
Closing Adjusted Net Debt	(57.8)	(214.5)
Lease liabilities	(402.6)	(369.9)
Closing Net Debt at 31 December	(460.4)	(584.4)

Finance Review continued

Net Debt

As at 31 December	2020 £m	2019 £m
Cash and cash equivalents	335.7	89.5
Loans payable	(388.8)	(305.0)
Lease liabilities	(402.6)	(369.9)
Derivatives relating to Net Debt	(4.7)	1.0
Net Debt	(460.4)	(584.4)
Exclude lease liabilities	402.6	369.9
Adjusted Net Debt	(57.8)	(214.5)

Average Adjusted Net Debt as calculated on a daily basis for the year ended 31 December 2020 was £209.2m (2019: £231.0m). Peak Adjusted Net Debt was £355.7m (2019: £356.8m).

Treasury operations and risk management

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

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

Liquidity and funding

As at 31 December 2020, the Group had committed funding of £642m (2019: £508m), comprising £347m of US private placement notes, a £45m term loan facility which was fully drawn and a £250m revolving credit facility (RCF) which was undrawn in its entirety. The Group does not engage in any external financing arrangements associated with either receivables or payables.

The Group's RCF provides £250m of committed funding for five years from the arrangement date in December 2018. The US private placement notes are repayable in bullet payments between 2021 and 2032.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our Treasury Policy requires us to maintain a minimum proportion of fixed rate debt as a proportion of overall Adjusted Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2020, £346.7m of debt was held at fixed rates and Adjusted Net Debt was £57.8m.

Foreign exchange risk

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

Credit risk

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

Debt covenants

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

Following the refinancing in December 2018, the debt covenants were amended to include the impact of IFRS15 Revenue from Contracts with Customers. The covenants continue to exclude the impact of IFRS16 Leases on the Group's results.

For the year ended 31 December	2020 £m	2019 £m
Operating profit before exceptional items	166.7	125.9
Remove: Amortisation and impairment of intangibles arising on acquisition	9.0	7.5
Trading Profit	175.7	133.4
Exclude: Share of joint venture post-tax profits	(12.7)	(27.5)
Include: Dividends from joint ventures	19.8	25.4
Add back: Net non-exceptional charges to covenant OCPs	4.9	7.2
Add back: Net covenant OCP utilisation	(0.7)	–
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non-acquisition intangible assets	30.2	35.8
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	5.8
Add back: Foreign exchange credit on investing and financing arrangements	(0.7)	(0.8)
Add back: Share based payment expense	11.2	11.6
Other covenant adjustments to EBITDA	(7.2)	9.8
Covenant EBITDA	224.8	200.7
Net finance costs	25.9	21.8
Exclude: Net interest receivable on retirement benefit obligations	1.2	2.1
Exclude: Movement in discount on other debtors	0.1	0.1
Exclude: Other dividends received	0.4	–
Exclude: Foreign exchange on investing and financing arrangements	(0.7)	(0.8)
Add back: Movement in discount on provisions	(0.2)	(1.2)
Other covenant adjustments to net finance costs resulting from IFRS16 Leases	(9.1)	(6.6)
Covenant net finance costs	17.6	15.4
Adjusted Net Debt	57.8	214.5
Obligations under finance leases – in accordance with IAS17 Leases	24.1	8.9
Recourse Net Debt	81.9	223.4
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	(1.7)	4.1
Covenant adjustment for average FX rates	21.3	7.6
CTNB	101.5	235.1
CTNB / covenant EBITDA (not to exceed 3.5x)	0.45x	1.17x
Covenant EBITDA / covenant net finance costs (at least 3.0x)	12.8x	13.0x

Finance Review continued

Net assets summary

As at 31 December	2020 £m	2019* £m
Non current assets		
Goodwill	669.6	674.2
Other intangible assets	80.6	96.5
Property, plant and equipment	441.7	392.6
Other non current assets	44.5	50.1
Deferred tax assets	83.2	63.9
Retirement benefit assets	114.6	78.3
Total non current assets	1,434.2	1,355.6
Current assets		
Inventories	21.4	18.3
Contract assets, trade receivables and other current assets	614.1	610.4
Current tax assets	4.9	6.8
Cash and cash equivalents	335.7	89.5
Total current assets	976.1	725.0
Total assets	2,410.3	2,080.6
Current liabilities		
Contract liabilities, trade payables and other current liabilities	(585.5)	(558.9)
Current tax liabilities	(21.6)	(18.7)
Provisions	(62.1)	(58.4)
Lease obligations	(109.3)	(84.6)
Loans	(89.7)	(56.1)
Total current liabilities	(868.2)	(776.7)
Non current liabilities		
Contract liabilities, trade payables and other non current liabilities	(57.0)	(72.7)
Deferred tax liabilities	(26.9)	(26.7)
Provisions	(115.9)	(103.4)
Lease obligations	(293.3)	(285.3)
Loans	(299.1)	(248.9)
Retirement benefit obligations	(34.9)	(24.0)
Total non current liabilities	(827.1)	(761.0)
Total liabilities	(1,695.3)	(1,537.7)
Net assets	715.0	542.9

* During the year ended 31 December 2020, the Group finalised fair value measurements for a number of contracts which had previously been provisionally valued associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in Note 7 to the Consolidated Financial Statements.

At 31 December 2020 the Group had net assets of £715.0m, a movement of £172.1m from the closing net asset position of £542.9m as at 31 December 2019. The increase in net assets is mainly due to the following movements:

- An increase in property, plant and equipment of £49.1m, which includes an increase in right of use assets of £42.2m. This is matched by a corresponding increase in lease liabilities net of repayments made of £32.7m. The increase in leases is primarily due to the Group's Asylum Accommodation and Support Services Contract ("AASC").
- An increase in the net retirement benefit asset of £25.4m. Market volatility seen throughout 2020 meant a decrease in risk free rates and a corresponding decrease in the discount rate applied to the defined benefit obligation associated with the Group's most significant pension scheme. Whilst this increased the liability associated with the scheme, it also served to increase the rates of return on more secure assets, such as government bonds, meaning the buy and hold approach adopted by the scheme saw favourable net returns during the year.
- Cash and cash equivalents have increased by £246.2m which includes a net exchange gain of £1.8m. In the year the Group has generated cash inflows of £270.5m from operations before exceptional as well as raising \$200.0m (£155.9m) through an additional US private placement. The net spend on tangible and

intangible assets was £29.2m and the capital element of lease repayments in the year was £100.8m.

- Net loan balances have increased by £83.8m due to the offsetting impacts of the Group obtaining an additional £155.9m through a US private placement but repaying £50.0m of the revolving credit facility that was drawn at the end of 2019. Other movements on the loan balances are predominantly favourable foreign exchange gains.

Provisions

The total of current and non current provisions has increased by £16.2m since 31 December 2019. The movement is predominantly due to:

- An increase in restructuring and other employee provisions of £15.7m.
- An increase of £5.4m across employee terminal gratuity and long service award provisions.
- A decrease of £2.0m on onerous contract provisions to £14.5m (2019: £16.5m). OCP balances are subject to ongoing review and a full bottom-up assessment of the forecasts that form the basis of the OCPs is conducted as part of the annual budgeting process. The net release to OCPs was £0.2m in 2020 (2019: £1.0m charge) and utilisation was £1.8m (2019: £53.6m).

In 2020, the release from OCPs is reflective of the Group's ability to forecast the final years of contracts which are nearing completion. Additional charges of £5.7m (2019: £10.6m) have been made in respect of future losses on new and existing onerous contract provisions to reflect the updated forecasts and releases of £5.9m (2019: £9.6m) as settlements are agreed and contracts near completion. The additional charges represent certain operational issues and the associated risks which are resulting in charges to existing onerous contract provisions.

The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS37 *Provisions, Contingent Liabilities & Contingent Assets*. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. As at 31 December 2020, the provision recognised in respect of this portfolio of contracts is £8.5m (2019: £6.2m).

Acquisitions

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited ("FFA" or "Facilities First Australia"), for consideration of A\$52.6m, subject to standard net working capital adjustments. Further details on this post year end transaction are provided in Note 38 to the Consolidated Financial Statements.

On 16 February 2021, the Group announced that it had agreed to acquire Whitney, Bradley & Brown, Inc ("WBB"), a leading provider of advisory, engineering and technical services to the US Military, for \$295m from an affiliate of H.I.G. Capital. The acquisition will increase the scale, breadth and capability of Serco's North American defence business and will give Serco a strong platform from which to address all major segments of the US defence services market. The acquisition will be immediately accretive to earnings and will be funded through existing debt facilities; it is expected to complete in the second quarter of 2021, subject to regulatory approvals. As the transaction is yet to complete, the financial results and impact of the transaction have not been recognised in these Consolidated Financial Statements.

Disposals

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath").

The Group had historically impaired its investment in Viapath as it was not receiving any returns from this joint venture due to the level of investment being made back into the business, therefore the carrying value of the Group's investment in Viapath was nil. Following the announcement during the first half of 2020 that Viapath had been unsuccessful in the tender process to provide

pathology services to five South East London hospitals as well as associated GP surgeries, the Group exited the joint venture, selling its stake to the remaining two investors. Total cash receipts on the date of the disposal were £15.1m. Of the £15.1m, £1.2m was in respect of a loan that had previously been impaired through exceptional costs and so the reversal has been recognised as an exceptional gain. An additional amount of £2.9m was received as a profit share which, because the Group's investment in Viapath was fully impaired, resulted in a profit being recognised. Since £1.0m of the impairment was recorded within exceptional items in prior years, the associated profit was treated as exceptional with the remainder being recognised within Underlying Trading Profit. The remaining £11.0m was received in respect of the Group's interest in Viapath and so, with no carrying value attributed to Viapath, this has been recognised as a gain on disposal of the investment in the joint venture.

Covid-19

The impact of Covid-19 on the Group during the year at a profit level has been broadly neutral, however this includes significant gross impacts. Whilst the Group has been successful in providing support to governments in the majority of the locations in which it operates, there are areas of the Group that have fared less favourably. Our assistance with the UK testing programme, NHS Test and Trace, and Immigration contracts in AsPac and the UK have resulted in positive contributions to the Group's profit. Offsetting these are higher costs within the Group's Health contracts, the Group's Leisure business in the UK which has seen significant adverse profit impacts from the lockdowns, both local and national, and the Group's Transport contracts both in the UK and the Middle East which have seen significant reductions in volumes; these include the Merseyrail joint venture and Caledonian Sleepers contract in the UK and Aviation businesses in the Middle East. Some of these adverse impacts have been mitigated with commercial customer support to offset the impact of the pandemic on costs and volumes. The Group has also paid every member of front-line staff an ex-gratia bonus of £100 resulting in a total cost of c.£5m.

The Group's cash flow has benefitted from £12.4m of tax deferrals in the North America division owing to the absence of a mechanism to repay these early, but all other deferrals of taxes have been repaid. Additionally, the Group has returned all furlough amounts received in respect of the Group's employees in the UK, meaning the Group has not received any government assistance in respect of Covid-19 and the US tax deferrals will be repaid early as soon as there is a mechanism to do so.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and, therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

Information on other contingent liabilities can be found in Note 29 to the Consolidated Financial Statements.



Angus Cockburn
Group Chief Financial Officer
24 February 2021

Risk Management

Managing Risk

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

Our ERM approach seeks to identify, understand, mitigate and manage risks at all levels of our business that might disrupt our ability to execute our strategy and to deliver against our customer and contractual commitments. Each risk response reflects the nature of the activities being undertaken, and the level of control considered necessary to protect our interests and those of our stakeholders.

In 2020 the sudden emergence of the Covid-19 pandemic is a live example of the impact low-probability but high consequence risks can have, and has tested all of our people and processes, including those involved in risk management. It has not, however, diverted us from our wider risk management and governance processes which have continued to develop in maturity, effectiveness and capability.

Risk management approach

Our approach to the risk management process is not about eliminating risk; it is about identifying risks, understanding their potential impact, and devising strategies for mitigating and managing them. As a business which serves Governments, we have greater exposure than many to some types of potential risks such as changes in Governments, but less than many to other risks such as Brexit, as we import and export very little across borders. Our Corporate Risk profile describes the principal risks that the Board considers face the Group. These risks are agreed through an annual review with the Executive Committee and through quarterly challenge and review at either the GRC, CRC, Audit Committee or Board. Our principal risks and uncertainties are detailed on page 72.

Risk management lifecycle



Risk Management Process

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

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

Each principal risk has a Subject Matter Expert (SME) and a nominated Executive Committee sponsor allocated to it, supporting its review and management. Detailed reviews of our principal risks are carried out as part of the GRC reporting schedule, as well as topical "deep dives" that focus on pertinent risk themes. These deep dives may be focused on a region, led by divisional CEOs or on particular functional or business unit areas involving specialists from our business operations. This new risk focused approach facilitates flexibility that allows us to be responsive to changes in our risk profile throughout the year whilst still maintaining appropriate coverage of our principal risks and Divisional risk landscapes.

Each of our principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept as well as informing our decision-making as to the level of resource required for mitigation. These statements are aligned to our Values, Code of Conduct and other ethical requirements to support and drive the right risk culture within the Group.

As part of our ERM approach we have dedicated Compliance Assurance teams who operate as a second line function focusing on validation and testing of key controls to augment annual control self-assessments and annual compliance attestation statements. Key controls are mapped against our principal risks and our SMS and testing plans are reviewed annually to identify and respond to any significant amendments in the control environment, such as the impact of Covid-19. Whilst many controls are tailored to meet divisional requirements there are consistent themes across our control environment to include clear oversight and reporting by divisional management teams, robust bid governance processes, a focus on the health, safety and wellbeing of our colleagues and service users and prioritisation of maintaining integrity and a strong ethics culture. In addition to our in-house assurance teams 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.

Emerging Risks

As part of the review of our Corporate risk profile we have a process to identify and monitor emerging risks to ensure that adequate steps are being taken to understand and mitigate new risk themes before they materialise and to assess any impact on our principal risks. This assessment is completed through individual discussions with our Executive Committee members, via input from our Divisional risk teams and through the monitoring of external macro risk trends. Two key themes on our emerging risk landscape include the growing focus by stakeholders on Environmental, Social and Governance (ESG) risks and the ongoing Covid-19 pandemic. We also continue to monitor the potential implications associated with Brexit.

ESG: ESG risks, which we acknowledge are of a concern to many stakeholders, span both our internal and external risk landscape. Whilst Governance and Social risks apply to all of our operations, our Environmental footprint varies enormously between our businesses. The management and governance of our ESG agenda is a fundamental focus for us and is managed via our Corporate Responsibility (CR) Framework. Structured around our key stakeholder groups, each element of the CR Framework is defined and driven by specific Group strategies and policy systems with appropriate Board oversight enabled through the CRC. More information on our approach to ESG can be found on page 40.

Covid-19: We continue to manage the impact of the Covid-19 pandemic and associated emerging risks as a coordinated Group and Divisional response, leveraging the increasing maturity of our ERM approach and in particular our crisis management and business continuity capabilities and processes. Our risk management and established governance processes have operated throughout the pandemic and have provided a framework to identify and manage Covid-19 related stresses on our principal risks.

Working closely with subject matter experts across the business we have reviewed the impact of Covid-19 on each of the key controls for our principal risks, completed an assessment of the coverage of our assurance mechanisms across the three lines of defence and adjusted our controls focus and compliance assurance plans accordingly. This approach helped us identify interdependencies between our principal risks and enabled us to place additional emphasis on the efficacy of common controls. As a result, we have concluded that Covid-19 has increased our risk profile. However, we are confident in our control environment and do not see this increased trend replicated across our entire residual risk status and we continue to monitor the impact of the pandemic across all risks. We talk further about our role in supporting government and associated reputation considerations in our ESG Impact and Responsibility Report. Key activities in our mitigations against Covid-19 have included execution of robust risk and Covid-19 secure site assessments, significant investment in PPE and mental health programmes, and work-from-home programmes for our back office and call-centre staff. We are also carefully monitoring our supply chain as well as the complex and fluid legal landscape in relation to Health and Safety and Covid-19 safe practices across each division. Further detail on our Covid Response can be found on page 38.

Brexit: We have continued to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on Serco over the last 12 months. Reiterating our position outlined in our 2019 Annual Report, we think it unlikely that Brexit will directly impact Serco to a material extent. We will continue to proactively assess the potential impacts of Brexit as we transition and progress through 2021, noting that impacts will also be considered in individual principal risk mitigations where appropriate.

Principal Risks and Uncertainties

Changes during the Year

We have made one significant amendment to our risk profile, separating Health, safety and wellbeing as a standalone new principal risk. This clearly articulates our focus and ongoing commitment to the health and wellbeing of our workforce and service users to reflect not only the impact of Covid-19 but also the importance of longer-term health and wellbeing concerns.

Further minor amendments have been made to the descriptions of two risks. Firstly, we have adjusted the narrative on the Major information security breach risk to ensure that it is clear that we also mitigate cyber attacks as part of this risk. We have also broadened the risk description in Failure to grow profitably to capture the complexity of pricing long term contracts and associated risks of onerous contract provisions (OCPs).

Summary of principal risks and uncertainties

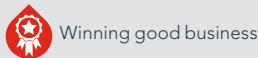
Principal risks, as described below, have been reviewed by the Executive Committee, GRC and the Board. Each risk is classified as a strategic, financial, operational, people, hazard, or legal and compliance risk. The risks are described on the following pages, together with the relevant strategic business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

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 79, which takes account of the principal risks in its assessment.

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

Summary of Principal Risks

Strategic risks	Failure to grow profitably	Failure to manage our reputation	
Financial risks	Financial control failure		
Operational risks	Major information security breach or cyber-attack	Contract non-compliance, non-performance or misreporting	Failure of business-critical partner, supplier or sub-contractor
People risks	Failure to act with integrity	Failure to attract, engage and retain key talent	Health, safety and wellbeing
Hazard risks	Catastrophic incident		
Legal and compliance risks	Material legal and regulatory compliance failure		



Winning good business



Executing brilliantly



A place people are proud to work



Profitable and sustainable



Increasing risk



Decreasing risk



No change



New

The trend indicator depicts the trend of our residual risk rating internally over the course of 2020.

STRATEGIC RISKS

Failure to grow profitably 🏆 £

Failure to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets, could restrict revenue growth which may in turn have an adverse impact on Serco's profitability. Our business is linked to changes in the economy, fiscal and monetary policy, political stability and leadership, budget priorities, and the perception and attitude of governments and the wider public to outsourcing, which could result in decisions not to outsource services or lead to delays in placing work.

In 2020 demand has been impacted by the pandemic in different ways across our sectors and geographies; some businesses have seen very significant falls in revenues (Leisure, Transport); others (Citizen Services, Immigration) have had to respond to much higher demand; others, particularly in the Health business, have seen their costs increase. Overall, our revenues and Underlying Trading Profit increased by 20% and 36%, which implies that this risk should be receding. However, the long-term impact of the very significant amount of debt that Governments have incurred as a result of the pandemic is unclear, so we continue to rate this risk as stable.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
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.	Material controls: <ul style="list-style-type: none"> Serco Group and Divisional Strategy including periodic strategy reviews. Investment Committees. Sector-specific Centres of Excellence ("CoEs") and Value Propositions. Serco Institute to develop thought leadership and innovation for our markets. Business Lifecycle Review Team ("BLRT") Process. Pipeline and Business Development ("BD") spend reviews. Divisional Performance Reporting ("DPR") process. 	Mitigation priorities: <ul style="list-style-type: none"> Review pipeline opportunities to ensure all market activity is accurately captured and that budgets are allocated accordingly. Review portfolio for new attractive organic expansion areas. Continue to improve leveraging of Serco best practice and innovation and refinement of bid development processes. Continue to adopt a robust bid qualification process. Retain focus on effective management for major bids. 	

Failure to manage our reputation 🏆 ⭐️ 🙌 £

Failure to manage our reputation will mean that customers will be less likely to give us new business or renew existing business. It will also impact our ability to attract and retain high-quality people and may lead to a reduced share price and the related consequences of a reduced valuation of the business.

The Covid-19 pandemic has seen increased external scrutiny of Serco, especially in the UK, where there has been widespread criticism of the NHS Test and Trace programme, some of which has focused on the role of outsourcing companies in general and Serco in particular. We discuss aspects of this further in our ESG Impact and Responsibility report on page 40. The potential impact of this is reflected in the increased risk trend. However, the Government has continued to increase the amount of Test & Trace work it awards to us, and we have experienced no difficulty in recruiting staff at all levels. It is therefore our view that this does not reflect the quality of our operations and accordingly does not seem to have had any significant impact on our business.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
Failure to clearly define what Serco stands for and how we wish to be seen. Not understanding our customers' and stakeholders' expectations. Insufficient focus on articulating and evidencing the benefits of private provision of public services. Failure to manage incidents appropriately.	Material controls: <ul style="list-style-type: none"> Serco Values clearly defined and understood. Group Reputation, Brand and Communication Standard. Customer and stakeholder relationship, communication and engagement programmes. Proactive engagement with the media and continual media monitoring. Media training and understanding of reputational issues for senior management. Incident management processes and crisis management plans. 	Mitigation priorities: <ul style="list-style-type: none"> Continual refinement and improvement of existing communication and marketing controls and approaches. Heightened efforts to explain and evidence the benefits and innovations that Serco brings to the provision of public services including targeted efforts to tackle negative and inaccurate accounts of our role in Covid-19 response in the UK. Serco Institute publishing innovative thinking on public service delivery. 	

Principal Risks and Uncertainties continued

FINANCIAL RISKS

Financial control failure

Financial control failure may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a heightened risk of error and fraud; poor quality data leading to poor business decisions, or an inability to forecast accurately; the failure to create a suitable capital structure, and an inability to make critical financial transactions, leading to financial instability, potential business losses, and negative reputational impact.

At the start of the Covid-19 pandemic it was recognised that the risk of financial control failure was heightened due to the fast moving nature of the business, risk of absenteeism in both the in-house and outsourced finance organisation and disruption to core financial processes and data quality caused by new operating environments resulting from the items noted above and remote working. The Group mobilised quickly to ensure that key mitigants were put in place such as adequate remote working capacity within the Group's outsourced finance teams, working capital was closely monitored and data was captured to understand the impact of Covid-19 on the Group's financial results. To date the risks which were identified at the start of the pandemic have not materialised and our core financial processes and controls have continued to operate without significant disruption. We have focused the assurance programme on the additional risks identified as a result of Covid-19. Work continues to ensure that the finance operating model is sustainable and effective, and the Company is working closely with its third-party service provider to ensure this is the case. The European business was subject to a cyber attack in January 2021. The results of the investigation into this attack, produced by both our internal investigations and by our external advisors, to date have not identified any compromise to the financial information used for the basis of year end reporting or to the integrity of financial results from the European Business Unit.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Not setting the right tone from the top.</p> <p>Poor financial processes.</p> <p>Inadequate financial controls within the business.</p> <p>Challenges of new finance operating model.</p>	<ul style="list-style-type: none">• Group Governance and Finance strategy.• Standardised and mandated financial systems, processes (including forecasting and reporting) and data structures.• Governance and review procedures associated with managing the quality of services delivered by third party suppliers.• Skilled and adequately trained finance staff.	<ul style="list-style-type: none">• Enhance the financial controls and assurance framework, with reference to readiness for the Brydon Report recommendations and other Corporate Governance regulatory changes.• Continue to deliver effective financial reporting and transformation savings.• Continuously improve forecasting and reporting processes and data analysis.• Deliver global finance process improvement and efficiency through automation and robotics.• Ensure talent is retained within the finance function.	

OPERATIONAL RISKS

Major information security breach or cyber attack 🚨 ⚡ ⚹

A major information security breach resulting in the loss or compromise of sensitive information (including personal or customer) or wilful damage resulting in the loss of service, causing significant reputational damage, financial penalties and loss of customer confidence.

We continue to make significant investments in our cyber-security both at our end-points and in our core network. In most of our jurisdictions we test ourselves against Government standards including CES+ in the UK, and we also regularly run penetration tests. We have a continuing programme of upgrading old desktops and laptops, and the number of devices outside centralised management and monitoring is decreasing rapidly. We have our own in-house Security Operations Centre which monitors the networks and manages our response to cyber threats.

Whilst our cyber security capabilities are improving constantly, the fact is that the same applies to the capabilities of those who would do us harm. As evidenced in a cyber attack in our European business in January 2021 and recent attacks on our competitors involving ransomware our industry is a particular target for extortion, and this, along with the increased public profile we have had as a result of our involvement with government contracts to respond to the Covid-19 pandemic, leads us to conclude that this risk is increasing.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
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.	Material controls: <ul style="list-style-type: none"> Enterprise Architecture Boards & Solution Review meetings. Serco Management System ("SMS") including detailed guidance on minimum security controls. IT security infrastructure, processes and controls including isolated backups. Privileged Access Management and multi-factor Authentication for our centralised managed systems. External assessments and scenario based cyber security testing and incident planning. Regular attestation statements on security controls compliance. 	Mitigation priorities: <ul style="list-style-type: none"> Implementation of recommendations arising out of the European Cyber attack investigation. Ongoing continuous improvement programmes for our Security Operations Centres to maintain effective risk identification. Continued routine vigilance and proactive vulnerability identification coordinated through our Security Operations Centres. Continued use of global key security risk indicators and regular third party testing and best practice configuration reviews to support mitigation priorities. Leveraging Cloud adoption to ensure standardised control mechanisms. A focus on the behavioural aspects of our employees. 	

Contract non-compliance, non-performance or misreporting 🚨 ⚹

Failure to deliver contractual requirements or to meet agreed service performance levels and report against these accurately may lead to significant financial penalties, legal notices, onerous contract provisions or, ultimately, early termination of contracts.

The reporting structure, the systems and the monthly business performance reviews which are conducted at contract, Business Unit and Divisional level across our business provide a rigour that allows senior management early visibility of material contract performance or compliance issues. Contract teams have reacted positively throughout the Covid-19 pandemic, maintaining good customer communications and ensuring service delivery and contract compliance has continued where possible.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
Poor understanding of contract obligations. Poor systems/IT. Lack of process and controls. Ineffective assurance and human error. Poor leadership and culture.	Material controls: <ul style="list-style-type: none"> Contract Management Application ("CMA"). Monthly performance reviews at Contract, Business Unit and Divisional level. Business Lifecycle Review Team ("BLRT") process. Communication of Our Values and Code of Conduct. Speak up process ("Ethicspoint"). 	Mitigation priorities: <ul style="list-style-type: none"> Contract Management training (Global and Divisional). Greater visibility of performance through contract performance dashboard ("Gauge"). Continued focus on consistent approach to risk assessment. Operational excellence improvement plans. Ongoing ethics, business conduct and compliance training. 	

Principal Risks and Uncertainties continued

Failure of business-critical partner, sub-contractor or supplier

As a result of the failure of a business-critical partner, sub-contractor or supplier to deliver and/or perform to the required standard, Serco may be unable to meet its customer obligations or perform critical business operations which could result in a financial, operational or reputational impact on Serco.

During the Covid-19 pandemic there has not been an outright business critical supplier failure although we experienced some disruption with PPE supply in the initial stages of the pandemic. We are in regular contact with key suppliers to assess supply disruption and risk mitigation plans.

In 2020 we launched the Supplier Management Programme, initially for fifty of our most critical suppliers. The programme has three core components; Contract Compliance – awareness and management of all key contract obligations/deliverables on both Serco and our suppliers; Risk Management – identifies and assesses risks of business critical suppliers; this will be done by tracking and reporting on the effectiveness of 12 key controls and Performance Management – working together with the business and suppliers to measure, assess and manage supplier performance and drive optimal performance. We assess this risk as stable.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Ineffective procurement and supply chain governance.</p> <p>Identification of significant suppliers.</p> <p>Limited oversight.</p> <p>Lack of resilience in the supply chain.</p>	<ul style="list-style-type: none">Procurement policy, standards and procedures.Contracts with appropriate Key Performance Indicators /Service Level Agreements.Supplier Due Diligence (pre-qualification/on-boarding) including Ethical supplier checks and financial supplier onboarding checks.Supplier Management Programme roll out for most business-critical suppliers.Bi-annual Procurement review process of all business-critical suppliers.	<ul style="list-style-type: none">Complete roll out of Supplier Management Programme to all appropriate major rated business-critical suppliers.Establish process for checking supplier Business Continuity Plans & Disaster Recovery plans are in place, regularly reviewed & tested for all major rated business-critical suppliers.Establish supplier financial checks in ME and ongoing monitoring in AsPAC for all business-critical suppliers.Establish alternative supply chain plans for all major rated business-critical suppliers.	

PEOPLE RISKS

Failure to act with integrity

If we were ever found to have engaged in a significant corrupt or dishonest act (bribery, fraud, misreporting, cheating or lying) it would lead to customers being reluctant to do business with us. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals may feel they are being placed under to deliver financial or operational performance and might lead to: the loss of existing business; restrictions on our ability to bid or win new business; our ability to attract high-quality people or partners; or may impact shareholder, investor and financial institutions' confidence in Serco. Covid-19 has brought additional challenges to many parts of the business, and these could lead to an increase in inherent risk; however, we remain confident in the controls we have in place to manage this, and we rate this risk as stable.

Building on work from 2019 we have rolled out improved ethics training, strengthened our internal capability through professional qualifications and continued to reinforce our strong tone at the top.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Weak culture.</p> <p>Increased pressure to deliver.</p> <p>Ineffective systems and processes.</p>	<ul style="list-style-type: none">Strong, meaningful and understood Values and required behaviours which are role modelled by leaders.Robust governance (Corporate Responsibility Committee; Executive Committee; Investment Committee; Divisional Executive etc.) exercising oversight of decisions within delegated authorities.Effective policy and procedures including financial controls and processes defined within the SMS and supported by our Code of Conduct.Independent Speak Up process supported by corporate investigations.	<ul style="list-style-type: none">Deliver our commitments under the DPA.Drive greater leadership ownership and accountability for a strong ethical culture.Embed Ethics Compliance controls and procedures as an integral part of business processes.Continue to strengthen Ethics Compliance resource and competency.Strengthen assurance provided by Ethics Compliance controls.	

Failure to attract, engage and retain key talent

It is our ambition to be one of the best managed companies 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. This would restrict Serco's ability to deliver on its customer obligations, execute its strategy and achieve its business objectives whilst driving employee pride in the organisation.

This risk specifically 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. In response to Covid-19, a great deal of work was done to streamline and simplify our approach to attracting and onboarding new colleagues. Extensive use of social media to support recruitment activity and the "speed boarding" global process has now been embedded leading to significant efficiencies in bringing new staff into Serco.

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

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

Health, safety and wellbeing

The diversity of services provided by Serco exposes our employees, customers and third-parties to a wide range of health, safety and wellbeing risks inherent to our operations in both work and public environments. These may be caused by a process or control failure or by the wrong behaviour and inadequate safety culture. As responsible employers we recognise the complexity of wellbeing risk and aim to ensure that working for Serco does not impose any additional wellbeing challenges on our employees.

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

Much of 2020 has been dominated by our response to the Covid-19 pandemic where we have focused on the protection of our employees, customers and third parties, seeking to consider all elements of this risk. Our Health and Safety team formed a key part of our Covid-19 response across the business, facilitating key mitigations including design and implementation of Covid-19 site specific risk assessments, remote working risk assessments, training and communication and the development and roll out of mental health resources. Whilst this risk is a new principal risk this year, we recognise that Covid-19 presents an ongoing challenge and elevates the position of this risk on our corporate profile.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
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. Health and wellbeing challenges. Behavioural failures/ human error resulting in injury or incident. Impact of the Covid-19 pandemic.	Material controls: <ul style="list-style-type: none"> Serco Health, Safety, Environmental and Wellbeing (HSEW) Strategies and Safety Management System (policies and procedures inc. Covid-19 Secure and specific guidance and policies). Safety and wellbeing training, communications and guidance (inc. Serco Essentials) and individual development plans and processes based on role and operational risk. Spontaneous and planned preventative, maintenance, inspection and repair programmes. Effective incident/near-miss observations reporting and investigations and effective use of ASSURE (independent reporting and compliance system). Regular organisation wide Covid-19 specific guidance and communication. 	Mitigation priorities: <ul style="list-style-type: none"> Continue to embed updated Health, Safety, Environment and Wellbeing strategies and a positive "just" culture. Increase Zero Harm Engagement and Safety Moment activity across the Regions. Drive wellbeing agenda and ensure appropriate focus at a corporate level. Continuing 1st, 2nd and 3rd line assurance activities. Further embed the Serco (Health, Safety, Environmental and Wellbeing) Strategies and Safety Management System (policies and procedures inc. Covid-19 Secure and specific guidance and policies). Further development of the ESG agenda and programme of improvements. 	

Principal Risks and Uncertainties continued

HAZARD RISKS

Catastrophic incident

An event (incident or accident) as a result of Serco's actions or failure to effectively respond to an event that results in multiple fatalities, severe property/asset damage/loss or very serious environmental damage.

Each Division is continuing to assess risks at a contract level to ensure that all relevant material risks have been identified and to assess and assure mitigations, including insurance cover, are appropriate. Contracts considered inherently high risk are reviewed regularly. Existing business continuity and crisis management plans and processes have been used and served the business well during the Covid-19 pandemic and, despite a challenging insurance market, we have secured comprehensive insurance protection as a key mitigant for this risk.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Factors resulting in unsafe conditions.</p> <p>Ineffective or inadequate policies, standards and procedures.</p> <p>Lack of capability and experience.</p> <p>Lack of safety cultural alignment.</p> <p>Insufficient safety management oversight.</p> <p>Inadequate response to a catastrophic event.</p>	<p>Material controls:</p> <ul style="list-style-type: none">Serco Health, Safety, Environmental and Wellbeing (HSEW) Strategies and Safety Management System (policies and procedures).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).Crisis and incident emergency response plans and testing.Risk transfer via insurance where appropriate.	<p>Mitigation priorities:</p> <ul style="list-style-type: none">Continue to embed updated HSEW strategies and a positive "just" culture.Ongoing work within divisions to identify and assess contract specific risks and liabilities.Continued training in insurance and contractual risk management.Review and optimisation of the insurance programme and captive structure.Review levels and adequacy of compliance assurance.Continued review and sharing of lessons learned throughout the Covid-19 pandemic recovery phases.	

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Failure to comply with laws and regulations could cause significant loss and damage to the Group 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.

The Covid-19 pandemic introduced additional complexity to the legal compliance framework and we recognise that this may increase our risk exposure. In addition, various laws and regulations that apply across the business continue to be subject to increased focus and attention, including Anti-Bribery and Corruption laws, Market Abuse Regulation, Data and Privacy laws, Modern Slavery, Trade Compliance and Human Rights.

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

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Lack of governance and oversight.</p> <p>Failure to comply with the SMS and contractual obligations.</p> <p>Failure to identify and respond to material changes in legal and regulatory requirements, including fast moving new laws on Covid-19.</p> <p>Lack of awareness by employees of the legal and regulatory requirements placed upon them and the business.</p> <p>Inadequate provision of systems and tools.</p> <p>Legal or regulatory compliance failure by a third-party supplier/agent/partner.</p> <p>Class action litigation and increasing regulatory fines.</p> <p>Compliance with SFO DPA obligations.</p>	<p>Material controls:</p> <ul style="list-style-type: none">Alerts on material legal and regulatory obligations and changes.Legal and contract experts aligned to various specialist areas across the business supported by mandated and bespoke training.Investment Committee and Business Life cycle Review Team ("BLRT") bid process and governance.Third-party ethical and general due diligence on all suppliers.Covid Pandemic Steering Group monitoring and communicating legal changes.Speak up process and case management system.	<p>Mitigation priorities:</p> <ul style="list-style-type: none">Compliance with Deferred Prosecution Agreement obligations.Automating legislation tracking and horizon scanning on key new laws and regulations.Greater use of data and trend analysis.Embedding risk based third-party due diligence including modern slavery risk assessment.Continuing development of Serco Essentials training programmes including Code of Conduct training.Continuing to improve key contract and compliance assurance reviews.	

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code published by the Financial Reporting Council in July 2018, the Directors have assessed the prospects of the Group over the three-year period to 31 December 2023.

3 Year Term

The Directors believe that a three-year period is appropriate since it reflects the fact that:

- The Group has limited visibility of contract bidding opportunities beyond three years.
- Approximately 62% (2019: 52%) 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 financials for the last three years of this period are largely extrapolations of key assumptions used in the budget process. Given the difficulties of forecasting over a longer time period it would be inappropriate to draw definitive conclusions on the future prospects of the Group and challenging to develop appropriate sensitivities and mitigation strategies. Therefore, whilst the five-year business plan continues to be developed, its nature is more akin to a strategic goal rather than a forecast based on known assumptions; this makes assessing the longer-term viability of the Group a challenge.

Financial forecasts

In assessing the prospects of the Group over the 3-year period, the Directors have also considered the Group's current financial position as well as its financial projections in the context of the Group's debt facilities and associated covenants. These financial projections are based on a bottom up Budget exercise for 2021 and 2022 which has been approved by the Board, and an extrapolation to 2023 using higher level assumptions based on local market growth rates and identified opportunities.

The Group's covenant net debt balance at 31 December 2020 is £57.8m. The Group's base projections indicate that debt facilities and projected headroom are adequate to support the Group over the next three years. The Group's financial plan has been stress-tested against key sensitivities which could materialise as a result of the crystallisation of one or a number of the principal risks, the objective being that the future viability of the Group is tested against severe but plausible scenarios.

Funding Facilities

During the period of assessment, £116m of the Group's US Private Placement (USPP) loan notes and the acquisition facility of £45m, mature. In October 2020 the Group raised \$200m in the USPP market, with a minimum term of five years. The majority of these funds will be used to repay the USPPs due to mature during the period of assessment. The long-term forecasts supporting this statement assume that if the acquisition facility is not refinanced there is still sufficient liquidity headroom. The Group refinanced its bank debt at the end of 2018 and the associated five-year funding facility provides the financial platform to continue to invest in the growth of the Group. The refinanced bank debt term expires at the end of the three-year assessment period, and the Group will look to retain access to a revolving credit facility on similar terms. The facility is not currently drawn and there are no plans to utilise the facility within the Group's liquidity projections, although its use remains an option available. The Group's financial position has also been enhanced by its improved ability to generate Free Cash Flow from its growing profits and the significant reduction in cash outflow

from 2020 associated with historic loss-making contracts and significant restructuring programme which took place between 2015 and 2019.

Impact of Covid-19

As with most organisations, the Group's operations have been impacted by the Covid-19 pandemic. All operations in the UK have been impacted with the most significant negative impacts being in the leisure business, rail and ferry contracts, and health portfolio, although through commercial customer support such as Emergency Measures Agreements and other contractual support mechanisms, these negative impacts have been mitigated to some extent. In addition, the Group has been, and continues to support, the Government's plan to manage the impact of the pandemic through its mobilisation of test centres and call handling within the NHS Test and Trace programme. The profit generated from these new contracts has helped offset the unmitigated losses from Covid-19 within the UK&E Division. The Group's overseas operations in Air Traffic Control within the Middle East and the delivery timetable for the Antarctic Research and Supply Vessel (ASRV) in AsPac have also been negatively impacted due to the pandemic, however the immigration assistance work in Australia, required to manage lower extraditions, has also had a positive impact on the Group's profitability.

In common with many companies, at the start of the Covid-19 crisis the Group sought to protect its business and colleagues from the unprecedented levels of uncertainty and, as a precaution, took support from governments to preserve its liquidity. The Group has subsequently repaid all direct support received from governments, including the VAT deferral in the UK early as a result of improved liquidity through better working capital management and its success in raising \$200m from a US Private Placement in October 2020. Overall, whilst the Covid-19 pandemic has been disruptive to the Group's operations, the Group has managed the impact well and its profitability marginally improved as a result of being able to deliver on the vast majority of its current contractual commitments, receiving some customer support and through new contract opportunities.

Following the development of an effective vaccine, the impact of Covid-19 on the Group's operations and financial performance is expected to come to an end during 2021/2022, although there may be some longer term impacts within the Group's transport contracts with international travel and regular commuting taking the longest to return to pre-Covid 19 levels.

Risks

The Board and the Group Risk Committee continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, business model, future performance, solvency and liquidity. Management and mitigations of those principal risks have been taken into consideration when assessing the future viability of the Group. The Group's principal risk review, as set out on pages 72 to 78, considers the impact of these principal risks and the mitigating controls that are in place.

We have previously highlighted the importance of the external market on our ability to win new contracts. Whilst we expect revenue and profit to be steady over the next two-year budget period, growth thereafter is more difficult to assess given the nature of the market.

Viability Statement continued

However, we will continue to focus on margin improvement through improved efficiency whilst focusing business development investment on the most attractive market opportunities.

The risks associated with the Group implementing its longer-term strategy continue whilst market conditions remain challenging in the UK, the Group's largest market, and this may act as a drag on the Group's estimate of the weighted average rate of market growth in the medium term, which was also impacted from the unexpected loss of its AWE Joint Venture which is due to end in June 2021, although the impact of this is less significant than it would have been in previous years due to the increased profitability of the Group and lower reliance on its dividend income.

Severe but plausible scenarios

In order to model severe but plausible scenarios to stress test the potential impact of Covid-19 on the Group's forecast, the Directors have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and slower recovery in usage of leisure centres in the UK through to the end of 2021, without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Directors have also considered, for the plausible downside scenario, the absence of any repeat of contracts associated with the UK Government's response to the pandemic. The Directors have reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts. In the United States, the recent change in administration and escalation of Covid-19 cases has made an assessment of the impact of the response to the pandemic difficult to estimate, as the response has taken a different approach to that seen under the previous administration. In an extreme case, the Directors have modelled the negative financial impact of Covid-19 as experienced during the year to 31 December 2020, without the mitigations outlined above, through another two three-month lockdown periods during the assessment period, and allowed for the impact of a change in direction of the response in the United States. The scenario indicates that the Group has sufficient liquidity to withstand additional waves of the virus if the impact is consistent with that experienced during the first wave.

Additional sensitivities tested include a reduction in the win rates for rebids, extensions and the pipeline of new opportunities, a delay in delivering margin improvements and a potential penalty arising from risks such as contract non-compliance, major information security breach or a material legal and regulatory compliance failure. A reverse stress test of the Group's profit forecast has been completed using different assumptions of new business and rebid win rates and the Group's profit margin. This analysis shows that the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, or it can be unsuccessful on 40% of its target new business and rebid wins combined with a profit margin 50 basis points below the Group's forecast before the Group has insufficient liquidity available in April 2023, on the assumption that none of the debt which matures during the period of assessment is refinanced, nor does the Group have access to any other sources of funding. April 2023 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 62% of total revenues are expected to be rebid in the next three years.

The Group's rebid win rate excluding COMPASS SNI and Viapath, neither of which contributed to the Group's profits, has been in excess of 85% over the last two years. While these sensitivities will change in line with the Group's order book and contract performance going forward, including the impact of new contract wins and losses, the ability for the Group to absorb sensitivities of this scale within its existing financing arrangements drove the assumptions below which the Directors felt appropriate to disclose in making this viability statement.

Mitigations

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

Conclusion and assumptions

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

- The Group's estimates regarding the impact of Covid-19 do not prove to be materially incorrect and, should the pandemic worsen through an ineffective vaccine or a different but more severe strain, that the commercial customer support which has been seen to date continues;
- The Group is able to refinance the £250m RCF which matures at the end of the three-year term;
- There is no significant unexpected contract attrition of existing work that becomes due for extension or rebid over the next three years;
- There is no significant reduction in scale of existing contract operations as a result of customer policy or other changes;
- There is no significant deterioration in new bid and rebid win rates from those anticipated;
- The Group is able to continue the execution of its strategy growing revenue and profits; and
- The Group is not subject to any material penalties or direct and indirect costs and/or debarment from bidding for new contracts.

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

David Eveleigh

Group General Counsel and Company Secretary
24 February 2021

Corporate Governance

Contents

82	Board of Directors
86	Chairman's Governance Overview
89	Board and Governance
91	Group Risk Committee Report
94	Audit Committee Report
99	Nomination Committee Report
101	Corporate Responsibility Committee Report
103	Compliance with the UK Corporate Governance Code
105	Remuneration Report
134	Directors' Report

Strategic Report

Corporate Governance

Financial Statements

Board of Directors



Sir Roy Gardner
Chairman

A N R C GR



Rupert Soames OBE
Group Chief Executive Officer

A N R C GR



Angus Cockburn
Group Chief Financial Officer

A N R C GR

Appointed to the Board

June 2015 (Chairman since July 2015)
Sir Roy Gardner will retire as Chairman at the Annual General Meeting in April 2021.

Skills and experience

Sir Roy Gardner is an experienced chairman with over 40 years' experience in both executive and non-executive roles in a variety of businesses in the services, energy, industrial, chemicals, electronics, insurance and leisure sectors. He is a Fellow of the Chartered Association of Certified Accountants and the City and Guilds Institute and has an Honorary Doctorate from Thames Valley University.

Previous roles

Chairman of Compass Group PLC, Connaught plc and Manchester United and Plymouth Argyle football clubs. Chief Executive of Centrica plc, Managing Director of GEC-Marconi Limited and a Director of GEC plc, Senior Independent Director of William Hill plc and a Non-Executive Director of Willis Group Holdings Limited and Laporte plc. Chairman of the Advisory Board of the Energy Futures Lab at Imperial College London, the Apprenticeship Ambassadors Network and Mainstream Renewable Power Limited and Senior Adviser to Credit Suisse.

Current external commitments

Chairman of Pressure Technologies plc.
Senior Independent Director of Mainstream Renewable Power Limited.
Chairman of the Board of Governors at St. Albans School.
Chairman of R.A.G. Associates Limited.

Appointed to the Board

May 2014

Skills and experience

Rupert Soames is an experienced chief executive officer having held the role for nearly 20 years in other companies before joining Serco as Chief Executive in 2014. He studied Politics, Philosophy and Economics at Oxford University, where he is now a visiting fellow, and was President of the Oxford Union.

Previous roles

Chief Executive of Aggreko plc and the Banking and Securities Division of Misys plc. Senior Independent Director and a member of the Remuneration, Nomination and Audit Committees of Electrocomponents plc.

Current external commitments

Senior Independent Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc.

Appointed to the Board

October 2014

Angus Cockburn will retire as Group Chief Financial Officer at the Annual General Meeting in April 2021.

Skills and experience

Angus Cockburn is a chartered accountant with considerable experience gained in a variety of sectors before joining Serco in 2014. He has an MBA from the IMD Business School in Switzerland, is an Honorary Professor at the University of Edinburgh and a member of the Institute of Chartered Accountants of Scotland.

Previous roles

Chief Financial Officer and Interim Chief Executive of Aggreko plc, Managing Director of Pringle of Scotland and senior finance positions at PepsiCo Inc including Regional Finance Director for Central Europe. Non-Executive Director of Howdens Joinery Group plc and Senior Independent Director and a member of the Audit, Remuneration and Nomination Committees of GKN plc.

Current external commitments

Senior Independent Director, Chair of the Audit Committee and a member of the Nomination and Remuneration Committees of Ashtead Group plc. Non-Executive Director of The Edrington Group Limited.

**John Rishton**

Senior Independent Non-Executive Director

**Appointed to the Board**

September 2016

John Rishton will succeed Sir Roy Gardner as Chairman following the Annual General Meeting in April 2021 and will stand down as Chairman of the Audit Committee.

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 client 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.

Current external commitments

Non-Executive Director and Chair of the Audit Committee of Unilever plc (until the 2022 Annual General Meeting).

Chair elect and Chair of the Audit Committee of Informa plc.

Non-Executive Director of Associated British Ports (until 30 April 2021).

**Kirsty Bashforth**

Independent Non-Executive Director

**Appointed to the Board**

September 2017

Skills and experience

Kirsty Bashforth is an experienced executive and board member within the construction, services, consumer goods, health and education industries, with expertise in change management, safety and risk management, organisational culture and leadership. She has an MA (Cantab) in Economics from the University of Cambridge and is the author of "Culture Shift - a practical guide to managing organizational culture". She is currently Chief People and Communications Officer of Diaverum AB.

Previous roles

Non-Executive Director, Chair of the Safety, Health and Environment Committee and a member of the Nomination, Remuneration, Risk Management and Audit Committees of Kier Group plc.

Non-Executive Director and Chair of the Remuneration Committee of Diaverum AB.

Chief Executive Officer of QuayFiveLimited. Senior executive at BP plc having spent over 24 years with the company in a variety of commercial roles, including Group Head of Organisational Effectiveness, where she led BP's global agenda on culture, diversity and change management.

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 Communications Officer of Diaverum AB.

Non-Executive Director, Chair of the Remuneration Committee and a member of the Ethics & Compliance Committee of PZ Cussons plc.

Key to Committee membership

(Red highlight denotes Chair)

A Audit Committee

N Nomination Committee

R Remuneration Committee

C Corporate Responsibility Committee

GR Group Risk Committee

Board of Directors continued



Eric Born
Independent Non-Executive Director

A N R C GR



Ian El-Mokadem
Independent Non-Executive Director

A N R C GR



Tim Lodge
Independent Non-Executive Director

A N R C GR

Appointed to the Board

January 2019

Skills and experience

Eric Born is an experienced chief executive officer with experience in the aviation services, logistics and retail sectors. He has an MBA from the University of Rochester, New York, and is a graduate of the University of Applied Sciences in Zurich.

Previous roles

Chief Executive Officer of Swissport International Limited and Wincanton plc and Non-Executive Director and member of the Audit, Nomination and Remuneration Committees of John Menzies plc.

Current external commitments

None

Appointed to the Board

July 2017

Skills and experience

Ian El-Mokadem is an experienced chief executive officer with international experience in business transformation and in acquisitions and disposals. He has a BSc (Hons) in Economics and Statistics from University College London and an MBA from INSEAD.

Previous roles

Chief Executive Officer of V. Group and Exova Group plc, Group Managing Director, UK & Ireland of Compass Group plc and senior management positions with Centrica plc and the global management consultancy, Accenture.

Current external commitments

Director of Roegate Consulting Limited.

Appointed to the Board

February 2021

Tim Lodge will succeed John Rishton as Chairman of the Audit Committee on 21 April 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 10 of which as Chief Financial Officer. He has considerable experience in leading significant strategic and operational transformation and driving commercial performance. He has an MA (Cantab) 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 Aryza AG.

Current External Commitments

Non-Executive Director of SSP Group plc.
Non-Executive Director and Chair of the Audit Committee 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.
Chair of the Trustee of the Royal Free London Nurses and Midwives Trust.



Dame Sue Owen DCB
Independent Non-Executive Director

A N R C GR



Lynne Peacock
Independent Non-Executive Director

A N R C GR

Key to Committee membership
(Red highlight denotes Chair)

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- C** Corporate Responsibility Committee
- GR** Group Risk Committee

Appointed to the Board

August 2020

Skills and experience

Dame Sue has significant experience of government and economic policy, having held senior roles in several government departments. She has a MA in Economics from Cambridge University and an MSc in Economics from Cardiff University.

Previous roles

Permanent Secretary for the Department for Digital, Culture, Media and Sport, Civil Service LGB&T (straight ally) Champion and overall Diversity and Inclusion Champion, chair of the Charity for Civil Servants and senior posts in the Department for Work and Pensions, Department for International Development, Foreign Office and HM Treasury.

Current external commitments

Chair of the Royal Ballet Governors.
Specialist partner at Flint-Globals.
Non - Executive Director of Pantheon International plc.
Non - Executive Director of Pool Reinsurance Company Limited and Pool Reinsurance (Nuclear) Limited.
Non - Executive Director of Methera-Global Communications.
Trustee of Opera Holland Park.
Trustee of The Windsor Leadership Trust.

Appointed to the Board

July 2017

Lynne Peacock will succeed John Rishton as Senior Independent Director following the Annual General Meeting on 21 April 2021.

Skills and experience:

Lynne Peacock has over 25 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 Committees of Standard Life Aberdeen plc.
Non-Executive Director and Chair of the Audit Committee of Scottish Water.
Senior Independent Director, Chair of the Remuneration Committee and member of the Audit, Risk and Nomination Committees of Nationwide Building Society.
Non-Executive Director and a member of the Audit and Risk, Nominations and Remuneration Committees of Jardine Lloyd Thompson Group plc.
Chief Executive of Woolwich plc and National Australia Bank Limited's UK businesses.

Current external commitments

Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc.
Senior Independent Director and Chair of the Remuneration Committee of TSB Bank plc.
Chair of the charity, Learning Disability Network London.

Corporate Governance Report

Chairman's Governance Overview



Sir Roy Gardner
Chairman

This report sets out how Serco is governed and the key activities of the Board of Directors in promoting effective governance during 2020. Further information on how the Company complied with the UK Corporate Governance Code during 2020 is set out on pages 103 and 104.

2020 Highlights

- Continued reinforcement of Committee membership with appointments to the Audit, Group Risk and Nomination Committees
- Further improvements to internal procedures to improve Board effectiveness following the internal Board evaluation undertaken in 2019
- Maintaining momentum in our approach to "Employee Voice" throughout the organisation
- Evolution of the remit of the Group Risk Committee

Dear Shareholders

I am pleased to present the Corporate Governance Report for 2020. The Board believes that good governance is key to the long-term success of the Group and is committed to achieving high standards of governance.

I am pleased to confirm that, during 2020, the Company has complied fully with the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council in July 2018 ("the Code"). Details of how the Company has complied with the Code are set out on pages 103 and 104.

Recognising how vitally important workforce engagement is to operational and cultural continuity, especially during periods of sustained crisis, we have focused on maintaining momentum and establishing a healthy rhythm in our Employee Voice approach, Colleague ConneXions.

As lead Board representative for Employee Voice, Kirsty Bashforth has demonstrated tremendous leadership in working with the business to actively strengthen dialogue between the Board and all employees. Kirsty has invested a great deal of time and effort, inspiring both the Board and our colleagues throughout Serco to make the very most of this opportunity. In this, Kirsty has been supported by our new Group Colleague Communications Manager, a former Custodial Operations Manager appointed from among our frontline colleagues to deliver our Employee Voice ambitions.

In the last 18 months, our expanding schedule of Colleague ConneXions activity has been extremely well received, doing much to increase and improve workforce engagement outcomes.

Although challenging, rather than suppressing our efforts, Covid-19 has stimulated greater interest, innovation and engagement. To an initial programme of live social media discussions and podcast-style shows involving Non-Executive Directors, we have added virtual site visits and participation in employee network events. We have also repeated the opportunity for employees to address the Board through our annual survey, with 14,278 comments received in 2020.

With our direction set and approach embedded, we now welcome Dame Sue Owen to the role of lead Non-Executive Director for Employee Voice, taking over from Kirsty in January 2021. With her extensive experience of managing a very large workforce and her work on improving the diversity and inclusivity agenda whilst in Government, she will continue the good work done to date and we look forward to further progress in 2021 and beyond.

Following a thorough review of the Terms of Reference of each of the Board's Committees the previous year to ensure that they were appropriate to meet the requirements of the Code, their content has been reviewed by the Group General Counsel and Company Secretary to ensure they remain appropriate. This includes ensuring that the schedules of matters considered on an annual basis by the Board and each of its Committees are regularly reviewed to ensure that all relevant matters are considered at the correct forum and that there are lines of communication between the Committees themselves and between each Committee and the Board.

Effectiveness

As Chairman, I am responsible for providing leadership to ensure that the Board operates effectively. I have been supported in this by all the Directors, in particular John Rishton who was appointed our Senior Independent Director on 1 January 2019. Despite the challenges created by Covid-19 in meeting together as a Board, we were able to continue with our scheduled programme of Board meetings (and several additional meetings convened to address the impact of Covid-19 and the need to discuss related commercial and corporate matters) both by video conference and, when permitted, at our offices in Hook where the design of our offices enabled us to follow government guidance such that we were able to meet in person. I am pleased to say that, because we were able to meet the challenges presented, meetings continued to be held effectively, with presentations from management and third parties, including the Crown Commissioner representing the UK Cabinet Office.

The annual reviews of Board effectiveness help the Board to consider how it operates and how its operations can be improved. This year, the review was undertaken internally and the findings of this review have provided us with ideas to further improve the manner in which the Board operates, which together with progress against recommendations from the externally facilitated evaluation undertaken in 2018 and the internal evaluation carried out in 2019, are set out on page 90.

Changes in the Board

As already reported, Dame Sue Owen joined the Board on 3 August 2020 and became a member of the Audit and Group Risk Committees. On 30 August 2020, Rachel Lomax stood down as a Director.

Following a review of the Board's Committees, Ian El-Mokadem succeeded Rachel Lomax as Chair of the Group Risk Committee and became a member of the Nomination Committee on 31 August 2020.

As announced on 28 May 2020, I have decided to stand down as Chairman at the forthcoming Annual General Meeting which will be held on 21 April 2021. Following a detailed succession planning process, it was decided that John Rishton should be appointed as Chairman when I stand down.

When John Rishton becomes Company Chairman, Lynne Peacock will assume the role of Senior Independent Director and Tim Lodge, who was appointed as a Non-Executive Director and a member of the Audit, Group Risk and Remuneration Committees on 21 February 2021, will become chair of the Audit Committee.

We also announced, on 17 December 2020, that Angus Cockburn would be standing down as Chief Financial Officer at the Annual General Meeting. He will be succeeded by Nigel Crossley, who is currently Group Director of Finance and who will join the Board after the AGM.

Contract, Management and Employee engagement

Non-Executive Directors are encouraged to continually increase their knowledge of the operations of the Company, its customers, its employees, end users and the communities it works in. This includes visits to contract sites which enable them to witness the day-to-day service provided by our contract teams as well as meeting customers and other stakeholders, and holding "town hall" sessions to hear the views of our employees. The visits provide a deeper level of understanding of the risks and opportunities faced by our contract teams on a daily basis, together with the Group-wide challenges regarding the scale and variety of our operations. In response to the restrictions brought about by

Covid-19, the number of physical visits it was possible to undertake was considerably reduced, but a number of "virtual site visits" were made by Non-Executive Directors and a programme of such visits for 2021 has been prepared.

During site visits and visits to the Group's international offices, both "virtual" and face-to-face, Non-Executive Directors take the opportunity to discuss issues with the wider workforce and senior management. In a normal year the Non-Executive Directors would have attended the Oxford Management Programme for senior management. Although involvement in this programme was limited in 2020 due to Covid-19, Non-Executive Directors did participate in our Embrace and Zero Harm "Fireside chats" with staff and attended our International Day of Disabled People.

In addition, prior to the restrictions introduced due to Covid-19, Non-Executive Directors were able to attend Divisional Management Conferences at which they had the opportunity to reinforce the importance of good governance.

Diversity

The Board is committed to ensuring the development of gender and ethnic diversity amongst Serco's senior management population and annually reviews its recommendations on gender and ethnic diversity for senior management roles. It recognises that there is more to do not just at the Board level but also in regard to a Senior Leadership level.

Whilst the Board has become more balanced over recent years, culminating, during the whole of 2010, with 33% of the Board being women, we recognise we still have more to do, not least with regard to other areas of diversity at Board level. With the appointment of Tim Lodge to the Board on 21 February 2021 the Board recognises that for a short time until I leave the Board at the AGM in April 2021 the gender diversity at a Board level will be below 33% and will go back to that level after the AGM. We felt it was important to get Tim onto the Board for a period of time before taking on the role of the Audit Committee Chair when John Rishton assumes the role of Chairman of the Board after the AGM.

Whilst good progress is being made across the Group in many aspects of diversity and inclusion, sustainable change requires a long-term perspective and this continues to be a key focus for the Company which the Board will continue to address when considering refreshment of the Board. In relation to women in leadership roles at the Executive Committee and their direct reports level, the average for the year was over 25% and the level for the Hampton-Alexander review was 24.7%. The number of women in our global leadership team of 347 senior leaders was 29%. It is well recognised by the Board that the Company needs to improve female representation at this level of management and the Company has an active and targeted plan to improve this in 2021.

More information is provided in the Nomination Committee Report on pages 99 and 100 and in the Strategic Report on pages 40 to 49.

Shareholder engagement

Details on how the Board engaged with shareholders is set out in the s172 statement on page 51. Members of the Board met or communicated with a number of shareholders to discuss a range of issues including governance and remuneration issues such as the remuneration policy.



Sir Roy Gardner

Chairman

24 February 2021

Corporate Governance Report continued

Chairman's Governance Overview continued

What the Board has achieved in 2020

- Reviewed and approved the Group's results for the year ended 31 December 2019 and the half year ended 30 June 2020.
- Reviewed and approved the release of an earlier than usual trading update in June 2020 and unscheduled trading updates in April and October to address the impact of Covid-19 on the Group's performance.
- Considered the impact of Covid-19 on the Company's financial position, in particular, liquidity, and its operational requirements (in particular people and supply chain) and on its existing business and the additional requirements of governments worldwide in meeting the challenges presented by the global pandemic.
- Regularly reviewed financial performance.
- Considered the re-introduction of dividend payments which, as a result of the impact of Covid-19, was deferred until 2021.
- Considered and approved the repurchase of shares.
- Reviewed and agreed budgets.
- Reviewed, challenged and refreshed the Tax and Treasury Policy, including review of current and future financing.
- Reviewed and approved the issued of US\$200m (£154m) of US Private Placement loan notes to ensure the continued strength of the Company's capital structure.
- Considered and approved the issue of 10 million new shares to the Company's Employee Benefit Trust to satisfy awards under the Company's share schemes.
- Received an update on the Company's pension schemes.
- Reviewed and challenged the strategy of the Group and supported management in the Group's strategic development.
- Received, discussed and reviewed regular reports from the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.
- Reviewed and approved the acquisition of Facilities First Australia Holdings Pty. Limited and considered other merger and acquisition opportunities.
- Reviewed the transition and integration of newly acquired businesses.
- Received operational "deep dives" from across the Divisions and from the Shared Services operation as part of the monitoring of the Group's operations.
- Reviewed and challenged the Centres of Excellence for Healthcare and Justice & Immigration.
- Considered the impact of Brexit.
- Reviewed and challenged management on the progress of the Group's business development pipeline.
- Considered the impact of the loss of existing contracts, in particular AWE, and reasons for the failure of some bids and re-bids.
- Focused on and reviewed key individual material bids rebids, including in particular, Acacia Prison and Fiona Stanley Hospital in Australia, the UK Defence Infrastructure Organisation and Gatwick Immigration Removal Centres in the UK, Dubai Metro in the UAE and Goose Bay in Canada.
- Considered the relative merits of operating in new geographies.
- Received a presentation from the Crown Commissioner on the UK Government's perception of outsourcing in general and the Company in particular.
- Changes to Board and Committee membership including the succession of the Chairman, the Chief Financial Officer and the Chair of the Audit Committee as well as the continued refreshment of the Board.
- Considered succession planning both for the Board and the senior management team.
- Received detailed reports of the proceedings of each of the Board's Committees and approved recommendations where appropriate.
- Reviewed the level of fees payable to Non-Executive Directors.
- Considered and implemented recommendations arising from the Board performance evaluation.
- Reviewed the Gender Pay position.
- Considered a report on Diversity and Inclusion.
- Considered and approved the Company's Modern Slavery Statement.
- Considered investor views on and the Company's approach to sustainability and ESG factors and the reporting thereof.
- Received regular reports from the Head of Investor Relations.
- Engaged with the Company's stakeholders.
- Received regular reports on ethics and compliance.
- Received regular reports on matters affecting the Group's employees.
- Reviewed employee engagement including "Employee Voice".
- Attended management meetings and site visits in person and by video conference.
- Attended Management conferences in each of the Divisions.
- Continued to drive improvements in and received regular reports on Health, Safety and Welfare, including briefings on employee welfare as a consequence of Covid-19.
- Reviewed, challenged and refreshed the Environmental and Health, Safety & Welfare policies.
- Continued enhancement of risk management.
- Received regular legal and governance reports.
- Considered changes in governance, both implemented and proposed, revising procedures where appropriate.
- Considered the alternative arrangements for the Company's Annual General Meeting given restrictions on travel and the need for social distancing.
- Focused on the continued embedding of the Serco Values within the Group.
- Reviewed progress made under the compliance and implementation plan agreed with the Serious Fraud Office under the Deferred Prosecution Agreement and approved the first of three annual reports to be submitted to the SFO.
- Received reports on the programme to further strengthen the Group's IT resilience.

Board priorities for 2021

During 2021, the Board will continue to oversee those matters referred to above with particular focus on:

- the Company's approach to ESG issues
- Cyber security
- Long term strategy
- Organisational and operational efficiency
- Stakeholder engagement
- the continued impact of Covid-19
- the effects of Brexit
- the evolution of the approach to Risk Management
- Board training

Board and Governance

The Board has a comprehensive corporate governance framework, with clearly defined responsibilities and accountabilities to safeguard long-term shareholder value, which provides an effective platform to realise the Group's strategy.



The Company's governance structure is illustrated above. There is a schedule of matters reserved for the Board which is available on the Company's website. The Board has delegated certain of its responsibilities to the Audit, Corporate Responsibility, Group Risk, Nomination and Remuneration Committees, the terms of reference of each of which are also available on the Company's website. In addition, there is a Disclosure Group which meets to consider the disclosure of information to meet legal and regulatory obligations under the Market Abuse Regulation.

The Executive Committee is chaired by the Group Chief Executive Officer and additionally comprises the Group Chief Financial Officer, Divisional Chief Executives, the Group General Counsel and Company Secretary, the Group Chief Operating Officer and the Group Director of Strategy and Communications. The Committee has delegated responsibility from the Board to ensure the effective direction and control of the business and to deliver the Group's long-term strategy and goals.

The Investment Committee comprises the Group Chief Executive Officer, the Group Chief Financial Officer, the Group General Counsel and Company Secretary and other members of the management team. It acts on behalf of the Board to review, monitor and approve bids, mergers, acquisitions and disposals and other corporate activity within specific authority limits delegated by the Board.

The Approvals and Allotment Committee comprises the Group Chief Executive Officer, the Group Chief Financial Officer and the Group General Counsel and Company Secretary. This Committee acts on behalf of the Board between Board meetings in respect of matters delegated to it by the Board and to finalise matters already approved in principle, including the approval of documentation for shareholders, the declaration of interim and the recommendation of final dividend payments and the allotment of shares.

The table below gives details of attendance of Board and Committee meetings during 2020. On those few occasions when Directors were unable to attend meetings due to conflicting appointments, their views are sought by the Chair of the Board or the relevant Committee in advance of the meeting to ensure they are taken into account at the meeting. During the year, both in response to the impact of Covid-19 and the need to discuss related commercial and corporate matters at short notice, six additional meetings of the Board were held. As these meetings were called at short notice, there were occasions where not all Directors were able to attend but, as with scheduled meetings, the views of any Directors who were unable to attend were sought prior to the meeting.

	Board	Audit	Corporate Responsibility	Group Risk	Nomination	Remuneration
Sir Roy Gardner ^{1,3}	15/16	–	4/4	–	6/8	5/5
Rupert Soames	16/16	–	4/4	–	–	–
Angus Cockburn ³	15/16	–	–	–	–	–
Kirsty Bashforth	16/16	–	4/4	5/5	–	5/5
Eric Born ³	15/16	6/6	4/4	–	–	–
Ian El-Mokadem ³	15/16	–	4/4	5/5	4/4	–
Rachel Lomax ²	10/11	4/4	–	4/4	3/4	–
Dame Sue Owen	6/6	3/3	–	2/2	–	–
Lynne Peacock	16/16	6/6	–	–	8/8	5/5
John Rishton ¹	16/16	6/6	–	5/5	6/8	5/5

Notes:

1. Sir Roy Gardner and John Rishton did not attend the Nomination Committee meetings on 14 and 24 September 2020 at which the succession of the Chairman was discussed.
2. Rachel Lomax was unable to attend the Board and Nomination Committee meetings on 6 February 2020 and 16 June 2020 respectively, dates on which she had other commitments.
3. Sir Roy Gardner, Angus Cockburn, Eric Born and Ian El-Mokadem were each unable to attend one of the six additional Board meetings convened at short notice to discuss the impact of Covid-19.

Corporate Governance Report continued

Board and Governance continued

Board evaluation

An internal evaluation was undertaken in 2020 using a questionnaire based on the UK Corporate Governance Code. This evaluation, acknowledging progress on areas identified in the previous external evaluation carried out in 2018 and the internal evaluation carried out in 2019, concluded that the Board and its Committees continued to operate effectively. Much work has been undertaken in embedding the Corporate Responsibility Framework, but it was agreed that it was important to ensure that it continued to address the promotion of the Company's contribution to wider society and to ensure that workforce policies continue to support long term sustainable success. The need to ensure that such policies evolve as necessary and enable greater assessment and monitoring of culture was noted. The Board also needs to be able to check that policy, practices and behaviour remain aligned with the Company's purpose, values and strategy. It was agreed that embedding those processes would ensure that Environmental, Social and Governance issues are addressed and continue to be an important focus of the Board, including the enhancement of existing processes to ensure that account is taken of all stakeholders' interests by the Board.

Appointment, induction and training

The Chairman is responsible for ensuring that an appropriate induction is provided to new Board members. The induction programme is specifically tailored to the needs of the incoming Director and includes circulation of the Board's policies and procedures, meetings with senior management and contract site visits which, during 2020, were undertaken virtually.

Training is made available to and provided to the Board on a range of governance and other issues.

Individual training needs are identified as part of the annual appraisal process and Directors are encouraged to take advantage of both internally and externally provided training opportunities.

Although, as previously mentioned, site visits and involvement in management training, meetings and events (all of which are an important part of training) were curtailed owing to Covid-19, all Non-Executive Directors undertook the key elements of the internal training which is undertaken by management and some Non-Executive Directors have attended Divisional management meetings by video conference.

External directorships

The Company has a policy which allows the Executive Directors to accept directorships of other quoted companies and to retain the fees paid, provided that they have obtained the prior permission of the Chairman. In accordance with the Code, no Executive Director would be permitted to take on more than one Non-Executive Directorship in a FTSE 100 company or the Chairmanship of such a company.

Angus Cockburn was Senior Independent Director, Chair of the Audit Committee and a member of the Nomination and Remuneration Committees of Ashtead Group plc throughout the year and was appointed a Non-Executive Director of The Edrington Group Limited on 1 September 2020. He has additionally been appointed as Chairman of James Fisher and Sons plc with effect from 1 May 2021.

Rupert Soames was Senior Independent Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc throughout the year.

Conflicts of interest

Every Director has a duty to avoid a conflict between their personal interests and those of the Company. The provisions of Section 175 of the Companies Act 2006 and the Company's Articles of Association permit the Board to authorise situations identified by a Director in which he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. The Board undertakes regular reviews of the external positions and interests held in and arrangements made with third parties by each Director and, where appropriate, to authorise such conflicts. Notwithstanding the above, each Director is aware of their duty to notify the Board should there be any material change to their positions or interests during the year. Directors do not participate in Board discussions or decisions which relate to any matter in which they have, or may have, a conflict of interest.

Group Risk Committee Report

Group Risk Committee members

Ian El-Mokadem (Chair)

Kirsty Bashforth

Tim Lodge (appointed 21 February 2021)

Rachel Lomax (resigned 30 August 2020)

Dame Sue Owen (appointed 3 August 2020)

John Rishton

Dear Shareholders

Having been a member of the Committee since 2017 I am delighted to have assumed the role of Chair and to oversee the ongoing evolution of Enterprise Risk Management at Serco. I would like to thank my predecessor, Rachel Lomax, for her excellent work as Chair. During Rachel's tenure, Serco's approach to risk management evolved considerably and this has left the Group with a strong platform which we will continue to develop. Dame Sue Owen and Tim Lodge have joined us as a new members and we welcome the benefit of their knowledge and experience to the Committee.

Throughout 2020 the Committee has continued to oversee the Group's efforts to enhance its risk management capability and the way that the Risk Management Framework has been embedded at Divisional level. We have continued to review the risk profile on a quarterly basis and, during these sessions, have held action orientated discussions around our principal risks and their mitigations.

Unsurprisingly, the Committee focused much of its attention this year on the uncertainties presented by the Covid-19 pandemic. This was facilitated through regular quarterly reviews of the principal risks, augmented by an additional session where the Risk Committee met with all other members of the Board present to review Covid-19 specific impacts on our risk profile and associated internal controls environment. We have also spent time considering the emerging risk landscape with a Covid-19 lens. The maturity of our ERM framework and the associated cross divisional, cross functional relationships proved effective in leveraging an effective, timely and coordinated response to the pandemic particularly in reference to the linkages between risk, compliance assurance, insurance, business continuity and crisis management. In addition, our coordinated approach to Covid-19 threats further demonstrated the benefits of cross committee collaboration and we will endeavour to continue and evolve this collaboration into 2021.

Despite the challenges presented by Covid-19 we have also continued to:

- conduct "deep dives" with Divisions, considering and challenging their approach to their material risks to gain a deeper understanding of the management approach to risk management generally;
- examine and debate detailed updates from principal risk subject matter experts to gain a deeper understanding of risk status;
- review divisional risk registers to understand their alignment with the Group's principal risks; and
- ensure that Divisions have adequate capability to implement the Group's Risk Management Framework.

During the year we have supported the Group ERM function to drive process improvements and endorse developments towards more integrated Enterprise Risk Management methodology. As part of continued process improvements, we have introduced deep dives into topical risk themes delivered by Business leads to help improve assurance and oversight into how risk management is executed within the Business Units.

Following a review by the Executive Committee, including a review of external and emerging risk trends, it was agreed that we would create a new principal risk to separate Health, safety and wellbeing from the Catastrophic incident principal risk, recognising our ongoing commitment to this critical area of importance.

Our governance of principal risks has remained unchanged in 2020, and we will continue to extend our oversight over Compliance Assurance in 2021.

The Committee recognises the ongoing commitments under the DPA and notes that elements of the planned improvements associated with the DPA remain included in a number of the mitigations captured against our principal risks. We will continue to oversee execution of these mitigations via our risk management process and through regular review of the DPA plan.

Ian El-Mokadem

Chair of the Group Risk Committee

24 February 2021

Corporate Governance Report continued

Group Risk Committee Report continued

Committee's responsibilities

The Committee advises the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environments. The key responsibilities of the Committee are:

- overseeing the effectiveness of the Group's risk management framework, including the assessment of all the principal risks facing the Group, and the action being taken by management to mitigate risks that are outside of the Group's risk appetite;
- challenging and advising the Board on the current risk exposures facing the Group, future risk strategy and reviewing regular risk management reports which enable the Committee to consider the process for risk identification and management;
- assessing how key Group risks are controlled and monitored by management;
- in conjunction with the Audit Committee, reviewing the Group's risk assessment processes, and ensuring both qualitative and quantitative metrics are used to inform the Board's decision-making; and
- reviewing the Group's capability to identify and manage emerging risks, in conjunction with the other Board Committees as appropriate.

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

Membership and attendees

The Committee is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. Biographical details for each member of the Committee are provided on pages 82 to 85. The Committee met five times during the year, including an additional meeting where the Risk Committee met with all other members of the Board present. Details of attendance at meetings are set out on page 89. Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group General Counsel and Company Secretary, the Deputy Company Secretary and the Group Director Enterprise Risk.

Activities of the Committee during 2020

During the year the Committee's key activities included:

- oversight and assurance over the Group's response to Covid-19 including impact on principal risks, key controls and assurance plans and insight into lessons learnt process and actions;
- receiving updates regarding the Group's principal risks, detailing key changes and trends, and emerging risks;
- undertaking in-depth reviews ("deep dives") of the following risks: Failure to manage our reputation, Contract non-compliance, non-performance or misreporting, Catastrophic incident, Material legal and regulatory compliance failure, and Health, safety and wellbeing. Failure to act with integrity was reviewed by our Corporate Responsibility Committee; Financial control failure by our Audit Committee; and Failure to grow profitably and Major information security breach by the Board;
- receiving updates on all Divisional risk management processes including alignment of their risks to the Group Risk Register;
- ongoing challenge and support of the Group Director Enterprise Risk to improve, enhance and embed the risk management framework.

2021 priorities and focus

During 2021, the Committee will maintain its focus on undertaking detailed deep dive reviews into Group principal risks in line with our forward agenda. In addition, we will continue to adopt a more flexible approach to include deep dives into specific risk themes delivered by functional leads and/or business unit subject matter experts from across the Group operations. Meetings with the Divisional teams will also continue. Committee attention will remain on the progression of mitigation actions and their effectiveness, to develop our Enterprise Risk Management approach and refresh the supporting policies, standards and reporting. We will also continue our oversight of governance of our Group-wide compliance assurance activity, including greater oversight of the three lines of defence and how they interrelate and work effectively. The Committee will retain time at the end of each meeting to meet separately without management present and invite one of the Divisional Heads of Compliance Assurance to attend for part of this session. The Committee will also meet privately with the Group Director Enterprise Risk.

Serco's approach to managing business risks and internal control

Serco's internal control framework includes financial, operational, compliance and risk management controls. These are designed to manage and minimise risks that would adversely affect services to our customers and to safeguard shareholders' investments, our assets, our people and our reputation (collectively "business risks").

Internal controls and key processes are defined within the Serco Management System ("SMS"). To provide management assurance that these controls are effective, we use a "three lines of defence" compliance assurance model to test business compliance.

The Executive Committee is responsible for providing oversight, challenge and direction across the first and second lines of defence, including the review of the Group Risk Register and individual risks as required.

The Board has overall responsibility for risk management and internal control and formally reviews the findings of the overall Internal Audit programme. It is supported in these duties by the Group Risk, Corporate Responsibility and Audit Committees.

The Board confirms that there has been a focus on the three lines of defence for the year under review and up to the date of approval of the 2020 Annual Report and Accounts.

First line of defence – Contract Managers, Business and Function leaders within the Group are responsible for identifying and managing risks and for implementing associated processes and controls.

We endeavour to ensure that appropriate processes and controls are in place through the implementation of our SMS and that suitably trained staff seek to ensure that customer, legal and regulatory requirements are adhered to. We conduct an annual SMS self-assessment which is completed by our Contract Managers and other Leaders across the Group. This process enables a deeper understanding of SMS compliance levels and helps drive improvements. Progress against actions identified through this self-assessment is monitored by senior management. We recognise that whilst the SMS controls can provide reasonable assurance against misstatement or loss, this cannot be absolute.

Second line of defence – The Group Enterprise Risk Function is responsible for the development and implementation of policies and standards associated with Risk Management and Compliance Assurance. It is the custodian of the Group Compliance Assurance Programme ("CAP") and the Principal Risk Register, providing management oversight, assurance and challenge.

The CAP aims to ensure we have a consistent approach to compliance assurance across all Divisions, with direction provided by Group around minimum requirements based upon our principal risks.

Third line of defence – The Group Head of Internal Audit reports functionally to the Audit Committee Chair and is responsible for the delivery of the Internal Audit programme.

Together with external audits undertaken across the Group, Internal Audit provides an independent assessment of the design and operating effectiveness of the Group's governance, risk management and control frameworks in place to manage risk.

The Internal Audit team carries out an annual programme of risk-based audits reporting findings to the Audit Committee. The audit programme is approved by the Audit Committee. The in-house Internal Audit function uses the services of two co-sourced providers to supplement and enhance in-house skills and resources where required.

Corporate Governance Report continued

Audit Committee Report

Audit Committee members

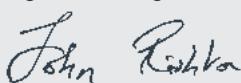
John Rishton (Chair)
Eric Born
Tim Lodge (appointed 21 February 2021)
Rachel Lomax (resigned 30 August 2020)
Dame Sue Owen (appointed 3 August 2020)
Lynne Peacock

Dear Shareholders

I am pleased to present the Committee's report for the year ended 31 December 2020. An insight into how the Committee addressed significant issues during 2020, which were reported to the Board as a matter of course, and how other responsibilities of the Committee were discharged are described in this report. The Audit Committee has 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 the Group's involvement in supporting governments in their response to the Covid-19 pandemic and reviews of the Group's control effectiveness in relation to cyber security threats for the core IT infrastructure which operated in significant parts of the Group; these reviews will continue into 2021. The Audit Committee also focused on how the Group has responded to the changing risk profile of the contract base as a result of the pandemic, and the actions taken to mitigate risks to the integrity of processes around financial reporting and internal control.

Throughout 2021, the Committee will continue to focus on the critical accounting judgements made, the effectiveness of the Group's financial controls and assurance programme, the operating performance of the finance operating structure, specifically the outsourced operating model and any emerging risks arising from it, compliance with the Deferred Prosecution Agreement for items under its terms of reference, and the delivery and effectiveness of the Group's Internal Audit function. To the extent required, the Committee will continue to review specific areas of the Group's operations as they relate to Covid-19.

Also, during 2021, the Committee will continue to monitor developments from independent reviews such as the review led by Sir Donald Brydon (the Brydon Review), and the impact the recommendations have on the Group's current internal control framework and the audit profession. The Committee will challenge and review how the Group adapts to address any legislative changes which arise from these recommendations.



John Rishton
Chair of the Audit Committee
24 February 2021

Committee's responsibilities

The Committee supports the Board in fulfilling its responsibilities in respect of: overseeing the Group's financial reporting processes; reviewing, challenging and approving significant accounting judgements proposed by management; assessing the way in which management ensures and monitors the adequacy of financial and compliance controls; the appointment, remuneration, independence and performance of the Group's External Auditor; and the independence and performance of the Group's Internal Audit function.

The Terms of Reference for the Committee are available on the Company's website.

Membership and attendees

The Committee is comprised solely of Independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code ("the Code") and that, between them, the members of the Committee bring strong international, service and public sector expertise and experience which is highly relevant to the Company. John Rishton is a Fellow of the Chartered Institute of Management Accountants and has served as Chief Executive and Chief Financial Officer of large businesses, providing assurance to the Board that at least one member of the Committee has recent and relevant financial experience, as required by the Code. Biographical details for each member of the Committee are provided on pages 82 to 85. Following the announcement on 1 October 2020 that John Rishton will succeed Sir Roy Gardner as Chairman of Serco Group plc, his position as Chair of the Audit Committee will be filled by Tim Lodge on 21 April 2021, with Tim joining the Audit Committee on 21 February 2021. Having previously been CFO at Tate & Lyle plc and COFCO International, as well as holding other non-executive position, Tim also provides assurance to the Board that recent and relevant financial experience, as required by the Code, is retained within the Committee.

The Committee met five times during the year, which at times was virtually as a result of the local and national restrictions imposed as a result of Covid-19, and details of attendance at meetings is set out on page 89. Committee meetings are held in advance of Board meetings with the Committee Chair updating the Board directly on the outcomes of each meeting. In addition to the members of the Committee, the Chief Financial Officer, the Director of Finance, the Group Head of Reporting and Financial Assurance, the Head of Internal Audit, the Group General Counsel and Company Secretary, the Deputy Company Secretary and representatives of the Company's External Auditor, KPMG LLP, attended and received papers for each meeting. The Committee retains time at the end of each meeting to meet separately without management present and invites either the Head of Internal Audit or KPMG LLP to attend for part of this session. The Committee also meets privately with the Chief Financial Officer.

Performance review

The Audit Committee's performance was assessed as part of the Board's annual effectiveness review. The findings from the review were largely positive with it being noted that the Audit Committee is effective in its role with valuable input being received from all Audit Committee members. The level of information received at the Audit Committee is considered to be sufficient and the inclusion of management presentations from a broader group of individuals assists in ensuring that the Audit Committee receives wider input in respect of key issues from within the Group. The Committee also continued with the inclusion of specific agenda items focused on significant internal audit findings which enabled the Committee to challenge management on the resolution of specific issues identified, and improved the Committee's understanding of the underlying culture of the organisation through management's commitment to address the issues identified. Areas which required attention in 2021 included the outcome of the reviews undertaken in respect of the audit profession and corporate governance such as the Brydon Review, a greater focus on fraud and forecast assumptions which underpin balance sheet items and statements made within the Group's annual accounts, a focus on further management presentations in respect of key areas of risk within the business, and to look for the external auditors to deliver more innovation from the external audit.

Activities of the Committee during the year

During the year, the Audit Committee carried out core duties alongside the work required on significant judgements and issues. The core activities undertaken during the year included:

- Reviewing the integrity of the half-year and annual financial statements and the associated significant financial reporting judgements and disclosures including:
 - that the information presented in the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
 - the effectiveness of the disclosure controls and procedures designed to ensure that the Annual Report and Accounts complies with all relevant legal and regulatory requirements;
 - the process designed to ensure the External Auditor is aware of all 'relevant audit information', as required by Sections 418 and 419 of the Companies Act 2006.
 - the management representation letter to the External Auditor; and
 - the findings and opinions of the External Auditor;
 - Considering the liquidity risk and the basis for preparing the half-year and annual financial statements on a going concern basis, and reviewing the related disclosures in the Annual Report and Accounts;
 - Reviewing the 2020 Viability Statement to ensure that it is appropriate and balanced in respect of highlighting the risks the Group is exposed to, including those related to Covid-19, and the assumptions being made in assessing its viability;
 - Considering the provisions of the Code regarding going concern and viability statements and reviewing emerging practice and investor comment;
 - Reviewing updates on accounting matters, including emerging guidance on financial reporting related to Covid-19;
 - 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 performance of the Group's provider of outsourced finance activities;
 - Receive updates from the Risk Committee chair in respect of key items discussed within that Committee and assess whether they resulted in any additional financial risks which should be considered within the Audit Committee;
 - Overview of the Group's Tax strategy, including how provisions for uncertain tax positions are derived, the status of tax audits being undertaken and the Group's position in relation to historic tax losses;
 - Reviewing the effectiveness and independence of the Group's Internal Audit function; and
 - Maintaining the Group's relationship with the external auditor, including assessing the audit plan and monitoring both independence and effectiveness.
- As well as carrying out the core duties above, the Audit Committee received the following key business updates which assisted the Committee in understanding the framework in place to mitigate the specific risks associated with these aspects of the business:
- An update on the Group's insurance strategy given the increases in insurance premiums led by a hardening of the insurance market;
 - A review of the Group's bid and performance related bonds and bank guarantees; and
 - Reviewing progress against the Group's Deferred Prosecution Agreement obligations.

Internal control environment

The Committee is responsible for monitoring the Group's internal control environment and assessing its effectiveness. As part of this assessment the Committee receives regular updates on internal controls and in forming an opinion on effectiveness it also considers the requirement to make relevant recommendations to the Board.

The Group has both a financial assurance function and an Internal Audit function, with both making regular contributions to meetings of the Audit Committee. The findings of financial assurance are assessed, and guidance is given to direct their work. Similarly, Internal Audit reports are received by the Committee on a regular basis and if it is deemed relevant, the management teams from central functions, divisions or individual business units are invited to the meeting to discuss the findings arising from Internal Audit reviews. The Audit Committee also has responsibility for reviewing the annual Internal Audit programme of work and assessing both the adequacy of resources of the Internal Audit function and the scope of the Internal Audit programme.

Internal Audit

Internal Audit acts as a 'third line of defence' providing independent assurance to the Board, Audit Committee and management, and in particular:

- Provides objective, independent assurance and advice to management and the Audit Committee on the design and operating effectiveness of the governance and internal control processes in place to identify and manage business risks;
- Delivers an annual programme of risk-based Internal Audits, reporting findings and recommendations for management actions to improve governance, risk management and controls to each Audit Committee meeting; and
- Reviews the annual Internal Audit programme regularly throughout the year to ensure it remains focused on key risks, recommending changes to the Audit Committee for their approval.

Corporate Governance Report continued

Audit Committee Report continued

Internal Audit gives particular regard to the ongoing evaluation of the efficacy of the Group's financial controls and reporting processes. Internal Audit is headed by the Group Head of Internal Audit who reports functionally to the Chair of the Audit Committee ensuring independence is maintained. Internal Audits may focus on individual contracts, processes, functions or risk themes and, in conjunction with the Group Risk Committee, the Audit Committee considers whether the Internal Audit programme is aligned to the Group's key risks. The Internal Audit function use the services of two co-sourced providers to supplement and enhance in-house skills and resources where required.

During 2020, the Internal Audit plan for the year was revised to enable a number of reviews to focus on the additional risks which materialised as a result of the Covid-19 pandemic and the additional contracts entered into by the Group to assist Governments in managing the impact of the pandemic. Given the accelerated nature of the procurement and mobilisation of these contracts it was considered valuable for the Internal Audit team to perform concurrent audits of the activities being performed. Following this realignment, Internal Audit has delivered a full programme of audits making recommendations to management for improvements to risk, governance and controls, which included detailed audits of the cyber security protocols within major operations of the Group. Reports are discussed with the parts of business they relate to and management actions agreed are then tracked for progress. Key themes and progress on management actions have been included in regular written updates to the Audit Committee.

A review of the effectiveness of Internal Audit was undertaken during the year with the function scoring well in most of the areas considered. The review highlighted that the Internal Audit function appropriately focused on key risks within the business with a balanced review of financial and operational risk, although more operational reviews would be beneficial. The review indicated that greater focus is required on the North American business given its scale and growth prospects following the recent NSBU acquisition. Overall, the Audit Committee is satisfied that the Internal Audit function has the appropriate resources required to deliver the Internal Audit programme.

The 2021 Internal Audit programme will continue to focus on the key risks across the business.

Financial controls

The Group aims to have a strong and well-monitored control environment that minimises financial risk and, as part of the Committee's responsibilities, it reviews the effectiveness of systems for internal financial control and financial reporting. Where relevant, the Committee also works with the Group Risk Committee to consider financial risk management.

Financial control risk is monitored through one of the Group's Principal Risks, 'financial control failure'. The Committee has reviewed this risk during 2020 and has focused in particular on:

- The efficacy of the Group's finance operating model and risks associated with the delivery of financial information, with briefings received from management;
- 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, with key improvement made in this area during 2020; and
- Management's preparation for implementation of proposed recommendations under the Brydon Review.

Following review and challenge, the Committee believes that, to the best of its knowledge and belief, the financial control framework and the monitoring of this framework has worked effectively during the year, and that in cases of non-compliance, the Group has not been exposed to critical, severe or significant risk. The Committee was also encouraged to note that, where weaknesses in the financial control framework were identified, they were being addressed.

Finance operating model

The Group continues to operate the finance operating model established as part of the Finance Transformation programme within the UK and AsPac. This model utilises the outsourced finance service provider's Centre of Excellence based in India for preparing financial and management accounting reports and profit and cash forecasts, as well as the Group's transaction processing. The objective of the operating model continues to be the standardisation and improvement in effectiveness and efficiency of financial processes.

Due to the progressive nature of the operating model, the Audit Committee has been kept informed of progress on transformation activity and receives briefings on risks and issues arising, with a particular focus in 2020 on the impact of Covid-19 in India. In considering the potential risks and issues, the Committee has provided challenge to management on the processes and controls put in place to mitigate them. Presentations during the year include what processes have been put in place to ensure services were not disrupted as a result of Covid-19, and progress on improving service performance and standardisation of processes and procedures.

The Committee, through its review and challenge, has concluded that the finance operating model is appropriate and despite certain delays and operational inefficiencies is progressing at an acceptable level. The Committee is also satisfied that sufficient steps have been taken by management to mitigate identified risks and issues.

Significant financial judgements

Contract performance, including Onerous Contract Provisions (OCPs)

During 2014, as part of the Group's Strategy Review, the Contract & Balance Sheet Review saw the creation of a material level of OCPs. The measurement of those OCPs required significant judgement that the Audit Committee has kept under review, providing challenge to the assumptions used by management and key judgements used in assessing the performance of the Group's contracts. As at 31 December 2020, the level of OCPs remaining in respect of the 2014 review has reduced to an immaterial level.

The Audit Committee has given particular focus to potential OCPs as well as assessing the risk of an OCP materialising across a portfolio of contracts across the Group. The Committee agreed, with the support of the External Auditor, that the view formed by management regarding each individual material OCP, as well as the aggregate view which includes management's assessment of portfolio risk, was reasonable. The Committee was satisfied that the work undertaken by management to monitor existing contracts and identify contracts where a new OCP may be required, and associated allocation of central costs, was sufficiently robust.

Viability and Going Concern

The Group has assessed its ongoing viability and the appropriateness of using the going concern assumption in preparing its financial results. In making these statements, management uses the Group's anticipated future cash flows and undertake a range of sensitivities to identify any plausible situations which could put pressure on the Group's viability or ability to continue as a going concern. The going concern assessment is prepared twice annually.

In challenging management's assessment in respect of the viability and going concern statements, which were based on anticipated future cash flows agreed by the Board as part of the Group's budgeting process, the Committee focused on the Group's headroom within its financial covenants and the liquidity available in the Group. The Committee considered the likely severity of key risks crystallising over the period of assessment including; severe but plausible sensitivities and scenarios associated with the potential impact of Covid-19; the commitments made under the Deferred Prosecution Agreement (DPA) entered into with the Serious Fraud Office (SFO); and management's assessment of the claim seeking damages for alleged losses following the reduction of Serco's share price in 2013.

The Committee concurred that, whilst in severe scenarios the ability of the Group to stay within its agreed headroom may be put under pressure, the Group remains viable and key assumptions supporting this assessment are disclosed within the viability statement on pages 79 to 80. 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 160 to 161.

Both the proposed viability and going concern statements were approved by the Committee for recommendation to the Board.

In respect of the shareholder claim, noted above, the Committee concurred with management's assessment that, due to the stage of the matter and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at the year-end was appropriate. See note 29 to the financial statements.

Use of Alternative Profit Measures (APMs) and Exceptional Items

The Group's performance measures continue to include some metrics which are not defined or specified under IFRS. In particular, following its introduction in 2015, management continued to use Underlying Trading Profit, as a key measure to review current performance against the prior year by removing the impact of adjustments to OCPs, material charges and releases of other items identified during the 2014 Contract & Balance Sheet Review, together with other significant non-trading items. The Group also uses the term Exceptional Items to meet the requirements of IAS1 para 97 which requires the nature and amount of material items of income and expense to be disclosed separately.

The Audit Committee continues to consider the disclosure of performance measures used by management and whether they continue to provide meaningful insights into the results of the Group. The Committee also consider the treatment of Exceptional Items and whether they are appropriate to be classified as such.

The Committee has agreed with management that Underlying Trading Profit continues to be a reasonable basis on which to compare the relative performance of the business year on year. The Committee, following challenge of each individual item, agreed with management's classification of items as Exceptional and requiring separate disclosure.

After review of the disclosure of APMs in the Half Year 2020 results and the 2020 Annual Report, the Committee concluded that the descriptions for each individual APM used were clear and meaningful, and that the relationship between them and the nearest relevant statutory IFRS measure was clearly explained and supported. The Committee was also satisfied with the controls management has put in place to identify Exceptional Items and to ensure that costs which should be recorded within Underlying Trading Profit are not inappropriately classified as Exceptional Items. As a result, the use of APMs and Exceptional Items in the Half Year 2020 results and the 2020 Annual Report was recommended to the Board for approval.

The Committee also reviewed recent guidance on the inclusion of Covid-19 in the calculation of APMs. Management's assessment is that the APMs should not be adjusted to exclude the impact of Covid-19 and that clear narrative is used to describe the impact of Covid-19 on the Group's results and an estimated financial impact is disclosed. The Committee concurred with this approach and management's view that no APMs should be adjusted to exclude the impact of Covid-19 on the Group's measures.

Goodwill Impairment

The goodwill impairment test as at 31 December 2020 used anticipated future cash flows, discount rates and terminal values which are key areas of judgement, and the Audit Committee has received key information associated with these. The Committee challenged management on the discount rates and terminal values used in the review, noting that they had been sourced by a third-party expert, and ensured that the underlying cash flows were consistent with those included in Board approved forecasts.

The Committee reviewed the resulting disclosures proposed by management and found them to be transparent, appropriate and in compliance with applicable financial reporting requirements.

Defined Benefit Pension Schemes

The Group's defined benefit pensions schemes include a number of significant estimates and judgements, principal amongst which are the identification of obligations arising from contracts with customers and calculation of the financial impact of defined benefit obligations.

The Committee has considered the process undertaken by management to finalise key assumptions underlying the valuation of defined benefit obligations, and processes associated with identifying the obligations arising. The Committee is satisfied that the assumptions used remain appropriate. In forming their opinion on the judgements applied to valuing liabilities, the Committee considered how those judgements compared to observable benchmarks in the market, and advice has been taken from independent actuaries on the ongoing appropriateness of assumptions used. The Committee is satisfied that the processes followed are appropriate and that the conclusions reached, and calculations performed are appropriately balanced.

Corporate Governance Report continued

Audit Committee Report continued

External Auditor

The Audit Committee manages the relationship with the Company's External Auditor on behalf of the Board. In 2017, KPMG LLP were appointed by the Board as the Company's external auditor for the 2016/17 audit and have served as the Company's auditor for four years. John Luke was appointed as audit partner in 2018. In accordance with the Revised Ethical Standard 2016, the Company will continue the practice of the rotation of the audit engagement partner at least every five years.

The Committee evaluates the effectiveness of the external audit annually, using feedback obtained from the Committee and management associated with audits undertaken in Group Finance and in the Divisions and by assessing the performance of the External Auditor against a range of criteria including calibre of the audit team, knowledge of the Group, and the quality of planning, review, testing, feedback and reporting. The feedback received was reviewed by management and reported to the Committee. After taking these reports into consideration, the Committee concluded that the auditor demonstrated appropriate qualifications and expertise and remained independent of the Company, had appropriate focus on the key issues within the Group, that the audit process demonstrated professional integrity and objectivity, that the audit was effective, and that there was adequate challenge on the key judgements adopted by management. Foremost amongst the areas which could be enhanced within the External Audit process was the visibility of the External Auditor's technological and data analytic driven procedures and to understand the broader engagement and feedback of specialists used within the audit process.

In addition to the evaluation of the effectiveness of the external audit, the Audit Committee has responsibility for certain core decisions relating to the external audit process that include:

- Considering and approving the audit approach and scope of the audit undertaken by KPMG LLP as External Auditor and their fees;
- Agreeing reporting materiality thresholds;
- Reviewing reports on audit findings and assessing their impact on the Group's internal control environment;
- Considering and approving letters of representation issued to KPMG LLP;
- Considering the independence of KPMG LLP and their effectiveness, considering:
 - non-audit work undertaken by the External Auditor;
 - feedback from a survey targeted at various stakeholders; and
 - the Committee's own assessment.
- Making a recommendation to the Board on the appointment of the External Auditor.

The Committee reviewed the External Auditor's engagement letter and determined the remuneration of the External Auditor in accordance with the authority given to it by shareholders. The Committee considered the External Auditor's remuneration to be appropriate.

It is proposed that KPMG LLP be re-appointed as External Auditor of the Company at the next AGM in April 2021 and, if so appointed, that they will hold office until the conclusion of the next general meeting of the Company at which accounts are laid. Further details are set out in the Notice of Annual General Meeting which is available on the Company's website.

The Independent Auditor's Report to shareholders is set out on pages 142 to 152.

Non-audit fees

The Committee limits the non-audit work undertaken by the External Auditor and monitors the non-audit fees paid during the year. For the financial year ended 31 December 2020, the non-audit fees paid to KPMG LLP were £12k (2019: £27k) excluding the half-year review.

An analysis of fees paid in respect of audit and non-audit services provided by the external auditor for the past two years is disclosed on page 180. The Committee regularly reviews the nature of non-audit work performed by the External Auditor and the volume of that work. Focus is given to ensuring that engagement for non-audit services does not: (i) create a conflict of interest; (ii) place the auditor in a position to audit their own work; (iii) result in the auditor acting as a manager or employee; or (iv) put the auditor in the role of advocate for the Company.

Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services were provided efficiently by the External Auditor as a result of their existing knowledge of the business and did not prejudice their independence or objectivity.

Nomination Committee Report

Nomination Committee members

Sir Roy Gardner (Chair)
 Ian El-Mokadem (appointed 31 August 2020)
 Rachel Lomax (resigned 30 August 2020)
 Lynne Peacock
 John Rishton

Dear Shareholders

Following my decision to stand down as Chairman with effect from the forthcoming Annual General Meeting, the Committee, led by Lynne Peacock and assisted by Russell Reynolds Associates, started a process to identify a successor. This search, which included external candidates and followed a detailed succession planning process, resulted in the section of John Rishton as the Company's next Chair. Lynne Peacock will succeed John Rishton as Senior Independent Director and, as he will cease to chair the Audit Committee on becoming Company Chairman, a search process led by him and assisted by Russell Reynolds Associates was undertaken to identify an appropriately qualified and experienced successor. This culminated in the appointment of Tim Lodge as a Non-Executive Director and a member of the Audit, Group Risk and Remuneration Committees on 21 February 2021. Tim Lodge will chair the Audit Committee from 21 April 2021.

During the year, Angus Cockburn indicated his wish to retire. It was therefore agreed that he would step down as Chief Financial Officer at the 2021 Annual General Meeting and that he would be succeeded by Nigel Crossley, currently Group Director of Finance, who has worked for the Company since 2014 and has been at the centre of the transformation of Serco and has supported Angus in restoring the reputation and financial stability of the Group.

A search process, led by myself with assistance from Korn Ferry, also took place to identify an appropriate replacement for Rachel Lomax who stood down as a Non-Executive Director on 30 August 2020. This search resulted in the appointment of Dame Sue Owen as a Non-Executive Director on 3 August 2020. Dame Sue was also appointed a member of the Audit and Group Risk Committees.

Following Rachel Lomax's resignation, in addition to Dame Sue Owen's appointment to the Audit and Group Risk Committees, Ian El-Mokadem was appointed to succeed Rachel Lomax as Chair of the Group Risk Committee. He was also appointed a member of the Nomination Committee.

During the year, the Committee regularly reviewed the balance of skills on the Board to identify where additional skills would be beneficial, reviewed the annual plan of agenda items to ensure all those matters required to be addressed by the Committee were fully discussed and confirmed the renewal of appointments for further terms of three years for those Non-Executive Directors whose three-year terms of appointment were due for renewal. The Committee also oversaw the appraisal by myself of the Non-Executive Directors and the Chief Executive Officer and my own appraisal by the Senior Independent Director.

Following review of Board composition and taking account of the changes referred to above, it was concluded that the Board and its Committees continue to have the appropriate breadth of experience.

Sir Roy Gardner
Chair of the Nomination Committee
 24 February 2021

Committee's responsibilities

The Board values diversity and, when recruiting new Board members, the issue of diversity is addressed by the Committee. The percentage of women on the Board is currently 30%, but will return when I stand down to 33% (2018: 33%), but the Board is aware that it would be beneficial to broaden its diversity in other respects and this will be a key focus in 2021 as the Company looks to broaden and refresh the Board.

The key responsibilities of the Committee are:

- reviewing the size, structure and composition of the Board and identifying candidates for appointment to the Board;
- recommending membership of Board Committees;
- undertaking succession planning for Directors and other senior executives and seeking to ensure that the leadership needs of the organisation continue to be met;
- seeking to ensure that Board composition is appropriately diverse; and
- reviewing induction and training needs of Directors.

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

Membership and attendees

The Committee is chaired by the Company's Chairman and is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. The Committee met eight times during the year and details of Committee membership and attendance at meetings is

set out on page 89. Meetings of the Committee are normally attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group General Counsel & Company Secretary and the Deputy Company Secretary. Biographical details for each member of the Committee are provided on pages 82 to 85.

Performance review

The Committee's performance was assessed as part of the Board's annual effectiveness review. Although it was felt that the Committee worked effectively, it was agreed that further formalisation of some of the activities of the Committee would be beneficial.

Activities of the Committee during 2020

During the year the Committee's key activities included:

- **Company Chair**
 Following a search process led by Lynne Peacock and assisted by Russell Reynolds Associates, the Committee recommended to the Board that John Rishton should succeed me as Company chair.
- **Chief Financial Officer**
 The recommendation to the Board of the succession by Nigel Crossley to the role of Chief Financial Officer on the retirement of Angus Cockburn.
- **Changes to membership of Board Committees**
 As part of the ongoing process of ensuring the continuing refreshment of the Board and its Committees, the Committee recommended that, following the resignation of Rachel Lomax, Ian El-Mokadem should be appointed a member of the Nomination Committee. Accordingly, he was appointed a member of the Nomination Committee on 31 August 2020.

Corporate Governance Report continued

Nomination Committee Report continued

Activities of the Committee during 2020 continued

Changes to membership of Board Committees continued

The Committee also recommended the appointment of Ian El-Mokadem as Chair of the Group Risk Committee to succeed Rachel Lomax. Accordingly, he was appointed as Chair of the Group Risk Committee on 31 August 2020.

Dame Sue Owen, who was appointed a Non-Executive Director on 30 August 2020, was appointed as a member of the Audit and Group Risk Committees and, since the year end, Tim Lodge, who was appointed as a Non-Executive Director on 21 February 2021, was appointed member of the Audit, Group Risk and Remuneration Committees on the same date; he will succeed John Rishton as chair of the Audit Committee on 21 April 2021.

• Executive Succession Planning

The Committee reviews succession for key executive roles annually to ensure plans are in place for both planned and unintended vacancies, including the identification of suitable internal candidates and their development requirements, including their exposure to the Board at Board meetings.

During the year, Kevin Craven stood down as Chief Executive Officer of our UK & Europe Division and was succeeded by Mark Irwin who was formerly Chief Executive Officer of our Asia Pacific Division; Mark Irwin, in turn, was succeeded by Peter Welling, who was formerly Managing Director of our Australian Citizen Services business.

In addition, Anthony Kirby, whose responsibilities have expanded beyond that of Group HR Director, to include transformation and our shared services operations, was appointed as Group Chief Operating Officer.

• Developing the Board Diversity Policy

Serco strongly supports the principle of boardroom diversity and values the benefits that diversity of thought can bring to its Board and throughout Serco. We believe that a mix of expertise, experience, skills and backgrounds (including age, ethnicity, disability, gender, sexual orientation, religion, belief, culture, education and professional backgrounds) allows Serco to deliver a great service that is valued by our customers and meets the needs of those who use the services we provide. Serco will always seek to appoint Board members and senior management on merit against objective criteria, including diversity. In developing the Board Diversity Policy, the Committee considered the recommendations in the Hampton-Alexander Review and the Parker Report and recommended that the Board commit to improving gender and ethnic diversity on the Board and in the senior management roles within Serco. The Nomination Committee reviews and assesses the Board Diversity Policy annually and recommends any revisions to the Board for approval. Whilst the Board has become more balanced over recent years, culminating in 33% gender diversity during 2020, we recognise we still have more to do, not least with regard to other areas of diversity at Board level. With the appointment of Tim Lodge to the Board on 21 February 2021 the Board recognises that for a short time until I leave the Board at the AGM in April 2021 the gender diversity at a Board level will be below 33% and will go back to that level after the AGM. We felt it was important to get Tim onto the Board for a period of time before taking on the chair of the Audit Committee when John Rishton assumes the role of Chairman of the Board after the AGM. Whilst good progress is being made across the Group in all aspects of diversity and inclusion, sustainable change requires a long-term perspective and this remains a key focus for the Company. In relation to women in leadership roles at the Executive Committee and their direct reports level, the average for the year was over 25% and the level for the Hampton-Alexander review was 24.7%. The number of women in our global leadership team of 347 senior leaders was 29%. It is well recognised by the Board that the

Company needs to improve female representation at this level of management and the Company has an active and targeted plan to improve this in 2021.

Further details on Diversity are provided in the ESG Impact and Integrity section of the Annual Report on pages 40 to 49.

The Board will look to further strengthen the Board and is currently actively recruiting an individual who will improve the ethnic diversity at a Board level.

• Review of external commitments

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

• Non-Executive Director training

During the review of training requirements in 2018, it was agreed that a more coordinated approach would be taken to visits by Non-Executive Directors to the Company's contracts, leadership conferences and management meetings to increase Non-Executive Directors' awareness of the Company's operations and to increase their accessibility to the Group's employees. This resulted in an increased number of such contract visits during 2019 but, as detailed in the Governance overview, in response to the impact of Covid-19, the number of physical visits it was possible to undertake was considerably reduced in 2020. However, a number of 'virtual site visits' were made by Non-Executive Directors and a programme of such visits for 2021 has been prepared. Training is made available to and undertaken by Directors throughout the year and a record is maintained of the training undertaken by each Director.

Although training has been made available throughout 2020, the possibilities for face to face training have been restricted by the impact of Covid-19. However, alternatives, including access to online seminars and director training have been made available. This will be a continued focus in 2021.

2021 priorities and focus

During 2021, the Committee will continue to focus on developing its approach to succession planning for the Board, its Committees and the wider management team, as well as a greater focus on diversity, training and consideration of ESG matters.

Corporate Responsibility Committee Report

Corporate Responsibility Committee members

Kirsty Bashforth (Chair)
 Eric Born
 Ian El-Mokadem
 Sir Roy Gardner
 Rupert Soames

Dear Shareholders

As Environmental, Social and Governance (ESG) factors move ever closer to centre-stage in sustainability, impact and responsible business performance, organisations across all sectors are challenged to re-evaluate and recalibrate purpose, policy and practice. Against the backdrop of a global pandemic, such focus has become primary, further accelerating that move.

At Serco, the Corporate Responsibility Committee plays a key role in overseeing the Company's continued maturity of integrated strategy, governance and management in which clear ESG priorities are embedded and closely aligned to the Company's purpose and shareholder interests.

This year we have overseen the accelerated evolution of Employee Wellbeing as a strategic priority and a refreshed approach to safety trend analysis, whilst elevating Health, Safety and Wellbeing into the Group Principal Risk Register in its own right. We have established a rhythm in our approach to Employee Voice, recognising how vitally important colleague connectivity and feedback is to operational and cultural continuity, and continued to drive growth and maturity in Serco's Ethics & Compliance Function, with a specific review of its Speak Up programme and regular discussions with Ethics & Compliance leads in each Division.

We have also held to ensuring a new Group Environmental strategy is established – to create a culture of responsibility and owned-actions, clarify our ambitions for supporting customer objectives and address climate-related risks through reducing the impact of our own operations wherever possible.

As well as holding the Group firmly to its Values and ESG priorities, and working with management to ensure these are appropriately and effectively embedded in the business, the Committee provides a dedicated platform for addressing how fundamental human and social needs, rights and expectations affect the business and how best to manage them. As such, the Committee has throughout the year challenged and supported the Group in its immediate and longer-term response to Covid-19.

In a year that has rattled many organisations to their foundations, the Committee is proud to see the strong, purposeful culture of Serco continue to shine through in all its efforts to stabilise, strengthen and step up alongside the customers and communities it serves. Its employees are the drivers of this, supported by an increasingly mature system of processes, policies and practice.

Kirsty Bashforth
 Chair of the Corporate Responsibility Committee
 24 February 2021

Committee responsibilities

The Corporate Responsibility (CR) Committee is responsible for assisting the Board in providing independent oversight and guidance of the Company's CR Framework and, based on this agreed framework, considering related strategies, policies and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its Values of Trust, Care, Innovation and Pride.

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

Membership and attendees

The Committee is comprised of both Executive and Non-Executive Directors. Biographical details for each member of the Committee are provided on pages 82 to 85. The Committee met four times during the year and details of attendance at meetings are set out on page 89. Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are normally attended by the Group General Counsel and Company Secretary, the Assistant Company Secretary, the Group Chief Operating Officer and the Group Director, Business Compliance and Ethics.

Standard annual activities of the Committee

Each year the Committee:

- reviews the Committee Terms of Reference to ensure they remain appropriately aligned to the purpose of the Committee;
- reviews the Committee's position, focus and approach regarding CR to ensure it remains appropriate, embedded in the business and conducive to the ongoing delivery of the Group strategy;
- supports embedding the Serco CR Framework whilst ensuring it remains integral to the Group's purpose, strategy and material responsibilities;
- reviews the Group approach to ESG reporting and prepares the Group's annual CR Report and Modern Slavery Statement;
- undertakes deep dives into key areas within its remit to ensure appropriate focus, control and rigour throughout the Group; and
- oversees effective delivery – including monitoring and reviewing progress and performance across the Group – of the:
 - **Group Ethics & Compliance strategy and Speak Up process**, including in-depth review of the Group principal risk, 'Failure to act with integrity'; and meeting privately with a Divisional Head of Ethics & Compliance at each Committee meeting;
 - **Group Health & Safety and Environmental strategies**, including in-depth review of the Group principal risk, 'Health, Safety and Wellbeing';
 - **Group People strategy, including Wellbeing**, including input into the annual employee engagement survey and in-depth analysis of survey results, with specific focus on Company culture; and in-depth review of Employee Wellbeing and Diversity and Inclusion (D&I);
 - **Employee Voice approach**, including ongoing implementation of the Colleague ConneXions programme.

Corporate Governance Report continued

Corporate Responsibility Committee Report

Additional activity undertaken in 2020

- **Group Ethics & Compliance strategy and Speak Up process:** monitoring ongoing fulfilment of the Company's DPA obligations; in-depth review of the potential impact of Coronavirus on the Group Principal Risk, 'Failure to act with integrity'; ongoing review of Ethics & Compliance maturity at Group and Divisional levels; in-depth review of Speak Up performance and Divisional control systems; and in-depth review of Modern Slavery risk and the refreshed Group Modern Slavery programme;
- **Group Health & Safety and Environmental strategies:** in-depth review of Coronavirus risks and monitoring the management of Coronavirus across the Group; review of progress in embedding a mature safety culture; ratification of the new three-year safety targets; and in-depth review and approval of the new Group Environmental strategy;
- **Group People strategy, including Wellbeing:** in-depth review and approval of the new Group Employee Wellbeing strategy and its integration with the Group Health & Safety strategy; and in-depth review of D&I progress and performance across the Group;
- **Employee Voice approach:** working directly with the Group Colleague Communications Manager to support delivery and direct the evolution of the Colleague ConneXions programme; and
- **CR Performance:** review of CR Key Performance Indicators (KPIs) to track maturity of CR across Serco.

Additional activity planned for 2021

- **Group Ethics & Compliance strategy and Speak Up process:** review of ongoing fulfilment of the Company's DPA obligations; ongoing review of Ethics & Compliance maturity; review of the Code of Conduct and associated mandatory training for all employees; and review of Modern Slavery progress and performance across the Group;
- **Group Health & Safety and Environmental strategies:** ongoing review of progress in embedding a mature safety culture; and close monitoring of the implementation and early maturity of the new Group Environmental strategy;
- **Group People strategy, including Wellbeing:** follow-up review of D&I progress and performance across the Group; and monitoring Employee Wellbeing progress and performance across the Group, including a review of how the new Group Employee Wellbeing strategy is addressing long-term impacts of Covid-19;
- **Employee Voice approach:** working directly with the Group Colleague Communications Manager to support delivery and direct the evolution of the Colleague ConneXions programme;
- **Procurement and supply chain:** in-depth review of the Company's sustainable procurement approach;
- **Social impact:** in-depth review of the Company approach to generating value for society through its operations and support functions; and
- **CR Performance:** review of CR KPIs to track maturity of CR across Serco.

Compliance with the UK Corporate Governance Code

This section of the Corporate Governance Report describes how the Company has complied with the principles and provisions of the UK Corporate Governance Code ("the Code") published by the Financial Reporting Council in July 2018 and which is available at www.frc.org.uk. It should be read in conjunction with the Corporate Governance Report as a whole, set out on pages 81 to 104.

The Company has complied in full with the Code during 2020.

1. Board leadership and Company purpose

The Board is collectively responsible to the Company's shareholders for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society through the fundamental role it plays in the functioning of an orderly society through the services it provides. It oversees and agrees the Group's purpose, values and strategy at its annual strategy review and at each Board meeting, and ensures that necessary resources are available, and that the appropriate risk management controls and processes are in place by regular review of such matters at Board and Committee meetings.

The Board is mindful of the need to create value whilst taking account of the wider interests of other stakeholders and, when taking decisions, balances the impact on suppliers, communities, the environment, employees, and customers with the objective of securing long-term sustainable growth for shareholders. New business and the renewal of existing contracts above an agreed level is considered at divisional level and then by the Investment Committee, prior to review by the Board which is undertaken having regard to the Company's four principle 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 50 to 55 including details of the manner in which engagement with the workforce is achieved. The Board is conscious of the benefits of aligning its culture with its strategy and is further embedding this through its Corporate Responsibility Framework which has recently been revised to reflect the progress made by the Company in recent years through its Corporate Renewal Programme.

Regular engagement is sought with major shareholders, primarily through executive management, following the announcement of the full and half year results, and also through the Chairman, who is available to major shareholders, and the Chair of the Remuneration Committee who consults with shareholders when appropriate to do so regarding remuneration matters. The Company has established "Employee Voice" to ensure employee engagement and employees can raise concerns through the Company's ethics hot line, Speak Up.

Potential and actual conflicts of interest are reviewed at each Board meeting.

2. Division of responsibilities

The roles and responsibilities of the Chairman, Chief Executive, Senior Independent Director, the Board and its Committees are clearly defined, documented, approved by the Board and are available on the Company's website.

The Chairman leads and is responsible for the operation of the Board. The Chief Executive is responsible for the leadership and management of the business within the authorities delegated by the Board.

The Board regularly reviews the overall balance of skills, experience, diversity, independence and knowledge of Board and Committee members and undertakes an annual review of the independence of its Non-Executive Directors.

As at the date of this report, with seven Non-Executive Directors, in addition to the Chairman, and two Executive Directors on the Board, over half of the Board, excluding the Chairman, are independent Non-Executive Directors.

The Non-Executive Directors approve the objectives of the Executive Directors annually and assess their performance against these objectives.

During 2020, although the Chairman did not meet formally with the Non-Executive Directors without the Executive Directors present, regular contact between the Chairman and Non-Executive Directors was maintained. In addition, the Non-Executive Directors met in the absence of the Executive Directors at Committee meetings. The Non-Executive Directors, led by the Senior Independent Director, met, without the Chairman present, to appraise his performance.

The time commitment of Non-Executive Directors is defined on appointment and regularly evaluated.

The Directors have access to independent professional advice at the Company's expense as well as to the advice and services of the Company Secretary who advises the Board on corporate governance matters.

Corporate Governance Report continued

Compliance with the UK Corporate Governance Code continued

3. Composition, success and evaluation

The Nomination Committee is chaired by the Company's Chairman and comprises solely Non-Executive Directors. It reviews succession for both Board and senior management positions and, with the assistance of an external search company, leads the process for Board appointments and makes recommendations to the Board. All appointments are made on merit against objective criteria including the promotion of diversity of gender and ethnic and social background.

All Directors submit themselves for re-election at each Annual General Meeting.

Following the annual evaluation of the Board and its Committees, which is externally facilitated every three years, the recommendations are considered by the Board and addressed by the Chairman with the assistance of the Company Secretary. Annual appraisals of Non-Executive Directors, including the identification of training needs, are undertaken by the Chairman to ensure continued effective contributions.

4. Audit, risk and internal control

The Annual Report and Accounts includes a statement of the Directors' responsibilities regarding the financial statements, including the status of the Company as a going concern, with an explanation of the Group's strategy and business model together with the relevant risks and performance metrics.

A further statement confirms that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Audit Committee report sets out the details of the Committee's responsibility for ensuring the integrity of the financial reporting process and the key matters considered during the year in respect of its oversight of financial and business reporting.

The Board, through the Group Risk and Audit Committees, has carried out a robust assessment of the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity. Further details about these risks and how they are managed and mitigated are included in this Annual Report and Accounts together with the Viability Statement which explains how the Directors have assessed the prospects of the Company and concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

The Board determines the Company's risk appetite and has established risk management and internal control systems. At least annually, the Board undertakes a review of their effectiveness.

The Audit Committee annually reviews the external auditor's independence, the effectiveness of the external audit and the provision of non-audit services. It also reviews and monitors the effectiveness of the Company's internal auditor.

5. Remuneration

The Remuneration Committee has delegated responsibility for determining the policy on Executive Director remuneration, which it does taking account of workforce remuneration and the alignment of incentives and rewards with culture.

The Company's share incentive schemes are designed to promote long term shareholdings for Executive Directors to provide alignment with shareholders' interests.

Full details of how the Company has complied with the principles and provisions of the Code as they relate to remuneration are contained in the Directors' Remuneration Report on pages 105 to 133.

Remuneration Report

Report on Directors' remuneration

Remuneration Committee members

Lynne Peacock (Chair)
Kirsty Bashforth
Sir Roy Gardner
Tim Lodge (appointed 21 February 2021)
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 2020. In this Report we are also presenting, for shareholder approval at the 2021 AGM, a revised Remuneration Policy. Additionally, we set out how the 2018 Remuneration Policy (full details of which can be found in our 2017 Report) has been implemented for 2020, and how our Remuneration Policy will be implemented in 2021.

2020 – an unprecedented year

2020 has been an unprecedented year with the ongoing Covid-19 pandemic impacting every facet of life around the world. This has also had a significant and challenging impact on businesses, including Serco. However, our people at Serco, from the most senior management to our critical colleagues on the front line, have proved themselves to be resilient, flexible and dedicated to the delivery of public services as we supported governments around the world through both the ongoing provision of essential services, and the specific responses to Covid-19.

As set out in the Chairman's Statement on page 6 and the Chief Executive's Review on page 15, within our business we have seen significant swings in both costs and revenues with some businesses seeing very significant falls in revenues (Leisure and Transport); others (Citizen Services and Immigration) have had to respond to higher demand; and some have seen their costs increase (Custodial, Defence and Health). However, across our business as a whole we have seen confidence in Serco demonstrated as our customers turned to us as a trusted and capable partner to help them deal with the enormous challenges they have faced.

The significant progress made by the Company since 2014, when our current Executive Directors were appointed, has been key to the strong performance in 2020. As set out in the report on ESG Impact and Integrity – Corporate responsibility at Serco (page 40), the cultural framework created through our Values of Trust, Care, Innovation and Pride, enabled us to adapt to rapidly changing customer requirements and to deliver services at speed. Combined with our 'loose-tight' management philosophy, and the strength in our core processes and systems, this has provided our business with the agility to react extremely well to the challenges of 2020.

The overall result is another year of strong growth in revenue and profits, with revenue growth at 20% (of which 16% was organic) and an increase in margin from 3.7% to 4.2%, leading to a 36% increase in Underlying Trading Profit (UTP) and 37% increase in underlying Earnings Per Share in 2020. Order intake in 2020 fell further than expected due to the disruption caused by Covid-19 to £13.1bn although our win rates including rebids and extensions remained high. At the end of 2020 we also announced the acquisition of Facilities First Australia.

Covid-19 – our response

Throughout the Covid-19 pandemic, our focus has been firmly on the wellbeing of our colleagues, providing the policies, support and guidance they need to continue to deliver to our service users whilst looking after themselves and each other. We have sought to provide stability and assurance to all our colleagues by safeguarding jobs (we have made no-one redundant as a result of Covid-19) and minimising the use of furlough by redeploying colleagues wherever possible. Indeed, since the start of 2020 Serco has created, directly and with its sub-contractors, over 10,000 net new jobs worldwide, most of them supporting governments' responses to Covid-19.

It was also very important to us that we protect our colleagues financially; pay was maintained with pay reviews for all colleagues proceeding as originally planned, and (with the exception of cash bonuses for the Executive Directors) all 2019 bonuses paid out. We have also continued to strengthen our global benefits offerings with a particular focus on wellbeing, particularly mental and physical wellbeing. The Board has also approved the rules for a new, all employee, global share plan which will further support the Company's commitment to colleagues' financial wellbeing and enable all colleagues to benefit from Serco's success.

Recognising the extraordinary efforts of our people around the world during the pandemic, we have distributed one-off ex-gratia payments totalling £5m to around 50,000 of our front-line staff. Further details of our actions to support our people, and wider society, during 2020 can be found on pages 38 to 39, in our full Corporate Responsibility Report at (www.serco.com/about/corporate-responsibility) and our 2020 People Report (available at www.serco.com/about/people-report).

In common with many companies, at the start of the Covid-19 crisis Serco sought to protect its business and colleagues from the unprecedented levels of uncertainty and, as a precaution, took support from governments and investors to preserve its liquidity. Having so far weathered the storm better than we could have hoped at the start of the pandemic, we are pleased to have been able to return all of the direct support received from governments, with the exception of £12m in the USA for which no there is no early repayment mechanism so will be repaid as scheduled in 2021 and 2022. For the small number of colleagues still unable to work, they continue to be furloughed at Serco's expense and we are working hard to enable their return to the workplace as soon as possible.

As shareholders, you will also be aware that we took the decision to withdraw our 2019 dividend, which would have been our first dividend payment since 2014 when the Company began the transformation journey. While we are unable to reinstate this dividend, as the time has now past, we can confirm that of the £40m of shares repurchased by the Company at the start of 2021, £20m will be cancelled (approximately equating to the value of the 2019 dividend not paid plus the interim 2020 dividend which would have been declared had it not been for the pandemic). The balance of shares will be used to settle share awards vesting to colleagues. We are also pleased to announce that, subject to approval by shareholders at the 2021 Annual General Meeting, a 2020 full year dividend is being recommended.

Remuneration Report continued

Report on Directors' remuneration continued

2019 Bonus

As announced in April 2020, a further step taken to preserve the liquidity of the Company in a period of significant uncertainty involved the deferred payment of the cash element of the Executive Directors' 2019 annual bonuses, being the sum of £850,000 for Rupert Soames and £510,000 for Angus Cockburn. In line with the approved Policy, the value of the 2019 bonus determined over 100% of salary was already automatically subject to a three-year deferral into shares. The situation with regard to the Company's liquidity is now very much different to April 2020: the Company has generated strong cashflows; its net debt : EBITDA measure is well below our target range at 0.5x; we have successfully refinanced our long-term debt and we have announced the resumption of dividends. In light of this the Remuneration Committee has determined that the previously withheld cash bonus amounts should now be paid.

2020 variable pay outcomes linked to the delivery of the strategic plan

In considering the variable pay outcomes the Committee was very mindful of the impact of Covid-19 on Serco's performance as well as the experience of our stakeholders, including employees of Serco. To ensure all payments are appropriate against this backdrop, the Committee considered the Company's performance as a whole, and the underlying performance when the impact of Covid-19 was removed, to ensure that the Executive Directors do not benefit from any pandemic related growth. Assurances are sought from the Audit Committee (with regards to financial performance) as well as from the Risk and Corporate Responsibility Committees as required to support these decisions.

2020 Bonus

In its determination of the 2020 annual bonus outcomes, the Committee recognises that Covid-19 was not foreseen at the time of the 2020 budget and bonus target setting, and that if it had been, Group targets would have been different. Although some areas of our business have suffered as a result of Covid-19, we have also benefitted as governments sought our support in response to the crisis. To ensure payments are fair and reflective of performance achieved by management, the Committee determined that it should remove the impact of Covid-19 when determining bonus payments. This has resulted in lower performance against all three financial measures (revenue, free cash flow and trading profit) with a reduced payment of 80% (from 100% on a purely formulaic basis). Taking into account performance against personal objectives, the total bonus payment for 2020 will be 80% and 79% of maximum for the CEO and CFO respectively. Further details can be found on pages 120 to 123.

As discussed elsewhere, the overall performance of the Company in 2020 has been very strong and the Committee is satisfied that bonuses are a true and fair reflection of the underlying performance of the Company and the Executive Directors throughout what has been an incredibly challenging year.

2018 Performance Share Plan

The targets for the 2018 PSP were set when the Company was nearing the end of the transformation phase of the 2015 strategy and looking ahead to growth. During 2018 we moved into the growth phase, building on this in 2019 and, despite the challenges of Covid-19, we continued to make substantial progress in 2020. Performance has been very strong against all performance measures, resulting in a payout of 99.4% of maximum. The Committee has not made any adjustments to the performance targets set for any in-flight awards and no adjustment has been made in the measurement of performance over the period.

Policy review

Ahead of tabling a new Policy for shareholder approval at the 2021 AGM, the Committee undertook a review of the current Policy during 2020/21 taking into account Serco's current strategic priorities, the need to attract and retain executives of the right calibre to successfully deliver long-term stakeholder value, as well as evolving investor expectations. During the review we also recognised the need to ensure fairness and equality in our pay practices throughout our organisation.

Following a thorough review, the Committee determined that the current Policy continues to be broadly appropriate and so the changes are focused on performance measurement as well as evolving governance developments. The main changes are therefore as follows:

- Introduction of ESG scorecards in both the annual bonus and Long-Term Incentive Plan – given the importance of environmental, societal and governance matters, to both the operational performance and long-term sustainability of Serco, with social and governance being of particular importance, we will be introducing an ESG scorecard under the non-financial element of both plans, weighted at 15% for each. The ESG scorecards support the delivery of our ESG commitments. Specifically, the 2021 annual bonus ESG scorecard will support our ambition of being the "best managed company in the sector". The 2021 LTIP ESG scorecard will contain measures important to the long-term sustainability of Serco. The composition of the ESG scorecards for 2021 can be found on page 130.
- Annual bonus and LTIP – while there will be no change to the split of financial / non-financial performance in our Policy, we are proposing some minor changes to the performance measures used and weightings, including the removal of Revenue under the annual bonus while maintaining a focus on profitable growth. Full details can be found on pages 111 and 129.
- Pension – as previously disclosed, a reduction to pension provisions to 20% from 30% of salary was applied from 1 April 2020. A further reduction will be applied to ensure alignment with the workforce from 1 January 2023. All new appointments will be on a rate aligned with our wider workforce. These changes will be formally incorporated into the Policy.
- In-employment shareholding guideline – the guideline for Executive Directors will be increased to 200% of salary, aligned with the CEO's guideline.
- Post-employment shareholding guideline - the Committee considered the requirements of the UK Corporate Governance Code (UK CGC) and investor guidance and feedback gathered through our recent shareholder consultation, in the context of what would be appropriate for Serco. Our Policy requires 100% of the in-employment guideline (or actual holding if lower) for the first year post-employment, followed by 50% of the in-employment guideline (or actual holding if lower) for the second year.

The Committee consulted with our top shareholders and was pleased with the level of engagement and support received throughout the consultation process.

Implementation of the Policy in 2021

Base salaries

The current base salary for the CEO was set on appointment and has been unchanged over the last six years. Reflecting the ongoing societal impact of Covid-19 and in light of their relatively competitive levels of remuneration, no increase is proposed to the base salaries of either current Executive Director. The salary for the new CFO will apply from the date of his appointment.

Bonus

The financial measures for the 2021 bonus have been rebalanced, with the removal of Revenue as a measure allowing greater weighting to be given to profitable growth without reducing the weighting on Free Cash Flow or the portion of the total bonus to be awarded for non-financial performance including ESG measures. This also aligns the annual bonus measures with those for the rest of the senior management team for whom Revenue was removed as a financial measure in 2016. The financial measures applicable to the 2021 annual bonus are therefore Trading Profit (40% weighting) and Free Cash Flow (30% weighting). The non-financial measures will be split between the ESG scorecard (15%) and personal objectives (15%). Any bonus earned over 100% of salary will continue to be subject to compulsory deferral into shares for three years. Careful consideration was given to the setting of the 2021 bonus targets. Despite the continued uncertainty due to Covid-19, the Committee have agreed full year targets against all measures.

LTIP

The Committee also carefully reviewed the performance measures to apply to the 2021 LTIP awards. Following consultation with major shareholders it was agreed that aggregate Earnings Per Share (EPS), average Return on Invested Capital (ROIC) and relative Total Shareholder Return (TSR) remained the most appropriate financial measures of the long-term successful delivery of our strategy, with relative TSR also providing a measure aligned to the experience of you, our shareholders. As with the bonus measures, the LTIP performance measures have been rebalanced to enable the inclusion of an ESG scorecard supporting our longer-term sustainability, including measures around our colleagues and our environmental sustainability. The financial elements will total 75% of the 2021 LTIP (with EPS, ROIC and TSR equally weighted), with a 15% weighting given to the ESG scorecard. A final key strategic measure for Serco, Order Book which is considered critical to the success of our organisation, will form the final 10% of the LTIP. The 2021 financial performance targets are being finalised taking into consideration the expected performance of the Group over the three-years ending 31 December 2023, our strategic objectives and market consensus. The targets will be disclosed prior to the AGM.

The Committee are cognisant of the ongoing market volatility resulting from Covid-19. The Committee retains the ability to apply discretion when determining remuneration outcomes to ensure that the value at vesting is fully reflective of the performance delivered and the Executive Directors do not receive unjustified windfall gains.

Change in CFO

On 17 December 2020 we announced that Angus Cockburn will step down as CFO from the 2021 AGM, with Nigel Crossley appointed as his replacement following the AGM. The Committee reviewed the base salary for the CFO taking into consideration the size and complexity of Serco and the experience of Nigel for whom this will be his first executive director role. As set out in our announcement, the Committee determined that Nigel will receive a base salary of £430,000 pa, with a maximum bonus and LTIP opportunity for 2021 of 140% and 150% of salary respectively; any bonus determined over 100% of salary will be subject to mandatory deferral into Serco shares. In line with 2021 Policy, the pension opportunity for Nigel will be aligned to the workforce at 8% of salary (some or all of which may be delivered as a cash allowance) from the date of his appointment to the Board following the end of the 2021 AGM.

Angus Cockburn will work his contractual notice period to ensure a smooth transition, which will run to December 2021. On stepping down from the Board, he will remain an employee of the Group receiving his normal annual basic salary and contractual benefits. He will not participate in the 2021 bonus or LTIP. Given his retirement, he will be treated as a good leaver in respect of Serco's incentive schemes.

Our people and culture

We are fully committed to ensuring any decisions made on executive pay are appropriate in the context of the approach for the wider workforce. While Serco has a unique and diverse workforce, information on pay policies and practices for the workforce are presented to the Committee twice a year, and available at all times for reference, ensuring that our decisions are fully informed by wider practices. The Committee also has oversight and provides approval on all remuneration matters relating to the members of the Executive Committee. Throughout the year, and particularly when decisions are being made on remuneration for Executives, the Committee discusses oversight of key people policy areas including diversity and gender pay reporting, employee engagement and feedback from our Employee Voice initiatives, together with wider reward frameworks for our people.

As reported in our 2020 Gender Pay Gap Report (www.serco.com/about/corporate-responsibility/gender-pay-gap-report) our 2020 consolidated UK median gender pay gap is 10.9% continuing the overall downward trend in this important measure (10.2% in 2019, 11.9% in 2018 and 12.9% in 2017). Our gender pay gap is a measure of our wider talent gap and is primarily caused by having fewer women than men in senior leader positions, and fewer women in specialist and traditionally male dominated roles (such as Prison Custody Officers and engineers) – roles which tend to be more highly paid. We continue to make good progress in our priority areas with a focus on improving diversity in its broadest sense across our whole organisation, of which gender diversity is just one part.

Remuneration Report continued

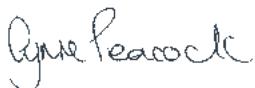
Report on Directors' remuneration continued

Stakeholder engagement

The Remuneration Committee is keen to hear the views of all stakeholders and as such, in addition to our engagement with our colleagues within the business as summarised above, the Committee regularly seeks input from shareholders in connection with both the design of the Remuneration Policy and the implementation of that Policy. In particular, in reviewing our Remuneration Policy and considering changes to present to you in this report, we contacted our top 20 shareholders (covering just under 80% of the ownership of the Company) to share our proposals and invite feedback on the Policy. We would like to thank all those who took the time to consider and respond to this consultation, through which we received overall support for the proposals. This feedback was helpful to the Committee in making its final decisions. In addition to direct engagement with shareholders, our Investor Relations team are in regular contact with our shareholders and share any feedback or queries on remuneration throughout the year so that we can maintain an ongoing dialogue.

Concluding comments

On behalf of my colleagues on the Committee, I wish to record our appreciation of the input and support we have received on the review, and proposed 2021 implementation of our Policy. The Committee believes that the proposals presented here for your consideration will continue to ensure the executive management team are rewarded for and incentivised to deliver against the strategic goals of the Company, securing the longer term success of Serco for its colleagues and enabling them to continue to provide critical services (both in times of crisis such as now, and in more stable times) to citizens around the world. I hope that you will join the Board in supporting the resolutions to approve the 2021 Policy and Annual Report on Remuneration at the 2021 AGM.



Lynne Peacock

Chair of the Remuneration Committee
24 February 2021

This Remuneration Report (the 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.

Executive pay at a glance

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.

In considering the structure and framework for the Remuneration Policy, the Committee carefully considered the linkage of remuneration to the Company's strategy to ensure that the arrangements support the strategy and promote the long term sustainable success of Serco. We approach Executive Directors' remuneration on a total reward basis to provide the Remuneration Committee with a holistic view of total remuneration rather than just the competitiveness of the individual elements. Analysis is conducted by looking at each of the different elements of remuneration (including salary, annual bonus, long term incentive plan and pension) in this context. This ensures that in applying the Remuneration Policy executive pay is sufficient to achieve the goals of the Policy without paying more than is necessary. The balance of fixed to variable pay also ensures that significant reward is only delivered for exceptional performance. In designing the 2021 Policy the Committee was supported by internal experts and external advisers and undertook a programme of shareholder consultation to ensure that arrangements aligned to our shareholders' interests.

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

Below is how the remuneration is aligned with the principles of the UK Corporate Governance Code.

Clarity	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • The remuneration for Executive Directors is comprised of distinct elements, each with a clearly defined purpose, structure and strategic alignment.
Risk	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • The pay opportunities under each element are set out in the Remuneration Report.
Proportionality	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • When considering performance, the Committee considers behaviours and actions against Serco's Values of Trust, Care, Innovation and Pride. • Environmental, Social and Governance (ESG) measures aligned to the Company's ESG commitments are incorporated into incentives.

Remuneration Report continued

Features of the 2021 Remuneration Policy

As set out in the Chair's letter, in this Report we present our revised Remuneration Policy for shareholder approval. Full details of the new (2021) Policy, to apply from the date of shareholder approval, can be found from page 112 of this report. The remuneration package for Executive Directors continues to consist of base salary, annual bonus, a long-term share-based incentive, pension and other benefits. The Group's policy remains to ensure that a significant proportion of the package is related to performance, with the relevant performance measures aligned to the core requirements of the Group's forward-looking strategy. As set out in the Chair's letter, changes have been made to ensure that the 2021

Policy remains aligned to the delivery of our corporate strategy and delivers long term value creation for all stakeholders. We have also sought to address areas where investors have expressed views, as well as evolving market practice. The Committee has also given consideration to ensuring that the new Policy is fair, motivating, and appropriate for the existing Directors, and will enable us to attract and retain the talent we need in the long term. No changes have been made to the remuneration policy applicable to Non-Executive Directors. A summary of the changes to the 2018 Executive Remuneration Policy (as approved at the 2018 AGM) is set out below:

Element in 2018 Executive Directors' Policy and proposed changes for 2021

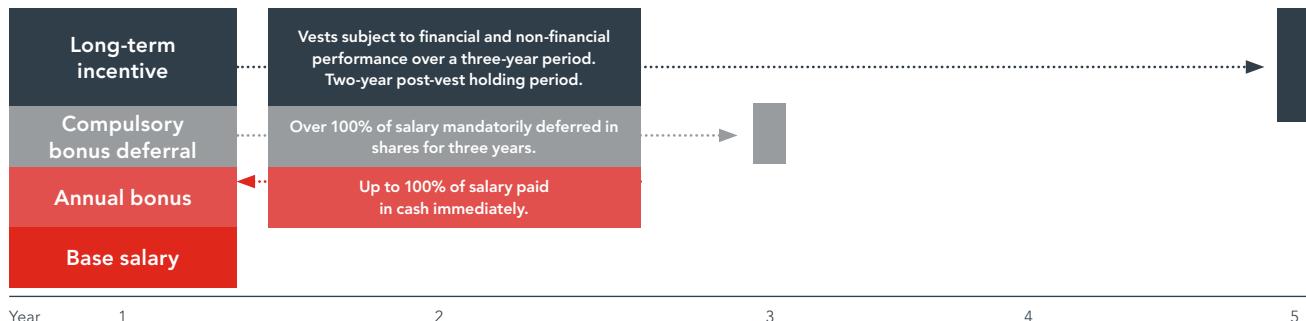
Base Salary	No change
Benefits	No change
Annual bonus	<ul style="list-style-type: none">• No changes are proposed to the level of awards.• The overall performance framework will remain a minimum of 70% based on financials and up to 30% on non-financial measures. However, the Policy has been simplified in line with market practice to provide the Committee with flexibility to determine the most appropriate performance measures on an annual basis. Any significant changes would be subject to shareholder consultation.• Introduction of ESG metrics as potential non-financial performance measures.
Long-term incentive (LTI)	<ul style="list-style-type: none">• No changes are proposed to the level of awards.• The overall performance framework will remain a minimum of 75% based on financials and up to 25% on non-financial measures. However, the Policy has been simplified in line with market practice to provide the Committee with flexibility to determine the most appropriate performance measures on an annual basis. Any significant changes would be subject to shareholder consultation.• Introduction of ESG metrics as potential non-financial performance measures.
Pension	<ul style="list-style-type: none">• Reduction in the maximum opportunity for new Executive Directors from a maximum of 20% of salary to that available to the wider workforce (currently 8% of salary).• As set out in our 2019 Remuneration Report, the pension opportunities for the current Executive Directors will be reduced to align with the wider workforce rate by 1 January 2023. The first step, a reduction from 30% to 20% of salary, took effect from 1 April 2020.
Shareholding guideline	<ul style="list-style-type: none">• Increase in the in-employment shareholding guideline for other Executive Directors (to align with the guideline for the CEO) from 150% to 200% of salary.• Introduction of a post-employment holding requirement 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 next 12 months following cessation.• The post-employment guideline will apply to shares vesting from the date the Policy is approved and will only apply to Directors who have not given notice at this date.
Malus and clawback	<ul style="list-style-type: none">• Malus and clawback provisions have been strengthened to take into account the industry in which Serco operates.

As noted in the Chair's letter, while the overall performance frameworks for the annual bonus and long-term incentive are to remain the same, for 2021 incentives the details of the performance conditions and weightings have been revised. These changes are in line with our 2018 approved Remuneration Policy as well as aligned to our proposed 2021 Policy. In particular, Revenue has been removed as a performance measure from the bonus to provide a greater focus on profit, reflecting Serco's transition from turnaround to growth. In addition, 15% of both the 2021 bonus and LTI will be determined based on ESG performance. ESG measures previously featured in both our bonus (through the personal objectives) and long-term incentive plans (via the Employee Engagement performance condition). However, recognising the absolute

importance of such measures to the long-term success of Serco, these will now be explicitly reflected in our incentive arrangements. To recognise that ESG is not about a single action being taken, the ESG measures will be assessed on a scorecard basis, albeit specific measurable targets will be set for each measure. Further details of the scorecards for 2021 are set out on page 130. All ESG measures align to the delivery of our ESG commitments as set out in our report on ESG Impact and Integrity – Corporate responsibility at Serco (see page 40 and www.serco.com/about/corporate-responsibility). The measures used in the annual bonus support our ambition of being the "best managed company in the sector". For the LTI, the ESG scorecard contains measures important to the long-term sustainability of Serco.

Implementation of Remuneration Policy for 2021 – Executive Directors

The pay structure which will apply in 2021 is summarised as follows:



Note: Chart is illustrative and is not to scale. Details of Executive Director remuneration for 2021 may be found on page 129. The full Policy for approval at the 2021 AGM is on pages 112 to 118.

This pay structure will be applied to the Executive Directors in 2021 as follows. Details for both our incumbent CFO and his successor are provided.

Element	CEO		CFO	
	Rupert Soames	Angus Cockburn (until 2021 AGM)	Nigel Crossley (from appointment following the AGM)	
Base salary from 1 April 2021	£850,000	£522,750	£430,000	
Pension from 1 April 2021¹	20% of salary	20% of salary	8% of salary	
Annual bonus	Max 175% of salary On-target 87.5% of salary	Max 155% of salary On-target 77.5% of salary	Max 140% of salary On-target 70% of salary	Compulsory three-year deferral into Serco shares of bonus over 100% of salary.
Annual bonus measures^{2,3}	40% Trading Profit	30% Free Cash Flow	15% Personal objectives	15% ESG scorecard
Long-term incentive (granted under the LTIP)	Maximum 200% of salary	Maximum 175% of salary	Maximum 150% of salary	
LTI measures^{3,4} assessed over the three-year performance period	For 2021, 75% of the award will be based on financial measures (EPS, Relative TSR and ROIC) and 25% of the award will be based on non-financial measures:			
	25% EPS	25% ROIC	25% Relative TSR	10% Order Book
				15% ESG scorecard
Holding requirement	Vested LTI shares must be held post-vest until the fifth anniversary of grant (after payment of tax).			
Shareholding guideline⁵				
In-employment	200% of salary	200% of salary	200% of salary	
Post-employment	100% of the in-employment shareholding guideline (or actual shareholding if lower) for the first year post employment, and 50% of the in-employment shareholding guideline (or actual shareholding if lower) for the second year post employment.			
Malus and clawback	<ul style="list-style-type: none"> Malus provisions and clawback provisions apply to LTIP and deferred bonus share awards during the three-year period prior to vesting and within five years of grant respectively. Clawback provisions apply to the annual bonus plan. 			

Notes:

- In line with the previously disclosed phased approach being applied to reduce the pension opportunity for the incumbent Executive Directors to align with that of the wider workforce by 1 January 2023. Nigel Crossley's pension opportunity will align to that of the workforce from his appointment.
- The Committee has revised the performance measures and their relative weightings to ensure the best alignment to the Company's forward-looking strategy. Specifically, Revenue has been removed as a performance measure from the 2021 annual bonus. In a business with typically low margins, it is felt that including Revenue dilutes focus on profit and cash flow. The Committee deems the specific details of the performance targets to be commercially sensitive as they are intrinsically linked to the forward-looking strategic plans of the business. Full disclosure will be provided in the Annual Report on Remuneration for the year in which final performance is assessed, provided these details are no longer considered sensitive.

Remuneration Report continued

3. In light of the absolute importance of ESG measures to the short- and long-term sustainable success of Serco, the Committee has formally incorporated such measures into both the 2021 annual bonus and LTIP through the introduction of ESG scorecards. The use of scorecards recognises that ESG is not about a single action being taken, albeit specific measurable targets will be set for each measure. The measures used in the annual bonus are intended to support our ambition of being the "best managed company in the sector", while for the LTIP the ESG scorecard contains measures important to the long-term sustainability of Serco. Further details of the composition of the 2021 ESG scorecards are set out on page 130.
4. The Committee is finalising the performance targets to apply to the 2021 LTIP awards, taking into account market consensus and forecast following the announcement of the 2020 financial results to ensure that targets are sufficiently stretching. Details of the targets set will be disclosed prior to the 2021 AGM.
5. Revised shareholding guidelines to apply from the date the 2021 Policy is approved.

Directors' Remuneration Policy

For approval at the 2021 Annual General Meeting

The section sets out the proposed Directors' Remuneration Policy (the 2021 Policy). A binding shareholder resolution to approve the 2021 Policy will be put forward at the 2021 Annual General Meeting (AGM), and if approved, will take legal effect from the conclusion of that meeting.

Features of the 2021 Executive Director Remuneration Policy

The principles for our remuneration policy and the rationale for changes are set out on pages 109 and 110. The Policy table below sets out how each element of the 2021 Policy aligns with, and supports, our strategic objectives.

Base salary

Purpose	To recognise an individual's experience, responsibility and performance of the role, and by providing the basis for a competitive remuneration package; to help recruit and retain executives of the necessary calibre to execute Serco's strategic objectives.
Operation	<p>Salaries are normally reviewed annually, and any changes are usually effective from 1 April. Salary reviews take account of the individual's performance and contribution to the Company during the year.</p> <p>Salary levels are set by reference to the:</p> <ul style="list-style-type: none">• role, performance and experience of the individual;• wider economic environment;• compensation of similar roles at companies in an appropriate peer group; and• salary increases across the Group. <p>In some circumstances an Executive Director may start on a lower salary than would be competitive in the market, with a phased increase applying depending on performance in role and individual ability.</p>
Opportunity	<p>Whilst there is no prescribed, formulaic maximum, over the Policy period base salaries for Executive Directors will be set at an appropriate level within the peer group and will normally increase at no more than salary increases made to the general workforce in the jurisdiction in which the Executive Director is based.</p> <p>Higher increases may be made in exceptional circumstances. Such cases would include where there has been a significant change in role size or complexity, which has resulted in the salary falling below a market competitive level given the enhanced responsibilities of the role. Full disclosure of the rationale would be included in the relevant Report.</p>
Performance framework	Review takes account of individual performance and contribution to the Company during the year.

Benefits

Purpose	To provide a competitive level of benefits.
Operation	<p>A range of benefits may be provided to Executive Directors. These typically include company car or car allowance, private medical insurance, permanent healthcare insurance, life cover, annual allowance for independent financial advice, and voluntary health checks. Where appropriate other benefits may be offered including, but not limited to, relocation benefits.</p> <p>Directors may also be eligible to participate in any all-employee share plan, such as an SAYE, which may be launched subject to shareholder approval. Participation will be on the same basis as other employees, up to HMRC approved limits where relevant.</p> <p>Benefits are reviewed annually against market practice and are designed to be competitive.</p>
Opportunity	The maximum opportunity for benefits is defined by the nature of the benefits and the cost of providing them. As the cost of providing such benefits varies based on market rates and other factors, there is no formal maximum monetary value.
Performance framework	None

Pension

Purpose	To provide pension-related benefits to encourage Executive Directors to build savings for retirement.
Operation	Executive Directors may participate in the Group defined contribution pension plan (or overseas Serco pension plan as appropriate). Executive Directors may choose to receive some or all their employer pension contribution as a cash allowance to invest as they see fit.
Opportunity	The maximum contribution or cash allowance (or mix of both) for current Executive Directors will be aligned with the contribution available to the wider workforce over a two-step approach as follows: <ul style="list-style-type: none"> • From 1 April 2020, 20% of salary; and • From 1 January 2023, aligned to the workforce rate. The maximum Company contribution (or cash payment in lieu) for a newly appointed UK based Executive Director will be aligned with the maximum employer contribution available to the wider UK workforce (currently 8% of salary). For a newly appointed Executive Director based outside the UK, their maximum pension opportunity will align with that available to the wider workforce for the jurisdiction in which they are based.
Performance framework	None

Annual bonus

Purpose	To incentivise executives 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.
Operation	Bonus awards are based on the achievement of specific targets over the year. The Committee sets objectives against key financial measures and strategic objectives aligned to the Group's overall strategy, annual business plan and priorities for the year, and the weighting for each measure, at the start of each performance year. Annual bonuses are paid after the end of the financial year to which they relate. There is compulsory deferral into shares, typically vesting after three years, of any bonus earned over 100% of salary. The Committee may decide to pay the entire bonus in cash where the amount to be deferred into shares would, in the opinion of the Committee, be so small that it is administratively burdensome to apply deferral. Dividend equivalents may accrue during the vesting period on the shares under the bonus deferral award. These may be delivered in the form of additional shares or cash to the extent that the award vests. Malus and clawback provisions apply.
Opportunity	Maximum bonus opportunity is 175% of salary for CEO and 155% of salary for other Executive Directors. This represents the maximum bonus payable for exceptional/'stretch' performance.
Performance framework	Performance is measured over each financial year relative to financial, strategic and individual objectives in the year aligned with the Company's strategic plan. Performance measures and weightings are reviewed each year to ensure that they remain appropriate and reinforce the business strategy. At least 70% of the total bonus will be based on the achievement against financial measures. Up to 30% of the total bonus will be based on strategic and personal objectives which will include ESG objectives. Bonus awards are at the Committee's discretion and the Committee will consider the Company's performance and the affordability of the bonuses in the round. The Committee may override the formulaic bonus outcome within the limits of the plan where it believes that the outcome is not reflective of wider performance, or affordability of the bonus, to ensure fairness to both shareholders and participants. Awards are 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	To recognise delivery of the Group's longer-term strategy and value creation and align the long-term interests of the Executive Directors with the Group's shareholders.
Operation	LTIP awards consist of share awards subject to performance conditions which are normally granted annually. Awards normally vest three years from their grant date although in exceptional circumstances, such as but not limited to where a delay to the grant date is required, the Committee may set a vesting period of less than three years, although awards will continue to be subject to a performance period of at least three years. 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. The Committee has discretion to permit a dividend equivalent to accrue during the vesting period. Dividend equivalents are delivered to participants in the form of additional shares or cash to the extent that the award vests. Post-tax shares are subject to a post vesting holding period usually ending on the fifth anniversary of grant. During this time, the shares must be retained but are not subject to forfeiture provisions. Shares may be sold in order to satisfy tax or other liabilities as a result of the vesting of the award. Awards made to Executive Directors are subject to malus and clawback provisions.

Remuneration Report continued

Features of the 2021 Executive Director Remuneration Policy continued

Opportunity	Maximum annual award of up to 200% of base salary for the CEO and 175% for other Executive Directors.
Performance framework	<p>At least 75% of the vesting of LTIP awards will be dependent on financial performance, with up to 25% of the vesting based on the achievement of strategic measures aligned with the Company's strategic plan, which will include ESG objectives. The Committee has discretion to restrict the vesting against the non-financial measures if, on assessment of the Company's performance as a whole (including the financial performance), the formulaic outcome of the non-financial measures is not reflective of this.</p> <p>The maximum vesting for threshold performance is 25% of the total award, and 100% vesting for maximum performance.</p> <p>The Committee (with input from the Audit and Group Risk Committees as appropriate) considers Serco's underlying performance and external market reference points, as well as performance against the specific targets set in determining the overall outcome of the LTIP awards.</p>

Shareholding guidelines

Purpose	To support long-term commitment to the Company and the alignment of Executive interests with those of shareholders.
Operation	<p>The Committee reviews the shareholding guidelines with the Policy review to ensure the guidelines remain in line with market and best practice.</p> <p>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.</p> <p>Executive Directors are required to retain, in shares, 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding guideline.</p>
Opportunity	<p>In-employment guideline The in-employment shareholding guideline is 200% of salary.</p> <p>Post-employment guideline The post-employment guideline is equal to 100% of the in-employment guideline (or actual shareholding on cessation if lower) for the first 12 months, and 50% of the in-employment guideline (or actual shareholding on cessation if lower) for the second 12 months. This guideline applies to shares vesting from the date of the approval of this Policy, to Executive Directors not under notice at this date.</p> <p>The Committee has the discretion to increase the shareholding guidelines of the Executive Directors.</p>
Performance framework	None

Malus and clawback

Malus and clawback provisions apply to awards under the annual bonus and long-term incentive. Under the Policy, the Committee, at its discretion, may reduce, cancel or recover some or all of the awards granted to Executive Directors in certain circumstances. Under the malus and clawback provisions, the Company may reduce or prevent vesting of unvested share awards, or clawback against vested or paid awards, in circumstances including but not limited to material misstatement of the Group's audited financial results; material or misleading results announcement prior to vesting; a clear and material contravention of Serco's Codes of Practice or Values; a serious failure of risk management; or an event that leads to serious reputational damage or corporate failure. Clawback may be invoked in the most serious of these circumstances and must be implemented within five years of the grant of the relevant long-term incentive or deferred bonus share award, and within two years in respect of the bonus awards paid in cash.

Use of discretion

The Committee will operate the annual bonus plan and LTIP according to their respective rules, as approved by shareholders, and in accordance with the Listing Rules, where applicable. The Committee retains discretion, consistent with market practice, in a number of areas with regard to the operation and administration of these plans. These include, but are not limited to:

- the participants;
- the timing of grant of an award;
- the vehicle of an award;
- the size of an award;

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

In relation to the long-term incentive and bonus, the Committee retains the ability, in exceptional circumstances, to change performance measures, targets and/or the relative weighting of performance measures part-way through a performance period if there is a significant event (such as a major transaction or, in the case of the bonus only, a transition in role) which causes the Committee to believe the original performance conditions are no longer appropriate. In exercising this discretion, the Committee will determine that the original conditions are no longer appropriate, and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. In exceptional circumstances, the Committee also has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group. Any use of the above discretions would, where relevant, be explained in the Remuneration Report.

Consideration of employment conditions elsewhere in the Group

The Policy described here applies specifically to Executive Directors of the Group. When setting remuneration for Executive Directors, the Committee considers contextual information about pay and conditions within the Group, including salary increases and bonus awards for the wider workforce. The Remuneration Committee sign off all reward decisions applicable to the Executive Committee Members. More broadly, the Committee receives regular updates from Management in relation to employee feedback, and on pay and employment conditions elsewhere in the Group. Further details of how this and the colleague voice is considered are provided in the Chair's letter. The Committee believes that the structure of management reward at Serco should be linked to Serco's strategy and performance, and that reward throughout the whole organisation should follow the same philosophy and underlying principles. The table below provides an overview of how the Policy cascades throughout the organisation.

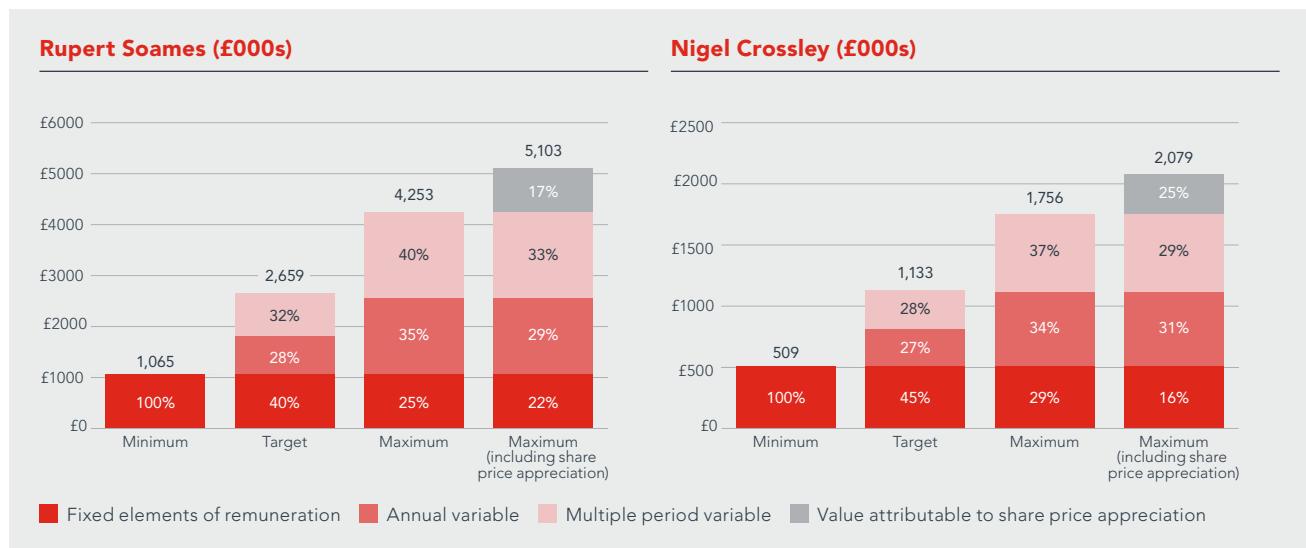
Element	Cascade of the Executive Director Remuneration Policy
Base salary	Salary levels throughout the Group, as far as possible, are set using the same principles applicable to the Executive Directors.
Benefits	Market-aligned benefits are provided for all employees.
Pension	The Group operates a large number of different pension/retirement benefit arrangements globally, in line with local market practice. Cash allowance alternatives are offered where applicable, e.g. where pension tax allowances would otherwise be exceeded.
Annual bonus	Approximately 1,300 colleagues, including members of the Global Leadership Team, are annually invited to participate in the Serco Bonus Plan.
Long-term incentive	Annual long-term incentive awards are granted to approximately 250 colleagues in the Global Leadership Team.
All employee share plan	The Group are preparing to launch an all employee share plan enabling all colleagues to share in Serco's longer-term success.

Consideration of shareholder views

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 our policy and practice.

Illustration of remuneration opportunity for 2021

The following charts illustrate the value that may be delivered to Executive Directors in 2021 under the 2021 Policy.



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration:
 - Base salary as applicable from 1 April 2021.
 - Estimated value of benefits to be provided in 2021 in line with the Policy.
 - Pension contribution/cash supplement equal to 20% for Rupert Soames, and 8% for Nigel Crossley in line with Policy.
- Annual bonus and LTIP participation as set out in the Policy table. In all cases, target performance results in delivery of 50% of maximum opportunity. The LTIP values reflect the 'face value' at grant of shares that could be received for target and maximum performance. The LTIP value under the maximum scenario is also shown assuming 50% share price appreciation over the performance period.

Remuneration Report continued

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 Policy Table on pages 112 to 114. Base salary is set by the Committee taking into account all factors it considers relevant, including the Executive Director's experience and calibre, current total remuneration, levels of remuneration for companies in the Committee's chosen peer group, and the remuneration required to attract the best candidate for Serco. The Committee will seek to ensure that the arrangement is in the best interests of the Company and its shareholders without paying more than is necessary. New promotes or recruits to the Board may on occasion have their salaries set below the targeted policy level while they become established in their role. In such cases, salary increases may be higher than inflation or the wider workforce increase until the targeted market positioning is achieved.

The recruitment policy also includes the additional provision of benefits in kind, pensions and other allowances such as relocation, education and tax equalisation in line with Serco policies as may be required in order to achieve a successful recruitment. The policy for recruitment also includes benefits that are either not significant in value or are required by legislation. Any new UK based Executive Director would be offered either a pension contribution and/or a pension allowance aligned to the maximum opportunity available to the wider UK workforce (currently 8% of salary). For a newly appointed Executive Director based outside the UK, their maximum pension opportunity will align with that available to the wider workforce for the jurisdiction in which they are based.

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

Element of remuneration	Maximum percentage of salary
Maximum variable pay:	375%
Normally comprising:	
• Annual bonus	175%
• Long-term incentive	200%

This is the maximum level of incentives excluding any to compensate for entitlements forfeited that will apply to new recruits. Different performance conditions may apply for new recruits from those set out in the Policy, depending on the particular circumstances at the time (which could, for example, include the appointment of an interim Executive Director).

Where it is necessary to compensate a candidate for entitlements and/or unvested incentive awards from an existing employer that are forfeited, the Committee will seek to match the quantum, structure and timeframe of the award with that of the awards forfeited. In determining the form and quantum of replacement awards, the Committee will consider whether existing awards are still subject to performance requirements, and the extent to which those are likely to be met, with the aim of providing an opportunity of broadly equivalent value. The principle will be to seek to replace awards that remain significantly at risk for performance at the candidate's current employer with awards subject to performance at Serco, and to seek to make any other replacement awards in the form of Serco shares, subject to appropriate vesting or holding requirements. Any compensation for awards forfeited is not taken into account in determining the maximum incentive award level.

Where a new Executive Director is an internal promotion, the Committee has discretion to allow the new Executive Director to continue to benefit from existing awards granted, or benefit entitlements that were in place prior to appointment to the Board. The policy on the recruitment of new Non-Executive Directors is to apply the same remuneration elements as for the existing Non-Executive Directors.

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

Service contracts and loss of office payments

The policy for service contracts for new Directors is shown in the table below. Under this policy, the Committee may at any time, with the agreement of a Director, alter aspects of their existing contracts so that they are in line with the policy for new Directors. Copies of the Executive Directors' service contracts and Chairman and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office. Service contracts outline the components of remuneration paid to the individual but do not prescribe how remuneration levels may be adjusted from year to year.

The date of appointment for each Director is shown in the table on page 118.

Provision for Executive Directors	Detailed terms
Notice period	<ul style="list-style-type: none"> • 12 months' notice from the Company • 12 months' notice from the Director
Termination payment	<ul style="list-style-type: none"> • Payment in lieu of notice comprising: <ul style="list-style-type: none"> – Base salary – Pension allowance – Selected benefits • All of the above would be paid in instalments in accordance with the Executive Director's contractual payment schedule, subject to an obligation on the part of the Director to mitigate their loss. Payments will either reduce or cease completely, in the event that the Executive Director gains new employment/remuneration. • In the event of a compromise or severance agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims. It may include in such payments, reasonable reimbursement of professional fees incurred by the Executive Director in connection with such agreements and reasonable payments in respect of restrictive undertakings. • The Committee may agree that if an Executive Director steps down from the Board, then for a transitional period, notice (including payment in lieu of notice) would continue to be based on the equivalent of up to 12 months based on their rate of salary and benefits while a Director, payable in instalments and subject to mitigation. • The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee.
Treatment of annual bonus on termination ¹	<ul style="list-style-type: none"> • No payment unless employed on date of payment of bonus except for 'good leavers'. • 'Good leavers' are entitled to a bonus pro-rated to the period of service during the year, subject to the outcome of the performance metrics and paid at the usual time unless in exceptional circumstances (e.g. in the case of death of the executive) when the Committee may determine to make the payment early. • The Committee has discretion to reduce the entitlement of a 'good leaver' in line with performance and the circumstances of the termination. • For new Executive Directors, unvested deferred bonus share awards will lapse on cessation of employment except for 'good leavers'. For good leavers, the shares will usually be released on the normal vesting date, however the Committee has discretion to determine early vesting of the deferred share awards in exceptional circumstances (e.g. in the case of death of the Executive Director). 'Bad leaver' provisions will not apply to the existing Executive Directors in respect of unvested deferred bonus share awards on cessation of employment except in the event of termination relating to misstatement of results, misconduct or poor performance. • Malus and clawback provisions continue to apply.
Treatment of unvested awards granted under the LTIP ¹	<ul style="list-style-type: none"> • All awards lapse except for 'good leavers' for whom vesting is pro-rated on a time basis, unless the Committee determines otherwise, and is dependent on the achieved performance over the performance period. Awards typically vest on the normal vesting date although the Committee retains discretion to accelerate the vesting in exceptional circumstances. • The Committee has the discretion to vary the level of vesting to reflect the individual performance, and may, depending on the circumstances of the departure, allow some awards to vest while lapsing others. • On cessation, the holding period (from vest to the fifth anniversary of grant) will typically apply unless the Committee determines otherwise. • Malus and clawback provisions continue to apply.
Post-employment shareholding requirement	<ul style="list-style-type: none"> • As set out in the Policy table on page 112 onwards, post-employment shareholding requirements apply for two years following the cessation of employment of an Executive Director.
Change of control	<ul style="list-style-type: none"> • Where the Executive Director leaves the Company following a change of control, whether or not he is dismissed or he elects to leave on notice, he will be entitled to receive a payment equivalent to up to one year's remuneration. • Bonuses will typically be paid on a pro-rata basis measured on performance up to the date of change of control. • Unvested LTIP awards and unvested share awards in respect of deferred annual bonus are to vest pro-rata for time and performance up to the date of change of control with Committee discretion to treat otherwise. For existing Executive Directors, the unvested share awards in respect of deferred annual bonus will vest without time pro-rating.
Exercise of discretion	<ul style="list-style-type: none"> • Intended only to be used to prevent an outcome that is not consistent with performance. The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company.

Note:

1. Good leavers are defined as leavers due to ill-health, injury or disability, death, redundancy, retirement, change of control (as defined in the relevant plan rules) and other circumstances at the Committee's discretion (to the extent that they allow 'good leaver' treatment for particular awards).

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

Remuneration Report continued

Remuneration Policy for the Chairman and Non-Executive Directors

Base fees

Purpose	To attract Non-Executive Directors with the necessary experience and ability to make a substantial contribution to the Group's affairs.
Operation	<p>The fees of the Chairman are determined and approved by the Remuneration Committee (excluding the Chair of the Company) and fees of the Non-Executive Directors are determined and approved by the Board as a whole.</p> <p>The Chairman and other Non-Executive Directors receive a base fee. Other Non-Executive Directors may also receive additional fees in respect of additional responsibilities such as membership of or chairing a Board Committee.</p> <p>Fees are typically reviewed on an annual basis against a relevant peer group and taking into consideration market practice.</p>
Opportunity	<p>Over the Policy period, base fees for current Non-Executive Directors will be set at an appropriate level within the peer group and increases will typically be broadly in line with market.</p> <p>The base fees or fees for specific Non-Executive Directors' roles may be reviewed at any time based on the anticipated responsibility and time commitment involved.</p> <p>Current fee levels are shown on page 131.</p>
Performance framework	Non-Executive Director fees are not performance related.

Benefits and expenses

Purpose	To cover the cost of reasonable expenses in connection with carrying out the duties of the role.
Operation	<p>An allowance may be paid to Non-Executive Directors for attendance at meetings outside their country of residence where such meetings involve inter-continental travel.</p> <p>In addition, all reasonable travel and business related expenses incurred in connection with carrying out their duties are reimbursed.</p>
Opportunity	The maximum travel allowance is £5,000 per occasion requiring inter-continental travel.
Performance framework	None

Non-Executive Directors are not entitled to receive incentives and pension. Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding guideline.

Dates of Directors' service contracts/letters of appointment

Directors who served on the Board during the financial year ended 31 December 2020.

Director	Date of appointment to the Board
Sir Roy Gardner	1 June 2015
Rupert Soames	8 May 2014
Angus Cockburn	27 October 2014
Kirsty Bashforth	15 September 2017
Eric Born	1 January 2019
Ian El-Mokadem	1 July 2017
Rachel Lomax ¹	3 March 2014
Dame Sue Owen ²	3 August 2020
Lynne Peacock	1 July 2017
John Rishton	13 September 2016

1. Rachel Lomax resigned as a Director on 30 August 2020.
2. Dame Sue Owen was appointed as a Director on 3 August 2020.

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

Annual Report on Remuneration

The Remuneration Committee

All members of the Committee are independent, Non-Executive Directors of the Company, initially appointed for a three-year term. That appointment may be terminated on three months' written notice.

Chairman: Lynne Peacock

Committee Members: Kirsty Bashforth, Sir Roy Gardner, Tim Lodge (from 21 February 2021), John Rishton

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 reinforce the strategic

aims of the business and are appropriate given the market context in which Serco operates and the reward strategy throughout the rest of the business.

The Committee's composition, responsibilities and operation comply with the principles of good governance as set out in the UK Corporate Governance Code, the Listing Rules and the Companies Act 2006. The Terms of Reference for the Committee are available on the Company's website.

The Committee met five times during the year. Details of attendance at meetings is set out on page 89. Meetings of the Committee are normally attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group Reward Director, the Group General Counsel & Company Secretary, the Deputy Company Secretary and representatives of Willis Towers Watson (WTW), the Committee's independent external advisers. No person is present during any discussion relating to their own remuneration arrangements.

Summary of the Committee's activities during 2020

The Remuneration Committee have met five times during the year. The principle agenda items were as follows:

Meeting	Agenda item
February	Appointment of advisers; shareholder consultation update; Employee Voice update; corporate governance and market practice update; 2019 annual bonus achievement and 2020 bonus performance framework; 2019 Remuneration Report; 2017 long-term incentive and legacy deferred bonus plan award vesting, and 2020 award performance framework.
June	Corporate governance and market practice update; shareholder update; workforce remuneration update; review of remuneration policy; ratify decisions taken offline since February including deferral of 2019 cash bonuses.
September	Corporate governance and market practice update; workforce remuneration and Employee Voice update; review of remuneration policy; 2020 long-term incentive grant and performance targets; terms for a new all-employee share plan; ratify decisions taken offline since June including confirmation of the 2020 bonus targets following review of Covid-19 impact on the business.
October	Review of remuneration policy
December	Corporate governance and market practice update; shareholder consultation update; workforce remuneration and Employee Voice update; review of remuneration policy; 2020 Gender Pay Gap; 2020 Remuneration Report; 2021 reward packages for the Executive Directors and Executive Committee; rules for a new all-employee share plan.

External Advisers

During 2020 the Committee completed a competitive tender for the role of its principal consultants which included three independent candidates. Following completion of the tender, the Committee appointed WTW as its independent remuneration advisers with effect from February 2020. Prior to appointing WTW, the Committee considered other services provided by WTW to the Group and concluded that there were no conflicts of interest. PricewaterhouseCoopers LLP (PwC) served as advisers prior to the appointment of WTW. WTW is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Remuneration Consultants' Group Code of Conduct. The Committee are satisfied that WTW are providing robust and professional advice.

Adviser	Appointed by	Services provided to the Committee	Fees for services provided to the Committee ¹	Other services provided to the Company
PwC	Remuneration Committee in 2012	Advice on market practice; governance; reward consultancy.	£6,720	Reward and benefits consultancy
WTW	Remuneration Committee in 2020		£43,700	Reward and benefits consultancy; provision of benchmark data; pensions consultancy

1. Fees are determined on a time spent basis.

Remuneration Report continued

The implementation of the Remuneration Policy for year ended 31 December 2020

The Remuneration Policy applied for the year ended 31 December 2020 was consistent with the 2018 Policy approved by shareholders at the AGM in 2018. We have not deviated from the approved Policy in respect of any payments made during 2020.

Single Figure – Directors' remuneration (audited information)

Executive Directors' single figure

The following table shows a single total figure of remuneration in respect of qualifying services in 2020 for each Executive Director, together with comparative figures for 2019. Details of NEDs' fees are set out in the next section.

All figures in £	Rupert Soames		Angus Cockburn	
	2020	2019	2020	2019
Salary ¹	850,000	850,000	519,563	507,500
Taxable benefits ²	53,255	44,197	67,712	49,831
Pension ³	191,250	255,000	116,663	152,250
Total Fixed Remuneration	1,094,505	1,149,197	703,937	709,581
Bonus ⁴	1,190,000	1,398,250	642,133	737,141
Long-Term Incentives ^{5,6}	2,658,102	2,653,999	1,064,692	1,355,117
Total Variable Remuneration	3,848,102	4,052,249	1,706,825	2,092,258
Total	4,942,607	5,201,446	2,410,761	2,801,838

Notes:

1. As set out in our 2019 Report, Angus Cockburn's salary was increased to £522,750 p.a. with effect from 1 April 2020.
2. The taxable benefits relate to the provision of independent financial advice, a car or car allowance (fully inclusive of all scheme costs including insurance and maintenance), health care and private medical assessments, as well as taxable business expenses. Where Serco settles the PAYE and NIC liability in respect of benefits provided, the value of the benefit has been grossed up at the individual's marginal tax rate. The taxable benefits for 2020 include an individual benefit value of £25,744 in respect of Rupert Soames' company car in the year. In connection with their roles, Rupert and Angus have joined the Board of our US company, which requires them to make tax declarations in the US. They do not receive any additional compensation for these directorships but the Company provides US tax support, the total benefit values for which were £22,025 and £32,639 respectively (on a grossed up basis) in 2020. The increase in the total taxable benefit values compared to 2019 is due to the taxable benefit of 2019 and 2020 US Tax support arising in 2020; of the 2020 benefit value, £10,491 and £18,505 for Rupert and Angus respectively relates to 2019 advice.
3. The pension amount includes payments made in lieu of pension, calculated as a percentage of base salary, from which the Executive Directors make their own pension arrangements. As set out in our 2019 Report, with their agreement the pension opportunity for the incumbent Executive Directors' was significantly reduced from 30% to 20% of salary from 1 April 2020.
4. Performance bonuses earned in the period under review and paid in the following financial year. For 2020 this figure includes £340,000 (29%) of Rupert Soames' and £119,383 (19%) of Angus Cockburn's 2020 bonuses which will be subject to mandatory deferral into Serco shares for a three-year period at the point the bonuses are paid in 2021.
5. This is the estimated or actual value of Long-Term Incentives for which the performance period ended in the year. Note this includes sums in connection with the legacy Deferred Bonus Plan in which the Executive Directors can no longer participate. The quantum of the 2020 LTI values for Rupert and Angus attributable to share price appreciation is £525,299 and £213,084 respectively. Further details are provided on page 124 onwards.
6. The Long-Term Incentive values reported for 2019 have been restated to reflect the actual share price at the relevant vest dates for the awards (in respect of the 2017 PSP Awards which vested on 6 April 2020: £1.2464, and in respect of the legacy 2017 DBP Awards which vested on 9 May 2020: £1.3076).

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2020, the Executive Director bonus was based on achieving a mix of financial and non-financial objectives which were weighted 70:30 respectively. The financial measures were Trading Profit (40%), Free Cash Flow (40%) and Revenue (20%) and the non-financial measures were individually set and based on key strategic goals.

In determining the appropriate awards under the 2020 bonus, the Committee took into account the wider context of what has been an extraordinary year for both the Company and its employees. It was determined that performance with the impact of Covid-19 removed should be used for the purposes of determining bonus payouts to ensure that the bonus only delivers for management's performance and does not reward performance arising from the circumstances in which we found ourselves in 2020. As set out in the Chair's Letter, this results in reduced performance against all three financial measures for bonus purposes, resulting in lower payouts than on a purely formulaic basis.

The Committee has also been concerned to ensure fair outcomes for all other employees in the annual bonus scheme, with bonus payments taking into account overall Group and Divisional performance to ensure payments are reflective of the overall contribution and that no colleague is penalised for factors beyond their control.

Full details of the adjustments made are set out below.

All awards under the 2020 annual bonus were subject to an Underlying Trading Profit affordability test (after adjustment for in-year Onerous Contract Provisions (OCP) items) of £148.6m at constant currency rates.

The tables below show the achievement determined by the Committee against the financial and non-financial measures, together with the overall bonus outcome for 2020.

Financial performance		Weighting for 2020 (% maximum bonus opportunity)	Threshold target (£m)	Target (£m)	Maximum target (£m)	Reported Result (£m)	Outcome for bonus purposes ¹ (£m)	Achievement against measure (% maximum opportunity for this measure)
Performance measure								
Revenue	14%	£3,526	£3,576	£3,626	£3,885m	£3,521m	0%	
Trading Profit	28%	£148.6	£154.5	£163.5	£175.7m	£173.7m	100%	
Free Cash Flow	28%	£60.2	£77.9	£95.5	£134.9m	£103.4m	100%	

Note:

1. At constant currency.

Covid-19 has had a material impact on costs and profits across many of our contracts; some have seen increased profits; some have seen profits turn to large losses. Determining the impact is not a precise science, but in consultation with the Audit Committee, the Remuneration Committee believes it is able to come to a reasonable estimation of the impact across all three annual bonus measures (Revenue, Trading Profit, Free Cashflow). It has therefore determined that the correct approach to the assessment of 2020 performance for bonus purposes, is to adjust the outcome for annual bonus purposes to remove the estimated impacts of Covid-19, rather than changing the targets retrospectively. Since Covid-19 has had a net positive impact across all metrics, the adjustments have the effect of reducing the outcome for bonus purposes across all three annual bonus metrics.

In line with the approach in previous years (and as previously consulted with shareholders), some adjustments are made to the reported figures to ensure that management are rewarded for their in-year performance and are not given credit for gains that they have not materially influenced. As set out in the table on page below, applying these principles historically has resulted in both negative and positive adjustments.

The results of these adjustments to the 2020 Group outcomes are set out below:

£'m	Revenue	Trading Profit	Free Cash Flow
FY20 Reported Results	3,884.8	175.7	134.9
Constant currency adjustment	24.0	1.4	
FY20 results at constant currency	3,908.8	177.0	134.9
Covid-19 adjustment	(388.2)	(1.5)	(31.5)
Other adjustments for bonus purposes	0.0	(1.8)	0.0
Performance determined for bonus purposes	3,520.6	173.7	103.4

Revenue

Revenue of £3,885m has been increased by £24m to convert to 2019 constant currency, so that it is consistent with the targets set at the beginning of the year, and £388m has been removed relating to the estimated net Covid-19 impact, resulting in Revenue for bonus purposes of £3,521m.

Free Cash Flow

Free Cash Flow of £134.9m has been adjusted to exclude net Covid-19 trading and liquidity benefits in 2020 of £31.5m, giving Free Cash Flow for bonus purposes of £103m. Amongst the adjustments were benefits from the deferment of US employment taxes, for which no mechanism exists for early repayment, and benefits as a result of a decision taken in April 2020 to issue shares to fund the share option schemes, as opposed to buying them in the open market as had been assumed in the Budget.

Trading Profit

The first adjustment is to put the £175.7m of Reported Trading Profit into constant currency, so that it is consistent with the targets set at the beginning of the year; this results in a £1.4m increase. In consultation with the Audit Committee, the Remuneration Committee believes that a reasonable estimation of the impact of Covid-19 on Trading Profit was a net benefit of £1.5m after taking into account gross trading profit benefit, the ex-gratia payment to recognise 50,000 front-line employees and furlough payments repaid. The Committee then considered items to properly reflect management effort and in-year operational performance and has concluded that a total of £1.8m should be deducted from Trading Profit to reflect further items that should not count towards bonus outcomes. This results in Trading Profit for Bonus Purposes in 2020 of £173.7m. Comparisons against adjustments made in prior years are shown in the table below.

£m	2020	2019	2018	2017	2016	2015
Trading Profit	175.7	133.4	116.7	54.0	100.3	137.6
Constant currency adjustment	1.4	(4.1)	4.4	(6.8)	(5.7)	7.7
Trading Profit at constant currency	177.0	129.3	121.1	47.2	94.6	145.3
Adjustment for bonus purposes	(3.3)	(12.6)	(15.2)	23.6	(20.9)	(32.9)
Trading Profit for bonus purposes	173.7	116.7	105.9	70.8	73.7	112.4
Underlying Trading Profit at constant currency	164.5	116.5	97.1	63.4	73.4	95.9

Remuneration Report continued

Non-financial performance

Weighting for 2020 (% maximum opportunity)	30%	Rupert Soames	Angus Cockburn
Achievement against measure (% maximum opportunity for this measure)	80.0%	77.5%	

Rupert Soames – consideration of personal performance in the year

Target	Achievements in year
Winning good business <ul style="list-style-type: none"> Improving Business Development performance to deliver a reported pipeline with a target of £5,899m, new business wins with a target of £1,699m and target total wins of £3,230m. 	<ul style="list-style-type: none"> Business development performance was on target (total wins in 2020 amounted to £3.1bn). Reported pipeline for 2020 was significantly above target at £6.4bn with total pipeline including both large and smaller opportunities at £8.1bn.
Executing brilliantly <ul style="list-style-type: none"> Maintain and strengthen the relationship with the major government customers. Develop Serco's response to the changing ESG environment. Continue to build Serco's cyber resilience and security. Support the achievement of a target LTIFR of 5.1. 	<ul style="list-style-type: none"> Strength of relationships built and maintained with major customers demonstrated through the additional support requested as governments around the world sought to deal with the challenges of responding to Covid-19 Successful addition of complementary and strategic infill acquisitions, including completing the acquisition of Facilities First Australia. Refresh of the Corporate Responsibility report and further development of the ESG report including development of Serco's social purpose and governance approaches which are of critical importance to our business. IT infrastructure developed to allow > 10,000 employees to work from home. 2020 LTIFR was below the target level, at 4.4. Successful redeployment of employees during Covid-19, creation of 10,000 net new jobs.
A place people are proud to work <ul style="list-style-type: none"> Supporting the achievement of a Group Engagement Score of at least 68. 	<ul style="list-style-type: none"> Demonstration of ongoing commitment to our people, including new initiatives to support and improve communications to all our colleagues during the Covid-19 crisis and continued site visits to support colleagues on the front-line of the pandemic response, where appropriate and safe to do so in-line with government guidance. Employee engagement score for 2020 of 73.
Profitable and sustainable <ul style="list-style-type: none"> Deliver against financial targets and city expectations whilst maintaining the reputation of Serco in the investment community. 	<ul style="list-style-type: none"> First company in sector to reinstate guidance after pandemic hit. Maintained strong and transparent relationships with all major investors.

The Committee considered Rupert's performance against his stated objectives and deemed his overall performance in 2020 to be very strong, awarding him a personal performance outcome of 80%. Rupert has continued to show highly effective and visible leadership throughout 2020, and over the course of the year has delivered another strong year of performance in the face of the substantial challenges brought on by Covid-19. This was achieved whilst maintaining the trust built up with our customers, based on the strong foundations of good governance, and whilst ensuring the engagement and wellbeing of all colleagues at Serco, all of which is critical to our longer term success.

Angus Cockburn – consideration of personal performance in the year

Target	Achievements in year
Winning good business <ul style="list-style-type: none"> Improving Business Development performance to deliver a reported pipeline with a target of £5,899m, new business wins with a target of £1,699m and target total wins of £3,230m. 	<ul style="list-style-type: none"> Business development performance was on target (total wins in 2020 amounted to £3.1bn). Reported pipeline for 2020 was significantly above target at £6.4bn with total pipeline including both large and smaller opportunities at £8.1bn.
Executing brilliantly <ul style="list-style-type: none"> Continue to drive and improve Serco Finance Transformation across the Group. Maintain the reputation of Serco in the investment community. Support the achievement of a target LTIFR of 5.1. 	<ul style="list-style-type: none"> Strength of relationships with the investment community maintained including the introduction of our new Head of Investor Relations. Continued successful delivery of Finance Transformation despite the challenges brought on by Covid-19. 2020 LTIFR was below the target level, at 4.4.
A place people are proud to work <ul style="list-style-type: none"> Supporting the achievement of a Group Engagement Score of at least 68. 	<ul style="list-style-type: none"> Demonstration of ongoing commitment to our people, including new initiatives to support and improve communications to all our colleagues during the Covid-19 crisis. Employee engagement score for 2020 of 73. Developed strong succession plans within the Finance function, in particular the positioning and development of his CFO successor enabling the appointment of an internal successor who has been positively accepted by both internal and external stakeholders.
Profitable and sustainable <ul style="list-style-type: none"> Deliver against Financial Targets and City expectations. 	<ul style="list-style-type: none"> First company in sector to reinstate guidance after pandemic hit. Maintained strong relationships with all major investors. Achieved strong financial performance for the year; reduction in net debt from £215m to £58m and leverage of 0.5x EBITDA which is below the lower end of our target range of 1-2x. Our strong balance sheet enabled Serco to access the US Private Placement market for the first time in more than seven years providing a very strong base for the ongoing execution of our strategy. Provided strong leadership to the Growth Forum which has become a key aspect of strategic growth planning at Serco.

The Committee considered Angus's performance against his stated objectives and deemed his overall performance in 2020 to be very strong, awarding him a personal performance outcome of 77.5%. Angus has continued to show highly effective and visible leadership throughout 2020. Over the course of the year he has delivered another strong year of performance, maintained good levels of liquidity and maintained a strong balance sheet despite the substantial challenges arising due to Covid-19. This was achieved whilst maintaining the trust built up with our customers and the investment community, and ensuring the engagement and wellbeing of all colleagues at Serco, all of which is critical to our longer term success.

Overall 2020 bonus outcome

	Rupert Soames	Angus Cockburn
Total bonus payable as % of maximum	80.0%	79.3%
Bonus opportunity as % of salary	175%	155%
Bonus amount achieved as % of salary	140%	123%
Bonus amount earned ¹	£1,190,000	£642,133

Note:

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

Remuneration Report continued

Long-term incentives

The total long-term incentives value included in the 2020 single total figure of remuneration includes the following Performance Share Plan and legacy Deferred Bonus Plan Awards.

Performance share plan (PSP)

The 2020 single figure is comprised of the 2018 PSP awards granted on 25 June 2018, which are due to vest on 25 June 2021 subject to TSR, EPS, ROIC, Order Book (measured as the book-to-bill ratio) and Employee Engagement performance in the period to 31 December 2020. In determining the overall vesting for the 2018 PSP the Committee was mindful that the final year of the performance period was impacted by Covid-19. Careful consideration was given to the overall performance of the Group over the performance period, and the extent to which Covid-19 may have affected the performance assessed. The Committee is satisfied that the overall vesting outcome is an appropriate reflection of the overall performance of the Group over the performance period, during which Management successfully turned a corner in the transformation of Serco and transitioned to the growth phase of our corporate strategy. The performance and formulaic vesting outcome for each tranche of the 2018 PSP is as follows:

Performance condition and relative weighting	Threshold ⁵ – 25% vesting	Maximum – 100%	Performance measured	Vesting (% of maximum)
Relative TSR ¹ (28.33%)	Median ranking	Upper quartile ranking	Rank 45/172: Between median and upper quartile	97.8%
Aggregate EPS ^{2,3} (28.33%)	13.98p	16.98p	22.78p	100%
Average pre-tax ROIC ^{2,3} (28.33%)	9.6%	11.9%	17.1%	100%
Order Book ⁴ (7.5%)	N/A	105%	115%	100%
Employee Engagement in 2020 ^{4,5} (7.5%)	N/A	60%	Engagement score of 73	100%
Overall vesting outcome				99.4%

Notes

- For the 2018 PSP, the Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the three-year period ended 31 December 2020. The Company's TSR (23.8%) ranked between median (at which TSR was -6.1%) and upper quartile (at which TSR was 25.5%) giving a vesting outcome of 97.8%.
- The 2018 EPS and ROIC performance targets are the adjusted targets following the NSBU acquisition (as set out in the 2019 Report) to ensure that the targets accurately reflect the true performance of the Group, and that they maintain the performance 'difficulty' required for vesting as originally intended. The original 2018 target ranges were: for EPS, 13.7p (threshold) to 16.7p (max); and for ROIC, 9.9% (threshold) to 12.2% (max).
- The 2018 EPS and ROIC targets were set on a pre-IFRS 16 basis, therefore in assessing over the three year period, EPS and ROIC for 2019 and 2020 have been included on a pre-IFRS 16 basis. This includes an adjustment to Trading Profit to remove the IFRS 16 benefit and an adjustment to Invested Capital to add back finance leases following the change in definition in 2019 to present Invested Capital excluding right of use assets.
- Only the financial performance targets vest (at 25%) for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Order Book and Employee Engagement targets to be strategically critical to the longer-term success of the Company, and that there should be no vesting below target performance. The vesting level for on-target performance (being a book-to-bill ratio of 100%, or an Employee Engagement score of 56%) is 50% of this element, rising on a straight-line basis to 100% for maximum performance.
- Since the 2018 performance targets were set, the Company changed provider for its annual Viewpoint survey via which employee engagement is assessed each year (from Aon to Glint). On transition an assessment was undertaken to convert the targets set (determined as a % engaged under the Aon tool) to an engagement score per the Glint tool. In the year of transition, the Committee determined that the Glint engagement score of 67 was equivalent to 56% engaged based on the prior methodology. The Committee is satisfied that the 2020 engagement score of 73 exceeds the maximum engagement required for full vesting of this element.

Executive Director	2018 PSP Tranche	No. of shares awarded	No. of shares vesting	Value of Vesting ¹	Value attributable to share price appreciation ²
Rupert Soames	Relative TSR	496,819	485,888	576,787	115,436
	EPS	496,820	496,820	589,764	118,034
	ROIC	496,820	496,820	589,764	118,034
	Order Book	131,511	131,511	156,114	31,244
	Employee Engagement	131,511	131,511	156,114	31,244
Angus Cockburn	Relative TSR	255,715	250,089	296,875	59,416
	EPS	255,716	255,716	303,555	60,753
	ROIC	255,716	255,716	303,555	60,753
	Order Book	67,690	67,690	80,353	16,082
	Employee Engagement	67,690	67,690	80,353	16,082

Notes:

- As these awards are still to vest at the time of reporting, the share price used to determine the value of vesting for the 2020 single figure is the Q4 average closing share price to 31 December 2020 (£1,2071).
- The value included in the single figure reflects an increase in the share price from that at grant (£0.9695) to the estimate of the share price at vest (based on the 2020 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and therefore did not make any discretionary adjustments to the vesting of these awards on this basis.

Deferred bonus plan (DBP)

This is a legacy element of remuneration for Executive Directors, which was removed from the Remuneration Policy in 2018. As such, the Executive Directors can no longer participate in this arrangement but hold unvested awards granted under the previous Remuneration Policy. This disclosure is for the final pay-out to any Executive Director under this element.

The performance period for the 2018 Deferred Bonus Plan (DBP) Matching Share Award (a conditional share award granted on 23 August 2018, wholly subject to EPS performance) ended on 31 December 2020. These awards are due to vest on 23 August 2021.

As set out in the 2019 Report, the 2018 EPS target was adjusted following the acquisition of the NSBU business by the Group. Based on the adjusted targets; 25% of this award vests for threshold performance of an Adjusted EPS of 13.98p rising on a straight-line basis to 100% vesting for at or above maximum performance of an Adjusted EPS of 16.98p measured as an aggregate over the three-year performance period. The original target range was set at 13.7p (threshold) to 16.7p (max). The Adjusted EPS for the period was measured as 22.78p. Having considered the wider performance of the Company over the three-year period, the Committee is satisfied that the 2018 DBP Matching Share Award should vest in full.

Executive Director	No. of shares awarded	No. of shares vesting	Share price at vest	Value of vesting	Value attributable to share price appreciation ²
Rupert Soames	488,418	488,418	£1.2071 ¹	£589,559	£111,307

Notes:

1. As these awards are still to vest at the time of reporting, the share price used is the Q4 average closing share price to 31 December 2020.
2. The value included in the single figure reflects an increase in the share price from that at grant (£0.9792) to the estimate of the share price at vest (based on the 2020 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and therefore did not make any discretionary adjustments to the vesting of these awards on this basis.

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

Non-Executive Directors' remuneration consists of cash fees paid monthly with increments for positions of additional responsibility. In addition, reasonable travel and related business expenses are paid. No bonuses are paid to Non-Executive Directors. Non-Executive Directors' fees are not performance related.

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

The fees and terms of engagement of Non-Executive Directors are reviewed on an annual basis, taking into consideration market practice and are approved by the Board.

Fee bearing Committee roles held in the year	Board fee (including Chairmanship fees) (£)		Taxable benefits ⁵ (£)		Total ⁶ (£)		
	2020	2019	2020	2019	2020	2019	
Sir Roy Gardner ¹ (Chairman)	R	250,000	250,000	7,066	14,222	257,066	264,222
Kirsty Bashforth	C R GR	75,500	73,833	637	3,424	76,137	77,257
Eric Born	A C	63,000	63,000	4,383	2,867	67,383	65,867
Ian El-Mokadem ²	C GR	65,530	63,000	–	–	65,530	63,000
Rachel Lomax ³	A GR	46,720	70,500	–	–	46,720	70,500
Dame Sue Owen ⁴	A GR	26,250	–	–	–	26,250	–
Lynne Peacock	A R	70,500	70,500	–	–	70,500	70,500
John Rishton (SID)	A R GR	90,500	90,500	874	1,775	91,374	92,275
Total		688,000	681,334	12,960	22,288	701,358	703,622

Notes:

A = Audit Committee, C = Corporate Responsibility Committee, R = Remuneration Committee, GR = Group Risk Committee. Red denotes Chair. No additional fees were payable for other Board Committee roles in the year.

1. Sir Roy Gardner receives no additional fees for Committee membership.
2. Ian El-Mokadem was appointed Chair of the Group Risk Committee from 31 August 2020 (Member prior to this date).
3. Rachel Lomax resigned from the Board on 30 August 2020.
4. Dame Sue Owen joined the Board on 3 August 2020.
5. Taxable benefits in 2019 and 2020 relate to reimbursed taxable travel and subsistence business expenses.
6. Non-Executive Directors do not receive any variable pay so "Total" is total fixed remuneration.

Remuneration Report continued

Pensions (audited information)

As at 31 December 2020, 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.

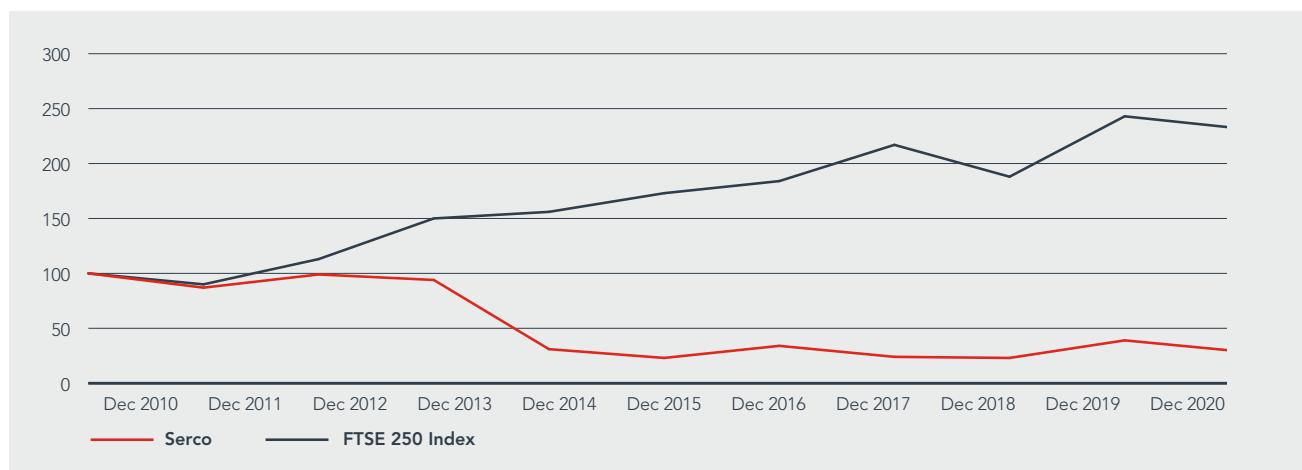
Payments for loss of office and to past Directors (audited information)

No payments for loss of office or to past Directors were made in the year.

Performance graph and table

This graph shows the value as at 31 December 2020, of a £100 investment in Serco on 31 December 2010 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 2020 single figure can be found on page 124.

The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company chose the FTSE 250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.



CEO's pay in last ten financial years

Year ended 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Group CEO	Christopher Hyman	Christopher Hyman	Christopher Hyman	Ed Casey	Ed Casey	Rupert Soames				
CEO single figure remuneration (£000)	2,826	2,581	295	893	1,605	748	2,255	2,217	3,681	5,176
Annual bonus outcome (as % of maximum opportunity)	81%	72%	74%	N/A	71%	0%	87%	82%	75%	77%
LTI vesting outcome (as % of maximum opportunity)	80%	64%	0%	0%	100%	24%	91%	73%	71%	99%

Percentage change in Directors' remuneration

The table below shows the percentage change in remuneration for all Directors who served during 2020 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 21,000 of the circa 55,000 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.

	Executive Directors					Non-Executive Directors					
	UK employees	Rupert Soames	Angus Cockburn	Sir Roy Gardner	Kirsty Bashforth	Eric Born	Rachel Lomax	Ian El-Mokadem	Dame Sue Owen	Lynne Peacock	John Rishton
Salary/fees ¹	1.9%	0%	2%	0%	2%	0%	-34%	4%	N/A	0%	0%
Benefits ²	-3%	20%	36%	-50%	-81%	53%	0%	0%	N/A	0%	-51%
Bonus ³	20%	-15%	-10%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. The average salary change for UK employees represents the average pay increase applied in the 2020 annual pay review. Changes in NED fees reflect changes in each individual's role on the Board and its Committees, there were no changes to the underlying fees.
2. The nature of taxable benefits provided to all Directors and employees in 2020 compared to 2019 remains the same. The increase in the value of the Executive Directors' benefits is due to the 2019 and 2020 US tax advice benefits both arising in 2020.
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 2020 compared to the 2019 bonuses paid in April 2020. The Executive Directors' 2020 bonuses over 100% of salary are subject to compulsory deferral for three years into shares. NEDs do not receive bonus pay.

CEO Pay Ratio

The table below shows how pay for the CEO compares to our UK colleagues at the 25th, median and 75th percentiles.

Year	Percentile	Salary ¹	Total pay and benefits ²	Pay Ratio
2020 (Option B)	25th	£24,964	£26,611	1:186
	Median	£30,597	£33,127	1:149
	75th	£32,486	£34,709	1:142
2019 (Option B)	25th	£24,859	£26,066	1:219
	Median	£27,026	£30,072	1:190
	75th	£32,429	£34,420	1:166

Notes:

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. As a business, Serco employs a very wide range of people with different skills, experiences and capabilities, and our reward aims to reflect these differences and be responsive to the needs of our employees. We apply the same reward principles for all our colleagues, in that reward should be competitive and aligned to the sectors and markets from which we draw our talent. Our remuneration philosophy throughout the organisation is to compensate employees fairly for their contribution to the business while ensuring that we are appropriately managing the cost of our workforce which, as a people business, is our biggest operating cost.

As indicated in last year's Report, the remuneration of Serco's CEO has a significant weighting towards variable pay to align his remuneration with Company performance. In contrast, due to our workforce profile, all three of our pay ratio reference points represent front-line operational or administrative staff who are critical to the delivery of the commitments we make under our contracts every day. In line with market practice for such roles, these colleagues are in receipt of fixed pay only (including pension contributions). The reduction in the Pay Ratio from 2019 to 2020 is therefore a primarily a result of the reduction in the CEO's single figure in 2020 compared to 2019, driven by a reduction in his variable pay. In addition, with his agreement, the pension opportunity for the CEO was significantly reduced (from 30% to 20% of salary) from 1 April 2020, adding to the reduction in his overall remuneration. However, the remuneration for the reference points has increased slightly on the prior year reflecting the commitment made by the Company to ensure front-line colleagues continue to receive fair pay for their contributions to the success of Serco and, particularly during 2020 to protect their pay from any adverse impact due to the Covid-19 pandemic.

Consistent with our approach in 2019, we have used our 2020 Gender Pay 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 2020. The single figures have been calculated taking into consideration regular salary and allowances (e.g. shift allowances), employer pension contributions, taxable benefits and bonuses (where relevant) following the same approach taken in determining the CEO's single figure. Significant salary enhancements, such as acting up allowances, which were not received at the date the pay was calculated for Gender Pay Gap purposes are disregarded from the single figure calculation for the representative employees to avoid over-inflating the representative pay at the quartile levels. The pay and benefits figures for the employee representatives do not include any amounts in respect of long-term incentives as these are only available to the most senior members of the Group.

The Gender Pay Gap hourly pay figures for representatives at each quartile have increased by 2-4% on 2019. Overtime, which is not counted for Gender Pay purposes, has a significant impact on the salary figures for the representative employees and is the main reason for the apparent salary increase at the median percentile.

Remuneration Report continued

Relative importance of spend on pay

The table below details the percentage change in dividends and overall expenditure on pay compared with the previous financial year.

Serco considers overall expenditure on staff pay in the context of the general finances of the Company. This includes the determination of the annual salary increase budget, the annual grant of shares and annual bonus for the business.

	2020 vs 2019	2020	2019
Dividend per share	0%	Nil	Nil
Overall expenditure on wages and salaries	11.6%	£1,742.7m	£1,562.0m

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

Awards made in 2020

Equity settled bonus plan (ESBP) (audited information)

In line with the approved Remuneration Policy, in connection with the compulsory deferral of 2019 bonus in excess of 100% of salary, the Executive Directors were granted the following ESBP Awards in the form of Conditional Share Awards. ESBP Awards granted in 2020 vest on the third anniversary of grant.

Directors	Face value (£) ¹	Grant date	Market price at award (£) ²	Number of shares ³
Rupert Soames	548,250	28 April 2020	1.2926	424,145
Angus Cockburn	227,141	28 April 2020	1.2926	175,724

Notes:

1. Calculated as the value of the Executive Directors' 2019 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.

Long term incentive plan (LTIP) (audited information)

In line with the approved Policy, in 2020 the CEO received awards equivalent to 200% of salary, and the CFO received awards equivalent to 175% of salary. All awards were in the form of Conditional Share Awards.

The awards will vest on 6 April 2023, following the end of the performance period, if the Executive Directors are still in employment with Serco and to the extent that the performance conditions have been met, as measured over the three-year performance period ending 31 December 2022.

Performance measure	Weighting of measure	Performance target
Aggregate EPS	28.33%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 20.62p (threshold, 25% vesting) to 25.20p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.
Relative TSR	28.33%	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.
Average ROIC	28.33%	Pre-tax Return on Invested Capital (ROIC) of 16.4% (threshold, 25% vesting) to 20.0% (maximum, 100% vesting), measured as an average over the three-year performance period.
Order Book	7.50%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as an average over the three-year performance period.
Employee Engagement	7.50%	Employee engagement score of 67 (target, 50% vesting) to 72 (maximum, 100% vesting), measured via the Serco Employee Engagement Survey in the final year of the performance period.

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 Employee Engagement targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. 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 awards will vest, the Committee will consider the Group's underlying performance (with input from the Group Audit and Risk Committees as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

Each element of the LTIP award is subject to a post-vesting holding requirement that takes the total term of the award (i.e. performance period plus holding period) to a minimum of five years. Pre-vesting malus and post-vesting clawback is also applicable to these awards.

Directors	Basis of award (% salary)	Face value (£)	Grant date	Market price at award (£) ¹	Number of shares ²	Percentage vesting at threshold performance ³	Performance period end date
Rupert Soames	200%	1,700,000	6 October 2020	1.2814	1,326,673	21.25%	31 December 2022
Angus Cockburn	175%	914,812	6 October 2020	1.2814	713,916	21.25%	31 December 2022

Notes:

1. Average closing share price on the five trading days immediately prior to the date of grant.
2. Calculated using the average share price used to determine the number of shares awarded.
3. 85% of the awards that are subject to financial performance conditions vest at 25% for threshold performance. 15% of the awards that are subject to strategic performance conditions vest at 0% for threshold performance.

Implementation of Policy in 2021

Executive Directors

Salary increases for the year ending 31 December 2021

The Committee reviewed base salaries for the current Executive Directors and determined that no increase to salaries will apply from 1 April 2021 in light of the ongoing societal impact of Covid-19 and the relatively competitive levels of remuneration. The salary for the new CFO has been set to apply from his appointment.

Pension

As summarised on page 110, and in line with our commitment to align the Executive Director pension opportunity with that of the wider workforce, the two incumbent Executive Directors will have a pension opportunity in 2021 of 20% of salary and will be reduced to align to the workforce by 2023. The new CFO will receive a pension opportunity aligned to the wider workforce (8% of salary) from the date of his appointment.

Annual bonus and LTIP

Details of structure and opportunity under the 2021 annual bonus and LTIP for each Executive Director are set out on page 111. Further details of the performance framework to apply in 2021 are provided below.

Details of the performance measures to apply to the 2021 annual bonus and long-term incentive awards

Our aspiration is to be the best managed company in our sector. To achieve this, we concentrate on doing four things really well; winning good business, executing brilliantly, being a place people are proud to work, and being profitable and sustainable. Our variable pay for 2021 aligns to this through the targets set against a number of our core KPIs, each of which has an important role in realising this aspiration. Total Shareholder Return aligns variable pay with value created for shareholders.

Recognising the importance of our ESG commitments to both the short and long term success of Serco, an ESG scorecard has been incorporated into each incentive. The ESG scorecard components have been chosen taking into consideration our current maturity across this space, our ability to set and measure performance that is relevant and meaningful to Serco, and the current strategic priorities as articulated in our Corporate Responsibility and People Reports. As our ESG strategy continues to evolve, and the priorities for Serco change, we would expect the scorecard components to also change. Therefore, these scorecards will be reviewed, and new measures and/or targets proposed, each year as appropriate.

Determination of the amount payable under the 2021 bonus will also take into consideration the wider performance of the Group as well as the affordability of the bonuses so determined. In determining the vesting of the 2021 LTIP awards, the Committee will also take into consideration the wider performance of the Group; the final vesting will be adjusted where appropriate to ensure the outcomes are a fair and reasonable reflection of the performance of the Group.

2021 Bonus performance measures

As set out in the Chair's letter, the performance measures to apply to the 2021 annual bonus have been rebalanced to ensure a greater focus on profit growth and cash, as well as to incorporate strategically aligned ESG measures to support our ambition of being the best managed company in our sector. The 2021 performance measures will be aligned to core KPIs as follows:

Core KPIs			
Financial (70%)		Non-financial (30%)	
40%	Trading Profit	15%	Personal objectives aligned to the delivery of the Group's corporate strategy
30%	Free Cash Flow	15%	ESG scorecard aligned to being the "best managed company in the sector"

Remuneration Report continued

Components of the 2021 annual bonus ESG scorecard (15% weighting)

The 2021 annual bonus ESG scorecard will focus on three key areas:

- Maintain and continue to improve robust governance processes including ensuring an active and ongoing engagement with stakeholders (to include shareholders, governments and customers, and colleagues) setting out the progress in achieving strategic objectives including ESG strategy and approach, as well as operating/financial performance;
- Ensure a focus on health and safety within our operations through improvements in LTIFR; and
- Maintain a high level of colleague engagement as measured through our annual Group employee engagement score.

The specific targets for the 2021 annual bonus are deemed to be commercially sensitive. Full disclosure of the targets set will be made in the 2021 Report following the end of the current financial year to the extent these are no longer considered commercially sensitive.

2021 LTIP performance measures

The table below provides details of the performance measures to apply to the 2021 LTIP awards. The financial targets are still being finalised, taking into account our longer term business forecast and strategy, as well as analyst consensus following the announcement of our 2020 financial results. Full details of all targets will be disclosed prior to the 2021 AGM.

Performance measure		Weighting of measure	Performance target
Financial performance	Relative TSR	25%	Total Shareholder Return (TSR) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.
	Average ROIC	25%	Pre-tax Return on Invested Capital (ROIC) measured as an average over the three-year performance period.
	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.
Non-financial strategic performance	Order Book	10%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as the cumulative average over the three-year performance period.
	ESG scorecard	15%	The components of the 2021 LTIP ESG scorecard (set out below) have been selected as being important to the long-term sustainability of Serco.

Components of the 2021 LTIP ESG scorecard (15% weighting)

The 2021 annual bonus ESG scorecard will focus on three key areas:

Performance measure	Performance target
Employee engagement	Average annual Group employee engagement score over the three-year performance period at or above 69 for on target performance, and at or above 71 for maximum performance.
Improvement in colleague diversity across gender (focussing on leaders) and ethnicity	Gender diversity amongst our leaders to be measured as the percentage of women holding senior global leadership roles in 2023; target performance of 33%, and maximum performance at 35% or above. Demonstrate significant progress on our approach and strategy for addressing ethnic diversity challenges throughout our organisation, and particularly in management and senior leadership roles. Commit to diversity charters where appropriate, such as the UK Race at Work charter, and show progress against commitments made.
Improvement in our understanding, management and disclosure of Serco's environmental risks	Demonstrate significant improvements in environmental performance and management of environmental risks, through actions taken in line with our environmental strategy and improvements in externally issued environment/climate change ratings.

In each case, the performance will be assessed over the three-year period ending 31 December 2022. The structure for vesting of the EPS, TSR, ROIC and ESG conditions will be straight-line vesting between threshold and target, and target and maximum, and no shares will vest where performance is below threshold. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance will therefore deliver a 0% vesting outcome. The vesting level for on-target performance will be 50%, with straight-line vesting between target and maximum. This is a more stringent approach than that required under the Policy. In determining the final vesting of these awards, the Committee will also give consideration to the Group's underlying performance (with input from the Group Audit and Risk Committees as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

Non-Executive Directors

Following a review of Non-Executive Director fees, it was agreed that, with the exception of the Chairman, the fees should remain unchanged. The Committee also considered and approved the fees for John Rishton in connection with his appointment as Chairman of the Board, succeeding Sir Roy Gardner in this role with effect from the 2021 AGM. It was determined that on the appointment of John Rishton, the Chairman's fee would increase to £280,000 to incorporate a separate expense allowance that was made available to the current Chairman. With the change in base fee John Rishton will not be eligible for a separate expense allowance although he may still claim reimbursement for certain expenses incurred in line with the Policy. Tim Lodge, who was appointed as a Non-Executive Director and member of the Audit, Group Risk and Remuneration Committees on 21 February 2021, will be remunerated in line with the fees applicable to 2021. In line with the approved Non-Executive Directors' Remuneration Policy, the fees to apply in 2021 will be as follows:

	Base fee to apply from 1 January 2021 ¹	Base fee 1 January 2020	Change £	Element – Annual Board and Committee fees
Chairman ¹	280,000	250,000	30,000	
Senior Independent Director	15,000	15,000	No change	
Board fees	53,000	53,000	No change	
Chairmanship of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	12,500	12,500	No change	
Membership of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	5,000	5,000	No change	

Notes:

1. Sir Roy Gardner's fee as Chairman will remain £250,000 until he stands down from the Board at the 2021 AGM.

No additional fee is payable for the Chair or Membership of the Nomination Committee, or for responsibilities in connection with our Employee Voice initiatives. The Chairman does not receive any additional fees for his Committee memberships nor do the Executive Directors where they sit on Board Committees.

Voting outcomes

At the previous AGMs, votes on remuneration matters were cast as follows:

	Year of AGM	For %	Against	
			%	Number withheld ¹
2019 Annual Report on Remuneration	2020	95.53%	4.47%	89,992
2017 Remuneration Policy	2018	88.51%	11.49%	61,479

Note:

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.

External appointments

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

Rupert Soames served as Senior Independent Director and a Member of the Audit, Nomination and Remuneration Committees of DS Smith Plc throughout the year in respect of which he receives a fee of £70,500 per annum (comprising a Director's fee of £60,500 per annum and an additional fee of £10,000 per annum for acting as Senior Independent Director). Angus Cockburn was Senior Independent Director, Chair of the Audit Committee and a Member of the Nomination and Remuneration Committees of Ashtead Group plc throughout the year in respect of which he receives a fee of £90,000 per annum (comprising a Director's fee of £60,000 per annum and additional fees of £15,000 per annum for each role in acting as Senior Independent Director and for chairing the Audit Committee). He was also appointed as a Non-Executive Director of The Edrington Group Limited on 1 September 2020 in respect of which he receives a fee of £65,000 per annum which he donates to the Robertson Trust, the charity which owns The Edrington Group Limited.

No other fee-paying external positions were held by the Executive Directors during the year ended 31 December 2020.

Remuneration Report continued

Directors' shareholding and share interests (audited information)

Current shareholdings are summarised in the table below. Shares are valued for shareholding guideline purposes at the year-end price, which was £1.1950 per share at 31 December 2020 (being the last trading day of the financial year).

Executive Directors

Name	Share ownership requirements (% of salary) ¹	Number of shares owned outright at 31 December 2020 ²	Value invested ³ (£)	Share Awards		Share options ⁶		Total share interests at 31 December 2020 ²
				Subject to performance conditions ⁴	Not subject to performance conditions ⁵	Subject to performance conditions ⁷	Exercised during the year ⁸	
Rupert Soames	200%	4,600,492	6,000,836	3,127,832	663,165	1,753,481	1,002,949	10,144,970
Angus Cockburn	150%	1,901,118	2,346,454	1,403,105	244,886	902,527	516,224	4,451,636

Notes:

1. The CEO, Rupert Soames, and CFO, Angus Cockburn, have both exceeded their shareholding guidelines as well as their contractual investment commitments of investing 200% and 150% of salary, respectively.
2. Includes shares owned by connected persons. There were no changes in Directors' interests in the period between 1 January 2021 and the date of this report.
3. Based on the share price at the point of acquisition of each tranche of shares held outright at 31 December 2020 by the Executive Director and/or their connected persons.
4. Includes awards made to Rupert Soames and Angus Cockburn under the Long-Term Incentive Plan, and previously made under the Deferred Bonus Plan which have not yet vested. All awards are in the form of conditional share awards.
5. These are awards made under the Equity-Settled Bonus Plan in connection with the compulsory deferral of bonus into shares. Awards are in the form of conditional share awards and have not yet vested.
6. All options are in the form of nominal cost options subject to a 2 pence per share exercise price. There are no interests in the form of share options that are not subject to performance conditions, nor are there any share options that are vested but unexercised.
7. Includes awards previously made under the Performance Share Plan which have not yet vested. These are all nominal cost options with a 2 pence per share exercise price.
8. Rupert Soames and Angus Cockburn exercised vested options in respect of their 2017 PSP awards that were subject to EPS and ROIC performance conditions.

Non-Executive Directors

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

Name	Number of shares owned outright (including connected persons) at 31 December 2020 ^{2,3}
Sir Roy Gardner	225,000
Kirsty Bashforth	10,000
Eric Born	30,000
Ian El-Mokadem	50,000
Rachel Lomax ¹	40,000
Dame Sue Owen	10,000
Lynne Peacock	15,000
John Rishton	43,086

Notes:

1. Showing Rachel Lomax's share interests as at 30 August 2020 when she resigned from the Board.
2. Includes shares owned by connected persons. There were no changes in Directors' interests in the period between 1 January 2021 and the date of this report.
3. Non-Executive Directors do not have shareholding guidelines and there are no interests in shares held by Non-Executive Directors where the individual does not own those shares outright.

Other shareholding information

Shareholder dilution

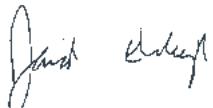
Awards granted under the Company share plans are met either by the issue of new shares or by shares held in trust when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Investment Association (formerly the ABI) in respect of all share plans is 10% in any rolling ten-year period and in respect of discretionary share plans is 5% in any rolling ten-year period.

Based on the Company's issued share capital at 31 December 2020, 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 4,805,612 and 7,036,349 ordinary shares at 1 January 2020 and 31 December 2020 respectively.

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



David Eveleigh

Group General Counsel and Company Secretary
24 February 2021

Directors' Report

Annual Report and Accounts

The Directors present the Annual Report and Accounts of the Group for the year ended 31 December 2020. Comparative figures used in this report are for the year ended 31 December 2019 unless otherwise stated. The Corporate Governance Report, set out on pages 81 to 104, forms part of the Directors' Report.

The Chairman's Statement on pages 6 to 8 and the Chief Executive's Review and Divisional Reviews on pages 15 to 31 report on the activities during the year and likely future developments. The information in these reports, which is required to fulfil the requirements of the Business Review, is incorporated in this Directors' Report by reference.

Articles of Association

The rules relating to the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

Share capital

The issued share capital of the Company, together with the details of shares issued during the year, is shown in note 32 to the Consolidated Financial Statements.

The powers of the Directors to issue or buy back shares are restricted to those approved at the Company's Annual General Meeting ("AGM").

At the Annual General Meeting in May 2020, pursuant to Section 570 of the Companies Act 2006, shareholders approved the issue of shares for cash up to 5% of the existing issued share capital and an additional 5% (only to be used in connection with an acquisition or specified capital investment) in each case without the application of pre-emption rights. The authority will expire at the conclusion of the 2021 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2021.

Rights attaching to shares

Each ordinary share of the Company carries one vote at general meetings of the Company. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law.

The Company is not aware of any agreement between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Authority for the purchase of shares

At the Annual General Meeting in May 2020, the Company was granted authority by shareholders to purchase up to 122,338,063 ordinary shares (10% of the Company's issued ordinary share capital as at 12 March 2020). This authority will expire at the conclusion of the 2021 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2021.

As announced on 17 December 2020 the Company has commenced a programme to purchase its own shares with a value of up to £40 million. Since the year end, up until 24 February 2021 (being the latest practicable date before publication), the Company has purchased a total of 14,412,280 shares with a nominal value of £288,246 (representing 1.18% of the Company's issued share capital on 12 March 2020 at a total cost of £17,738,433).

These shares are currently held in treasury and, provided the repurchase programme is successfully completed, it is intended that shares valued at approximately £20 million, roughly equivalent to the sum of the final dividend for 2019 (which was withdrawn) and the interim dividend for 2020 (which it had been intended would be declared), will be cancelled. The remainder, valued at approximately £20 million, will be used to satisfy awards under existing employee share schemes.

Dividends

Although the Directors had recommended that a dividend should be paid in respect of the year ended 31 December 2019, subject to approval by shareholders, that recommendation was subsequently withdrawn given the uncertain conditions at the time.

The Directors recommend that a final dividend of 1.4p be paid in respect of the year ended 31 December 2020 (2019: nil). No interim dividend was paid during the year (2019: nil).

Subject to approval by shareholders at the Annual General Meeting to be held on 21 April 2021, the final dividend will be paid on 4 June 2021 to shareholders on the register at the close of business on 14 May 2021.

Directors

Details of the current members of the Board, all of whom served throughout the year with the exception of Dame Sue Owen, who was appointed on 3 August 2020, and Tim Lodge, who was appointed on 21 February 2021, are set out on pages 82 to 85. In addition, Nigel Crossley has been appointed as a Director with effect from 21 April 2021.

Rachel Lomax resigned as a Director on 30 August 2020.

Dame Sue Owen and Tim Lodge, having been appointed as Directors since the previous Annual General Meeting, will resign and offer themselves for election at the Annual General Meeting on 21 April 2020 in accordance with the Articles of Association.

In accordance with the UK Corporate Governance Code, all Directors will stand for re-election at the AGM.

Directors' interests

With the exception of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment, there are no contracts in which any Director has an interest.

Details of the Directors' interests in the ordinary shares and options over the ordinary shares of the Company as at 31 December 2020 are set out in the Remuneration Report on pages 105 to 133.

Between 1 January 2021 and the date of this report there were no changes in the Directors' interests in ordinary shares and options over ordinary shares.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles of Association and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary of the Company in respect of their positions as officers of the Company as a supplement to this insurance cover. The indemnities, which constitute a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary of the Company.

Branch offices

In certain jurisdictions, the Group operates through a branch of one of its subsidiary companies. These include the following countries: Abu Dhabi, Afghanistan, Bahrain, Belgium, Dubai, France, Iraq, Italy, Luxembourg, Netherlands, Qatar, Saudi Arabia, Sharjah and Singapore.

Significant agreements that take effect, alter or terminate upon a change of control

Given the business-to-government nature of many of the services provided by the Company and its subsidiaries, many agreements contain provisions entitling the other parties to terminate them in the event of a change of control, including a takeover of the Company. The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate if the Company is subject to a change of control:

Material contracts

- **Clarence Correctional Centre:** On 14 June 2017, NorthernPathways Project Trust (of which Serco Australia Pty Limited is a member) 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. The prison is expected to become operational in 2020. Also, on 14 June 2017, Serco Australia Pty Limited entered into an operator sub-contract with NorthernPathways. The operator sub-contract will expire 20 years from the date of acceptance of the completed Clarence Correctional Centre by the State. 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, so the current term will run until December 2021. 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:** In order to bid and perform on certain classified contracts involving US national security, Serco Inc. was required to mitigate its foreign ownership through a Special Security Agreement (SSA) between the US Government, Serco Inc. and Serco Group plc. The effective date of the SSA is 7 October 2019. The U.S. Department of Defense may terminate Serco's SSA in the event of the sale of the Corporation to a company or person not under Foreign Ownership, Control or Influence (FOCI).

- **CMS Eligibility Support Services:** In June 2018, Serco Inc. was awarded a follow-on contract with the United States of America (acting through the Centers for Medicare and Medicaid Services (CMS)) for the provision of support for the Exchanges implemented to provide affordable health insurance and insurance affordability programmes. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.

- **Anti-Terrorism/Force Protection (AT/FP) Ashore Program Global Sustainment Contract:** On 23 July 2015, Serco Inc. was awarded a contract with the United States of America (acting through the Naval Facilities Engineering Systems Command) to provide sustainment services for electronic anti-terrorism and force protection systems at U.S. Navy installations around the world. The contract had an initial base term of one year, with four (one year) options. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.

Directors' Report continued

Material contracts continued

- **AWE:** Serco Holdings Limited is a shareholder in AWE Management Limited ("the AWE JV"). Serco Holdings Limited's joint venture partners and the other shareholders in the AWE JV are UK subsidiary companies of Lockheed Martin Corporation and Jacobs Engineering Group. The AWE JV oversees the design, development, maintenance and manufacture of warheads for the UK's strategic nuclear deterrent. This work is carried out by the AWE JV under a management and operation contract with the Secretary of State for Defence ("the AWE Contract"). The AWE Contract was entered into on 1 December 1999 and has a 25-year term. Under the terms of the AWE Contract, any change in shareholding or the identity of a shareholder in the AWE JV requires the consent of the Secretary of State for Defence. In the event that there is a change of control of Serco Holdings Limited, it is required to transfer its entire shareholding in the AWE 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 AWE JV first being transferred to another member of the Serco Group or if there is a change of control of the Serco Group then the other shareholders in the AWE JV are entitled (subject to the approval of the Secretary of State and applicable regulatory approvals) to purchase the AWE JV shares and loans held by Serco Holdings Limited and any other member of the Serco Group. On 2 November 2020, the AWE JV received notice from the authorised representative of the Secretary of State for Defence that the AWE Contract will terminate with effect from 30 June 2021. On termination of the AWE Contract, ownership of AWE PLC, the entity which is wholly owned by the AWE JV and manages and operates the Atomic Weapons Establishment on its behalf, will transfer to the Ministry of Defence ("MoD"). Serco is working with the other shareholders in the AWE JV and the MoD on the implementation of a transition plan and management of the AWE JV's exit from the AWE Contract.
- **Asylum Accommodation and Support Services Contract ("AASC"):** On 8 January 2019 Serco Limited entered into contracts with the Secretary of State for the Home Department (acting through its UK Home Office Visas and Immigration department) for two AASC regions, being the North West of England and the Midlands & East of England. Under AASC, Serco is responsible for the provision of properties for initial and dispersed accommodation requirements, for transportation to and from properties, and for a range of other services to support the welfare of asylum seekers. Across the two regions for which Serco was selected, there are currently approximately 23,600 asylum seekers living in more than 5,500 properties. The AASC Contracts became operational on 1 September 2019. The contracts are for a ten year term. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which in the reasonable opinion of the Authority adversely affects Serco's ability to perform the services, the contracts may be terminated by the Authority.
- **Agreement relating to the provision of Prisoner Escort and Custodial Services (Generation 4) ("PECS IV"):** On 30 October 2019 Serco Limited entered into a ten year contract with the Secretary of State for Justice to provide prisoner escort services to the South of England. Serco will be responsible for provision of prisoner escort and custody services, including the escort and custody of young people in the criminal justice system. The PECS IV Contract became operational on 28 August 2020. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which the Authority reasonably believes will negatively affect either Serco's ability to perform the services or the Authority's reputation, the contract may be terminated by the Authority.
- **Skynet 5 Agreement relating to the Provision of Military Satellite Communications:** On 24 October 2003, Serco Limited entered into a contract with Paradigm Secure Communications Limited which was subsequently novated to Airbus Defence and Space (ADS) for the provision of services in support of the PFI contract between the Secretary of State for Defence and ADS for the Skynet 5 programme which delivers secure global military satellite infrastructure. Serco is responsible for provision of a range of services in support of the Skynet 5 programme. The current contract term will expire on 31 August 2022. In the event of a change of control or ownership of Serco Limited without the prior written consent of ADS and the Secretary of State for Defence, the contract may be terminated by ADS.
- **Covid-19 Track & Trace Contract:** On 18 May 2020, Serco Limited entered into a contract with the Secretary of State for Health & Social Care ("the Authority") for the provision of Track & Trace Contact Centre Services as part of the UK Government's pandemic response. The current contract term will expire on 24 May 2021. In the event of a change of control of Serco Limited which does not have the prior approval of the Authority, the contract may be terminated by the Authority.

Financing facilities

- **Revolving credit facility:** the Company has a £250,000,000 revolving credit facility dated 3 December 2018 with a syndicate of banks. The facility provides funds for general corporate and working capital purposes and bonds to support the Group's business needs. The facility agreement provides that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it and cancel its commitments under the facility.
- **US notes:** the Company has notes outstanding under four US Private Placement Note Purchase Agreements (the 'USPP Agreements') dated 9 May 2011, 20 October 2011, 13 May 2013 and 8 October 2020 respectively. The total amount of the notes outstanding under the four USPP Agreements was \$473,217,457 at 31 December 2020, and their maturity is between May 2021 and October 2032. Under the terms of the USPP Agreements, if a change of control of the Company occurs, it is required to offer to prepay the entire principal amount of the notes together with interest to the prepayment date but without payment of any make-whole amount.
- **Term loan facility:** the Company has £45,000,000 term loan dated 23 May 2019. 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.

Share plans

- The Company's share plans contain provisions in relation to a change of control. Outstanding options and awards may vest and become exercisable on a change of control of the Company, in accordance with the rules of the plans.

Annual General Meeting 2020

In compliance with the UK Government's "Stay at Home Measures" in place at the time, the 2020 Annual General Meeting took place as a closed meeting, attended by Company Secretary and employee shareholders to meet the quorum requirements, and was held at Discovery House, 18 Bartley Way, Bartley Wood Business Park, Hook, Hampshire RG27 9XA.

Annual General Meeting 2021

The 2021 Annual General Meeting 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 21 April 2021 at 2.00pm.

However, at the time of publication, it is anticipated that it will not be possible for shareholders to attend owing to the restrictions likely to be in place at the time. Accordingly, shareholders will be advised of alternative arrangements once new legislation covering annual general meetings is issued in place of that which expires on 31 March 2021.

Financial risk policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out in note 30 on pages 193 to 198.

Employment policies

The Board is committed to maintaining a working environment where staff are individually valued and recognised. Group companies and Divisions operate within a framework of human resources policies, practices and regulations appropriate to their own market sector and country of operation, whilst subject to Group-wide policies and principles.

Diversity

The Group is committed to ensuring equal opportunity, honouring the rights of the individual, and fostering partnership and trust in every working relationship. Policies and procedures for recruitment, training and career development promote diversity, respect for human rights, and equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

The Group promotes diversity so that all employees are able to be successful regardless of their background. The Group gives full consideration to applications for employment, career development and promotion received from the disabled, and offers employment when suitable opportunities arise. If employees become disabled during their service with the Group, arrangements are made wherever practicable to continue their employment and training.

Human rights

The Group recognises the importance of protecting human rights. We seek to respect and uphold the human rights of individuals in all aspects of our operations wherever we operate. Our Human Rights Group Standard demonstrates this commitment and the significance of human rights for a diverse global organisation.

It also sets out expectations for individual and corporate behaviour across our business in regards to human rights. We use International Human Rights Standards such as the United Nations Guiding Principles on Business and Human Rights (2011) (UN Guiding Principles) as frameworks to assist our decision-making and constructive engagement; to identify, assess, and manage adverse human rights impacts; and to integrate and act on findings, track responses, monitor effectiveness and communicate how impacts are addressed.

Employee engagement

The Group is proud of its record of managing employee relations and believes that the structure of individual and collective consultation and negotiation is best developed at a local level. Over the years, the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as in employment terms and conditions. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

The Group has been proactive in providing employees with information on matters of concern to them as employees and in taking their views on board. Effective leadership and line management are our principle means of engagement and employee feedback is invited through Viewpoint, our employee engagement survey; Speak Up, our global ethics helpline and investigation process; Yammer, our internal social media platform; and Colleague ConneXions, our approach to amplifying employee voice and strengthening dialogue between the Board and employees.

These mechanisms ensure employees' views are considered in decision-making and that they have a common awareness of Group strategy, matters of concern to them and the financial and economic factors affecting the performance of the Company.

Participation by staff in the success of the Group is encouraged by the availability of long-term incentive arrangements for senior management, which effectively aligns their interests with those of shareholders by requiring that Company-level financial performance criteria are achieved as a condition of vesting.

Further information is contained in the People Report which is available on the Company's website

Corporate responsibility

We have been committed to delivering and communicating our position and performance across Environmental, Social and Governance (ESG) criteria for many years, recognising the relevance to our profitability and sustainability of all that we do in those areas. 'Corporate Responsibility' (CR) is our chosen term for referring collectively to our principal areas of ESG responsibility and sustainability. We define and drive our ESG agenda through our CR Framework. Each element in the framework is embedded in how we manage our business, while Board oversight and scrutiny of CR is embedded in our corporate governance through the Board's standing committee, the Corporate Responsibility Committee. More information about our approach and ESG commitments, including progress and performance, can be found in the Strategic Report on pages 40 to 49.

Political donations

During the year neither the Company nor the Group made political donations and they intend to continue with this policy. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, a resolution will therefore be proposed that the authority granted at the Annual General Meeting in May 2020 regarding political donations be renewed. Details will be included in the Notice of Annual General Meeting.

Directors' Report continued

Political donations continued

Within the US business there exists a Political Action Committee (PAC), which is funded entirely by employees. The Serco PAC and its contributions are administered in strict accordance with regulatory requirements. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Financial statements

At the date of this report, as far as each Director is aware, there is no relevant audit information of which the Group's Auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Auditor

The Audit Committee has considered the reappointment of KPMG LLP as auditor and recommended it to the Board. The Board recommends the reappointment of KPMG LLP to shareholders at the Annual General Meeting to be held on Wednesday 21 April 2021.

Going concern

The Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

Interests in voting rights

At 31 December 2020, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('Rule 5') of the following interests in voting rights over the issued share capital of the Company:

Notifying person	Number of voting rights attached to shares or held through financial instruments	% held at date of notification	Nature of holding
BlackRock Inc	92,336,403	7.48	Indirect
	31,515,674	2.55	Contract for difference
	123,852,077	10.04	Total
FIL Limited	73,169,712	6.66	Indirect
	156,204	0.01	Stock Loan
RWC Asset Management LLP	73,325,916	6.67	Total
	61,187,686	5.00	Indirect
	58,353,594	5.31	Indirect
Majedie Asset Management Limited	55,965,452	5.09	Direct

Notes:

1. The above interests may have changed since the date of notification to an interest not requiring further notification under Rule 5.
2. Since 31 December 2020:
 - (i) On 5 January 2021, BlackRock Inc notified the Company that its interest in voting rights had increased to 10.11% on 4 January 2021.
 - (ii) On 9 February 2021, JPMorgan Chase & Co. notified the Company that its interest in voting rights had increased to 5.00% on 5 February 2021.
 - (iii) On 18 February 2021, RWC Asset Management LLP notified the Company that its interest in voting rights had decreased to below 5.00% on 23 December 2020.

In assessing the basis of preparation of the financial statements for the year ended 31 December 2020, 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 Group's current principal debt facilities at the year end comprised a £250 million revolving credit facility, £347 million of US private placement notes and a £45 million term loan. As at 31 December 2020, the Group had £642 million of committed credit facilities and committed headroom of £582 million.

The Directors have undertaken a rigorous assessment of going concern and liquidity taking into account financial forecasts which indicate sufficient capacity in our financing facilities and associated covenants to support the Group. In order to satisfy themselves that the Company has adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities and working capital requirements.

In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 30 June 2022. The Directors have also reviewed the principal risks considered on pages 70 to 78 and taken account of the results of sensitivity testing.

Index of Directors' Report disclosures

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below. Pursuant to Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk (*).

Amendment of the Articles	Page 134
Appointment and replacement of Directors	Page 134
Board of Directors	Pages 82 to 85
Change of control	Pages 135 to 137
Community	Pages 45 to 55
Corporate responsibility	Pages 40 to 49
Directors' insurance and indemnities	Page 135
Directors' inductions and training	Page 90
Directors' responsibilities statement	Page 140
Disclosure of information to Auditor	Page 151
Diversity	Pages 87 to 100
Dividends	Pages 8, 16, 64 and 134
Employee involvement	Pages 44, 45, 86 and 137
Employees with disabilities	Page 137
Financial risk management	Pages 193 to 198
Future developments of the business	Pages 9 to 14
Going concern	Pages 138 to 169
Greenhouse gas emissions	Page 48
Independent Auditors' Report	Pages 142 to 152
Long-term incentive plans*	Pages 105 to 133
Political donations	Page 138
Powers for the Company to issue or buy back its shares	Page 134
Powers of the Directors	Page 103
Restrictions on transfer of securities	Page 134
Rights attaching to shares	Page 134
Risk management and internal control	Pages 70 to 78 and 92 and 93
Share capital	Page 134
Significant agreements	Pages 135 to 137
Significant related party agreements*	Pages 207 and 208
Significant shareholders	Page 138
Statement of corporate governance	Pages 103 and 104
Strategic Report	Pages 3 to 80
Viability Statement	Pages 79 and 80
Voting rights	Page 134

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

David Eveleigh

Group General Counsel and Company Secretary
24 February 2021

Directors' Report

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law, and have elected to prepare the Company financial statements in accordance with UK accounting standards, 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 Company and of their profit or loss for that period.

In preparing each of the Group and 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 IFRS as adopted by the European Union;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group's and 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine are 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 Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board:

Rupert Soames
Group Chief Executive
24 February 2021

Angus Cockburn
Group Chief Financial Officer
24 February 2021

Financial Statements

Contents

142	Independent Auditor's Report
153	Consolidated Income Statement
154	Consolidated Statement of Comprehensive Income
155	Consolidated Statement of Changes in Equity
156	Consolidated Balance Sheet
157	Consolidated Cash Flow Statement
158	Notes to the Consolidated Financial Statements
211	Company Balance Sheet
212	Company Statement of Changes in Equity
213	Notes to the Company Financial Statements
217	Appendix: List of subsidiaries and related undertakings
220	Appendix: Supplementary information
221	Shareholder information
222	Useful contacts

Independent Auditor's Report

to the members of Serco Group plc

1. Our opinion is unmodified

We have audited the financial statements of Serco Group plc ("the Company") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and parent Company Statement of Changes in Equity, the Consolidated and parent Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 27 May 2016. The period of total uninterrupted engagement is for the five financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Revenue and margin recognition

Revenue £3,884.8m (2019: £3,248.4m), Operating Profit £179.2m (2019: £102.5m), Onerous Contract Provisions of £14.5m (2019: £16.5m) and Contract Assets £296.1m (2019: £287.5m).

Assessment of risk vs. prior year:

Unchanged
Refer to page 96 (Audit Committee Report), pages 159 to 161 and 166 (accounting policy), pages 166 to 169 (key judgements), pages 178 to 179 (Revenue from contracts with customers note in the financial statements), pages 188 to 189 (contract assets, trade and other receivables note in the financial statements) and pages 192 to 193 (provisions note in the financial statements).

The risk	Our response
Accounting application The contractual arrangements that underpin the measurement and recognition of revenue by the group can be complex, with significant judgement involved in the assessment of current and future financial performance. The key judgements impacting the recognition of revenue and resulting operating profit include: <ul style="list-style-type: none">• Interpretations of terms and conditions in relation to the required service obligations in accordance with contractual arrangements;• The allocation of revenue and costs to performance obligations where multiple deliverables exist;• Assessment of stage of completion and cost to complete, where percentage completion accounting is used;• Consideration of the Group's performance against contractual obligations and the impact on revenue and costs of delivery;• The recognition and recoverability assessments of contract related assets, including those recognised as direct incremental costs prior to service commencement.	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 customer contracts to assess the method of revenue recognition to determine that it was in accordance with the Group's accounting policy and relevant accounting standards, including the appropriate recognition of revenue as the performance obligation is satisfied on service contracts. 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 (such as those arising due to COVID-19). We also challenged whether it is highly probable that the variable revenue recognised will not be reversed in future periods as required by the application of the revenue constraint in accordance with the Group's accounting policy and relevant accounting standards. Tests of details To assess whether the revenue constraint was appropriately applied in accordance with the Group's accounting policy and relevant accounting standards; <ul style="list-style-type: none">• we vouched a sample of unbilled revenue to documents such as post year end invoices or purchase orders, or customer agreements for the work performed;• we inspected a sample of customer contracts to identify contractual KPI requirements and assessed the contracts operational performance against those requirements; 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.
Subjective estimate Judgement is required to determine whether a contract is onerous, based upon the estimated future performance of the contract. Where a contract is determined to be loss-making, an onerous contract provision is required, which requires further judgement in assessing the level of provision, based on estimated income and cost to complete, taking into account contractual obligations to the end of the contract, extension periods and customer negotiations. The effect of these matters is that, as part of our risk assessment, we determined that the onerous contract provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	 Site visits For contracts selected for testing; <ul style="list-style-type: none">• we attended a selection of monthly Divisional and Business Unit Performance Reviews used to assess business performance in order to inform our assessment of operational and financial performance of the contracts; and• we performed virtual site visits and enquired with contract and Business Unit management teams as to matters related to operational and financial performance in order to assess whether indicators of an onerous contract exist. For selected contract related assets, representing capitalised bid and phase in costs, our procedures included: Assessing application: We assessed whether contract related assets have been recognised in accordance with the Group's accounting policy and relevant accounting standards. Historical comparisons: We compared forecast contract cash flows and profits with historical actuals and assessed whether the forecasts supported the carrying value of the assets. Independent reperformance: We compared the amortisation period with the duration of the contract and checked that the amortisation had been calculated correctly.

Independent Auditor's Report

to the members of Serco Group plc continued

The risk	Our response
Accounting application continued	For onerous and potentially onerous contracts identified through application of quantitative selection criteria, our procedures to address the subjective estimate risk included: Benchmarking assumptions We compared contract level forecast revenues and costs to the Group's annual budgets and longer-term forecasts approved by the directors. We challenged key assumptions made by the Group in preparing these forecasts, including those in relation to revenue growth and cost reductions, by comparing them to external evidence (for example customer correspondence) where possible, and assessing against business plans. Our sector experience We assessed the contractual terms and conditions to identify the key obligations of the contract and compared these with common industry risk factors to inform our challenge of completeness of forecast costs. Our major projects expertise For a specific contract we used our own major project specialists to assess the reasonableness of the cost estimates where there was material estimation uncertainty. Historical comparisons We compared the contract forecasts to historic and in year performance to assess the historical accuracy of the forecasts. Tests of details For contracts we assessed as being potentially onerous, we compared the allocation of central functional costs to the group's policy and challenged the underlying assumptions using our understanding of the contract operations. Assessing transparency We also assessed whether the Group's disclosures about the estimates and judgements applied reflected the risks related to the estimation of onerous contracts. Our findings We found no material errors in the group's application of its revenue accounting policy (2019: no material errors). We found the resulting estimate of onerous contract provision to be balanced (2019: balanced).

Recoverability of group goodwill and of parent's investment in subsidiaries

Group: £669.6m (2019: £674.2m); parent Company: £2,032.7m (2019: £2,029.5m)

Assessment of risk vs. prior year:

Unchanged
Refer to page 97 (Audit Committee Report), page 162 (accounting policy), page 167 to 168 (key judgements), pages 184 to 185 (Goodwill note in the financial statements) and page 213 (investments held as fixed assets note in the parent Company financial statements).

The risk	Our response
Goodwill in the group and the carrying amount of the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to estimation uncertainty in valuing the recoverable amounts of the Group's cash generating units. The estimated recoverable amount of these balances through value in use calculations is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	<p>Our audit procedures included:</p> <p>Benchmarking assumptions With the assistance of our valuation specialists, we challenged the growth rate and discount rate used in the value in use calculation by comparing the Group's assumptions to external data. We challenged the implied cumulative annual growth rate within the five year forecasts and assessed this against past performance and the terminal growth rate. We challenged forecast assumptions around new contract wins or extensions, contract attrition and profitability of existing contracts.</p> <p>Historical comparisons We compared current year actual cash flows to historic forecasts to assess the historical accuracy of the forecasts used in the impairment model.</p> <p>Sensitivity analysis We tested the sensitivity of impairment calculations to changes in key underlying assumptions, which were the short term cash-flow projections, the discount rate and terminal growth rates. We assessed the impact on headroom with the inclusion of an alpha factor in the discount rate in order to reflect any country specific and forecasting risks we considered might be present in each division. We challenged the projected win probabilities (including contract extensions) on key contracts and sensitised the five year cash flow forecasts by reducing new wins and extensions within the pipeline. We specifically considered the impact of COVID-19 on trading and compared the forecasts against the company's experience to date during the pandemic.</p> <p>Comparing valuations 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.</p> <p>Assessing transparency We also assessed whether the Group's disclosure about the sensitivity of outcomes reflects the risks inherent in the valuation of goodwill.</p> <p>Substantive audit procedures over testing of recoverability of the investment in subsidiaries included:</p> <ul style="list-style-type: none"> • Comparing the carrying amount of 100% of investments with the relevant subsidiaries' financial statements or draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, are in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. • Performing additional testing over discounted cashflows in relation to subsidiaries whereby a net asset position in excess of their carrying amount is not identified. <p>Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.</p> <p>Our findings: We found the Group's assessment that there is no impairment of the carrying amount of Group's goodwill and of parent's investment in subsidiaries to be balanced (2019: balanced) and the related sensitivity disclosures to be proportionate (2019: proportionate).</p> <p>We continue to perform procedures over the classification of exceptional items. However, due to the significant reduction in value and quantum of exceptional items, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year. In 2019 we reported an event-driven Key Audit Matter in relation to the acquisition accounting of the Group's investment in the NSBU in the Americas division.</p>
The CGUs which were most sensitive to a deterioration in the division's cash flow projections or an increase in discount rate were the AsPac CGU and Middle East CGU. As at year end 31 December 2020, the AsPac CGU was estimated to have headroom of £332.7m and Middle East has headroom of £102.7m.	
The effect of these matters is that, as part of our risk assessment, we determined that the value in use of CGUs and value in use of investments in subsidiaries have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 18) disclose the sensitivity for goodwill estimated by the Group.	

Independent Auditor's Report

to the members of Serco Group plc continued

3. Our application of materiality and an overview of the scope of our audit

Materiality

Materiality for the Group financial statements as a whole was set at £6.2 million (2019: £5.0 million), determined with reference to a benchmark of group profit before tax. This materiality represents 4.0% of the benchmark (2019: 6.2%).

Materiality for the parent company financial statements as a whole was set at £5.4 million (2019: £4.5 million), determined with reference to a benchmark of company total assets of £2,615.6 million (2019: £2,263.6 million), of which it represents 0.2% (2019: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the group was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £4.0 million (2019: £3.3 million). We applied this percentage in our determination of performance materiality based on the high number of judgements around the Group.

Performance materiality for the parent company was set at 75% (2019: 65%) of materiality for the financial statements as a whole, which equates to £4.0 million (2019: £3.2 million). 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 £0.31 million (2019: £0.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit

Of the Group's 6 (2019: 6) reporting components, we subjected all to full scope audits for Group purposes. These components represent approximately 100% (2019: 100%) of the Group's Revenue, 100% (2019: 100%) of Group profit before tax and 100% (2018: 98.4%) of Group total assets.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality levels, which ranged from £2.1 million to £3.7 million (2019: £2.0 million to £3.5 million) having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 6 components (2019: 4 of the 6 components) was performed by component auditors and the rest, as well as the audit of the parent company, was performed by the Group team. Due to the limitations on international travel during 2020, the Group team conducted site visits via video and telephone conference with all component auditors to assess the audit risk and strategy (2019: all components visited physically). Further, during these conferences, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The Group operates a shared service centre in India, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The shared service centre is subject to specified risk-focused audit procedures by us, principally the testing of transaction processing controls. Additional procedures are performed at certain reporting components to address specific audit risks not addressed by the work performed centrally over the shared service centre.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- Significant deterioration of contractual performance impacting on profit margins across the Group;
- Significant deterioration in the Group's ability to win new contracts, and successfully retain existing contracts which are being re-bid; and
- Significant deterioration of cash collection, leading to a build-up of working capital;

We also considered less predictable but realistic second order impacts, such as the impact of the Covid-19 pandemic, and the possible impact of major contractual 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 degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

Our procedures also included:

- critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics, in particular in relation to profitability of existing contracts, and win rates assumed for future pipeline, by comparing to the group's approved budgets, growth and economic forecasts and our knowledge of the entity and the sector in which it operates;
- comparing the future projections with the group's past experience, in particular in respect of win rates for new contracts and rebids, in order to assess whether the assumptions in the going concern assessment were reasonable; and
- challenging whether the break-points in the Group's reverse-stress test assessment were not plausible to occur by comparing these scenarios with the Group's previous experience, including the experience to date during the Covid-19 pandemic assessing the working capital assumptions by comparing the forecasts to actual recent experience and existing supplier/customer arrangements.

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 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 158 to 159 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.

Independent Auditor's Report

to the members of Serco Group plc continued

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, internal legal counsel and the Group's Ethics & Compliance function and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes (including minutes of board committees such as the audit committee and risk committee).
- Considering remuneration incentive schemes and performance targets for directors and management including the Revenue, Trading Profit and Free Cash Flow / Days Sales Outstanding targets for management remuneration.
- Using analytical procedures to identify any usual or unexpected relationships.
- Using our own forensic subject matter experts to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets 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.

We performed procedures including:

- identifying journal entries and other adjustments to test for all components and at the Group consolidation level based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unexpected accounts.
- assessing significant accounting estimates for bias.

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.

5. Fraud and breaches of laws and regulations – ability to detect continued

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the Group's operations,
- anti-bribery and corruption, recognising the Governmental nature of many of the group's customers,
- employment law, due to the significant number of employees the Group employs,
- Data protection laws, such as the General Data Protection Regulations in Europe due to the number of employees and the services performed for customers in Europe
- national security laws; and
- single source procurement regulations in the UK, due to the contracting environment.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We assessed the disclosures in Principal Risks and Uncertainties on page 78 and the Audit Committee Report on page 95 related to the Company's obligations under the Deferred Prosecution Agreement with the UK Serious Fraud Office compared to our knowledge based on discussion with the Company's legal advisors and our inspection of correspondence of the Company with the Serious Fraud Office.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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

to the members of Serco Group plc continued

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on pages 79 to 80 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 79 to 80 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.

6. We have nothing to report on the other information in the Annual Report continued

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 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.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 140, 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/auditoresponsibilities.

Independent Auditor's Report

to the members of Serco Group plc continued

9. 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.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
24 February 2021

Consolidated Income Statement

For the year ended 31 December

	Note	2020 £m	2019 £m
Revenue	9	3,884.8	3,248.4
Cost of sales		(3,501.8)	(2,928.3)
Gross profit		383.0	320.1
Administrative expenses		(220.0)	(214.2)
Exceptional profit on disposal of subsidiaries and operations	8	11.0	–
Other exceptional operating items	10	1.5	(23.4)
Other expenses - amortisation and impairment of intangibles arising on acquisition	19	(9.0)	(7.5)
Share of profits in joint ventures and associates, net of interest and tax	6	12.7	27.5
Operating profit		179.2	102.5
Operating profit before exceptional items		166.7	125.9
Investment revenue	13	1.9	2.7
Finance costs	14	(27.8)	(24.5)
Total net finance costs		(25.9)	(21.8)
Profit before tax		153.3	80.7
Profit before tax and exceptional items		140.8	104.1
Tax on profit before exceptional items	15	(18.9)	(27.4)
Exceptional tax	15	(0.4)	(2.7)
Tax charge		(19.3)	(30.1)
Profit for the year		134.0	50.6
Attributable to:			
Equity owners of the Company		133.8	50.4
Non controlling interests		0.2	0.2
Earnings per share (EPS)			
Basic EPS	17	10.89p	4.31p
Diluted EPS	17	10.67p	4.21p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2020 £m	2019 £m
Profit for the year		134.0	50.6
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in joint ventures and associates	6	2.7	1.3
Remeasurements of post-employment benefit obligations*	31	18.2	(20.3)
Actuarial gain on reimbursable rights*	31	3.9	3.2
Income tax relating to these items*	15	(5.9)	2.7
Items that may be reclassified subsequently to profit or loss:			
Net exchange gain/(loss) on translation of foreign operations**		7.9	(33.3)
Fair value loss on cash flow hedges during the year**		(0.2)	(0.1)
Total other comprehensive income/(expense) for the year		26.6	(46.5)
Total comprehensive income for the year		160.6	4.1
Attributable to:			
Equity owners of the Company		160.4	4.0
Non controlling interest		0.2	0.1

* Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

** Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non controlling interest £m
At 1 January 2019	22.0	327.9	0.1	111.1	(137.4)	75.0	(18.7)	5.4	385.4	1.4
Opening balance adjustment – IFRS16	–	–	–	3.0	–	–	–	–	3.0	–
Total comprehensive income for the year	–	–	–	51.8	(14.4)	–	–	(33.4)	4.0	0.1
Issue of share capital	2.5	135.0	–	–	–	–	(0.3)	–	137.2	–
Shares transferred to award holders on exercise of share awards	–	–	–	–	–	(14.4)	14.6	–	0.2	–
Expense in relation to share based payments	–	–	–	–	–	11.6	–	–	11.6	–
At 1 January 2020	24.5	462.9	0.1	165.9	(151.8)	72.2	(4.4)	(28.0)	541.4	1.5
Total comprehensive income for the year	–	–	–	136.5	16.2	–	–	7.7	160.4	0.2
Issue of share capital	0.2	0.2	–	–	–	–	(0.2)	–	0.2	–
Shares transferred to award holders on exercise of share awards	–	–	–	–	–	(2.4)	2.5	–	0.1	–
Expense in relation to share based payments	–	–	–	–	–	11.2	–	–	11.2	–
At 31 December 2020	24.7	463.1	0.1	302.4	(135.6)	81.0	(2.1)	(20.3)	713.3	1.7

The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	At 31 December 2020 £m	At 31 December 2019* £m
Non current assets			
Goodwill	18	669.6	674.2
Other intangible assets	19	80.6	96.5
Property, plant and equipment	20	441.7	392.6
Interests in joint ventures and associates	6	19.2	23.6
Trade and other receivables	22	25.3	26.5
Deferred tax assets	16	83.2	63.9
Retirement benefit assets	31	114.6	78.3
		1,434.2	1,355.6
Current assets			
Inventories	21	21.4	18.3
Contract assets	22	296.1	287.5
Trade and other receivables	22	313.5	319.9
Current tax assets		4.9	6.8
Cash and cash equivalents	23	335.7	89.5
Derivative financial instruments	30	4.5	3.0
		976.1	725.0
Total assets		2,410.3	2,080.6
Current liabilities			
Contract liabilities	24	(42.3)	(66.8)
Trade and other payables	24	(533.9)	(490.2)
Derivative financial instruments	30	(9.3)	(1.9)
Current tax liabilities		(21.6)	(18.7)
Provisions	27	(62.1)	(58.4)
Lease obligations	25	(109.3)	(84.6)
Loans	26	(89.7)	(56.1)
		(868.2)	(776.7)
Non current liabilities			
Contract liabilities	24	(47.5)	(58.2)
Trade and other payables	24	(9.4)	(14.5)
Derivative financial instruments	30	(0.1)	–
Deferred tax liabilities	16	(26.9)	(26.7)
Provisions	27	(115.9)	(103.4)
Lease obligations	25	(293.3)	(285.3)
Loans	26	(299.1)	(248.9)
Retirement benefit obligations	31	(34.9)	(24.0)
		(827.1)	(761.0)
Total liabilities		(1,695.3)	(1,537.7)
Net assets		715.0	542.9
Equity			
Share capital	32	24.7	24.5
Share premium account	33	463.1	462.9
Capital redemption reserve		0.1	0.1
Retained earnings		302.4	165.9
Retirement benefit obligations reserve		(135.6)	(151.8)
Share based payment reserve		81.0	72.2
Own shares reserve		(2.1)	(4.4)
Hedging and translation reserve		(20.3)	(28.0)
Equity attributable to owners of the Company		713.3	541.4
Non controlling interest		1.7	1.5
Total equity		715.0	542.9

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 Business Combinations, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Rupert Soames
Group Chief Executive Officer

Angus Cockburn
Group Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	2020 £m	2019 £m
Net cash inflow from operating activities before exceptional items		270.5	152.1
Exceptional items		(2.0)	(49.2)
Net cash inflow from operating activities	37	268.5	102.9
Investing activities			
Interest received		0.3	0.4
Decrease in security deposits		0.1	0.2
Dividends received from joint ventures and associates		19.8	25.4
Exceptional distribution from joint ventures		1.9	–
Other dividends received		0.4	–
Proceeds from disposal of property, plant and equipment		20.9	1.0
Net cash inflow on disposal of subsidiaries and operations	8	11.0	–
Acquisition of subsidiaries, net of cash acquired	7	(4.9)	(193.2)
Proceeds from loans receivable		1.2	–
Purchase of other intangible assets		(8.3)	(6.8)
Purchase of property, plant and equipment		(41.8)	(17.5)
Net cash inflow/(outflow) from investing activities		0.6	(190.5)
Financing activities			
Interest paid		(24.9)	(21.4)
Capitalised finance costs paid		(0.9)	(1.2)
Net advances/repayments of loans		99.4	72.3
Capital element of lease repayments		(100.8)	(70.2)
Cash movements on hedging instruments		2.4	(2.0)
Issue of share capital		–	138.7
Proceeds received from exercise of share options		0.1	0.2
Net cash (outflow)/inflow from financing activities		(24.7)	116.4
Net increase in cash and cash equivalents		244.4	28.8
Cash and cash equivalents at beginning of year		89.5	62.5
Net exchange gain/(loss)		1.8	(1.8)
Cash and cash equivalents at end of year	23	335.7	89.5

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1. General information

Serco Group plc (the Company) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

These Consolidated Financial Statements comprise the Company and its subsidiaries (together referred to as the Group) and are presented in pounds Sterling because this is the currency of the primary economic environment in which Serco operates. All amounts have been rounded to the nearest one hundred thousand pounds and foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

These Consolidated Financial Statements on pages 141 to 222 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS") and are prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as stated below.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company up to 31 December each year. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect the returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non controlling interests represent the portion of profits or losses and net assets in subsidiaries that is not held by the Group and is presented within equity in the Consolidated Balance Sheet, separate from equity of shareholders of Serco Group plc.

Going concern

In assessing the basis of preparation of the financial statements for the year ended 31 December 2020, 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 2020, the Group's principal debt facilities comprised a £250m revolving credit facility, an acquisition facility of £45m and £347m of US private placement notes, giving £642m of committed credit facilities and committed headroom of £582m. As at December 2020, the Group's leverage ratio is below its covenant of 3.5x and below the Group's target range of 1x-2x at 0.45x.

The Directors have undertaken a rigorous assessment of going concern and liquidity taking into account key uncertainties and sensitivities, including the potential impact of Covid-19 on the future performance of the Group. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment is 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. In setting the Group's budgets for 2021 and 2022, consideration has been given to the known impacts of Covid-19, though most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been materially impacted.

The Directors have considered various downside scenarios, including the anticipated impact of Covid-19 on the Group's operations, and have excluded the positive impacts on profitability experienced to date as a result of the virus. The key assumptions considered in these downside scenarios include a range of lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and slower recovery in usage of leisure centres in the UK through to the end of 2021. In a more severe downside scenario, the Directors have modelled the negative financial impact of Covid-19 as experienced during the year to 31 December 2020 through another two three-month lockdowns during the assessment period. In these different downside scenarios, the Group continues to have sufficient covenant and liquidity headroom.

Due to the limited impact of Covid-19 on the Group's profitability, the Directors believe that appropriate sensitivities in assessing the Group and Company's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity, provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test shows that, even after assuming that the US private placement loans of \$152m due to mature before 30 June 2022 are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants.

In respect of win rates, rebids have a more significant impact on the Group's revenue than new business wins during the assessment period, as contracts accounting for c.62% of total revenues are expected to be rebid in the next three years. The Group's rebid win rate excluding COMPASS SNI and Viapath, neither of which contributed to the Group's profitability, has been in excess of 85% over the last two years, therefore a reduction of 50% to the budgeted win rates and rebid rates is not considered plausible. The Group does not bid for contracts at margins below its target range.

In respect to 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 50bps (c£20m) versus the Group's budget is not considered plausible within the assessment period combined with a 50% reduction in win rates for new business and rebids.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Adoption of new and revised standards

There have been no new accounting standards implemented by the Group during the year and no revisions to accounting standards have had a material impact on the Group's Financial Statements.

Amendments to IFRS16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19 Related Rent Concessions - amendment to IFRS16 Leases. The amendments provide relief to lessees from applying IFRS16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS16, if the change were not a lease modification.

Whilst the amendment applies to annual reporting periods beginning on or after 1 June 2020, earlier application is permitted. The impact of applying the amendment to the Group's Financial Statements was immaterial.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date, regardless of whether that price is directly observable or is estimated using another valuation technique. There are certain transactions in these financial statements which are similar to fair value but are determined by the treatment set out in their respective standards. These are share based payment transactions that are within the scope of IFRS2 Share Based Payment, leasing transactions that are within the scope of IFRS16 Leases, the calculation of net realisable value under IAS2 Inventories or value in use under IAS36 Impairment of Assets.

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 and therefore in most cases revenue will be recognised on the output basis, with revenue linked to the deliverables provided to the customer. Where any price step downs are required in a contract accounted for under the output basis and output is not decreasing, revenue will require deferral 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. 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. Where deemed appropriate, the Group will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

Under IFRS15, unless upfront fees received from customers including transition payments can be clearly attributable to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

In general, the timing of satisfaction of performance obligations is consistent with when payment becomes due other than in instances where up front win fees or transition payments are received, where in most instances these are deferred.

Any changes to the enforceable rights and obligations with customers and/or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Group's policies.

Revenue recognition: Variable revenue

The Group has a number of contracts where at least an element of the revenue generated is variable in nature. Variability in revenue recognised can arise from a number of factors, including usage related volumes, graduated performance against contractual performance indicators, indexation linked pricing, profit sharing elements and customer decisions related to the provision of goods or services. Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur.

Revenue recognition: Long-term project based contracts

The Group has a limited number of project based long-term contracts. Revenue associated with these contracts is recognised at the point in time when control over the deliverable is passed to the customer.

Revenue recognition: Contract modifications

When a modification to an existing contract is approved, the Group first assesses whether it adds distinct goods or services to the existing contract that are priced commensurate with the stand-alone selling prices for those goods or services. If this is the case, then the modification is accounted for prospectively as a separate contract. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are not distinct from those in the original contract, then this is considered to form part of the original contract. Pricing is updated for the entirety of the revised contract and any historic adjustments recorded as a result are recorded through opening retained earnings. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are distinct from those in the original contract then this is considered to represent the termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification.

Revenue recognition: Other

Sales of goods are recognised when goods are delivered and title has passed.

Where the Group is required to assess whether it is acting as principal or as an agent in respect of goods or services procured for customers, the Group is acting as principal if it is in control of a good or a service prior to transferring to the customer and an agent where it is arranging for those goods or services to be provided to the customer without obtaining control.

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Group has no material exposure to returns or refunds.

Government grants

The majority of the Group's customers are governments. Any income that arises from a contractual agreement for the delivery of goods or services, or a specific modification to such a contract, is treated as revenue. Income from governments is only considered to be a government grant if it is not related to the supply of goods or services under a contractual arrangement.

Government grants are recognised where there is reasonable assurance that the grant will be received. Grants that compensate the Group for expenses incurred are recognised in the income statement as a reduction to the corresponding expenses on a systematic basis in the periods in which the expenses are recognised.

Contract costs

Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Bid costs are amortised over the duration of the contract to which they relate in equal annual instalments. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.

Contract costs can only be capitalised when the expenditure meets all of the following three criteria and are not within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment:

- The costs relate directly to a contract. These include: direct labour, being the salaries and wages of employees providing the promised services to the customer; direct materials such as supplies used in providing the promised services to a customer; and other costs that are incurred only because an entity entered into the contract, such as payments to subcontractors.
- The costs generate or enhance the resources used in satisfying performance obligations in the future. For initial contract costs capitalised, such costs only fall into one of the following two categories: the mobilisation of contract staff, being the costs of moving existing contract staff to other Group locations; or directly incremental costs incurred in meeting contractual obligations incurred prior to contract delivery, which are required to ensure a proper handover from the previous contractor. Redundancy costs are never capitalised.
- The costs are expected to be recovered, i.e. the contract is expected to be profitable after amortising the capitalised costs.

Operating profit

Operating profit is not a measure defined by IFRS and the Group considers this to include the profits and losses from operations prior to corporation tax, interest revenue and finance costs.

Foreign currencies

Transactions in currencies other than Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity through the Consolidated Statement of Comprehensive Income (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 at 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 10.

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. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) *Business Combinations* are recognised at their fair value at the acquisition date, except where a different treatment is mandated by another standard.

Investments in joint ventures and associates

A joint venture is an arrangement whereby the owning parties have joint control and rights over the net assets of the arrangement. The Group's investments in joint ventures are incorporated using the equity method of accounting.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the Consolidated Balance Sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying value amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where the Group entity transacts with a joint venture, profits and losses are eliminated to the extent of the Group's interest in the arrangement.

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.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

Goodwill

Goodwill is measured as the excess of the fair value of purchase consideration over the fair value of the net assets acquired and is recognised as an intangible asset when control is achieved. Negative goodwill is recognised immediately in the income statement. Fair value measurements are based on provisional estimates and may be subject to amendment within one year of the acquisition, resulting in an adjustment to goodwill.

Goodwill itself does not generate independent cash flows and therefore, in order to perform required tests for impairment, it is allocated at inception to the specific cash generating unit (CGU) or groups of CGUs which are expected to benefit from the acquisition.

On the disposal of a business which includes all or part of a CGU, any attributable goodwill is included in the determination of the profit or loss on disposal. Where part of a CGU with goodwill is sold, the attributable amount is calculated based on the future discounted cash flows leaving the Group as a proportion of the total CGU future discounted cash flows.

The fair values associated with material business combinations are valued by external advisers and any amount of consideration which is contingent in nature is evaluated at the end of each reporting period, based on internal forecasts.

Other intangible assets

Material intangible assets are grouped into classes of similar nature and use and separately disclosed. Other intangible assets are amortised from the date of completion.

Customer relationships can arise on the acquisition of subsidiaries and represent the incremental value expected to be gained as a result of existing contracts in the purchased business. These assets are amortised over the average length of the related contracts.

Licences comprise premiums paid for the acquisition of licences, while franchises represent costs incurred in obtaining franchise rights arising on the acquisition of franchises. These are amortised on a straight-line basis over the life of the respective licence or franchise.

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 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%
Short leasehold assets	The higher of 10% or the rate produced by the lease term
Machinery	15% - 20%
Motor 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 IAS36 *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 CGU to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value with reference to pre-tax discount rates that reflect the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is estimated to be less than the carrying amount of the asset, the carrying amount is impaired to its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss which led to the impairment has decreased or no longer exists. Where an impairment loss is subsequently reversed, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years.

At each reporting date, the Group assesses whether there is an indication that a previously recognised impairment loss has reversed because of a change in the estimates used to determine the impairment loss. If there is such an indication, and the recoverable amount of the impaired asset, or CGU, subsequently increases, then the impairment loss is generally reversed. Impairment losses and reversals are recognised immediately within expenses in the income statement unless it is considered to be an exceptional item.

Retirement benefit costs

Payments to defined contribution pension schemes are charged as an expense as they fall due.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of comprehensive income.

Both current and past service costs are the amounts recognised in the income statement, reflecting the expense associated with the individuals. Current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period. Past service cost is recognised immediately. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds (which is only recognised to the extent that the Group has an unconditional right to receive it) and reductions in future contributions to the scheme. To the extent that an economic benefit is available as a reduction in future contributions and there is a minimum funding requirement required of the Group, the economic benefit available as a reduction in contributions is calculated as the present value of the estimated future service cost in each year, less the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Calculation of the amounts recognised in the Consolidated Financial Statements in respect of defined benefit pension schemes requires a high level of judgement, as further explained in note 3.

Defined benefit obligations arising from contractual obligations

Where the Group takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract, the Group's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities with a franchise adjustment. The franchise adjustment represents the estimated amount of scheme deficit that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised in the Statement of Comprehensive Income (SOCI).

End of contract provisions

Where the Group has a legal or constructive obligation to compensate employees at the end of a contract term and these employees cannot be relocated within the Group, a provision is recognised to reflect the expected outflow of economic benefits at the end of the contract. The obligation is reassessed at each reporting date. The amount calculated assumes the tenure of the employee base, expected turnover and salary.

Derivative financial instruments and hedging activities

The Group may enter into a variety of derivative financial instruments to manage the exposure to interest rate, foreign exchange risk and price risk, including currency swaps, foreign exchange forward contracts, interest rate swaps and commodity future contracts. Further details of derivative financial instruments are given in note 30.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges), hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges).

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

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 SOCI and described in note 30.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when a hedge is no longer effective as a result of a change in risk management strategy, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is realised in the profit or loss account.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group de-designates the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Tax

The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes.

Deferred tax assets are generally recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which these items can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, it affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Group intends to settle its current tax assets and liabilities on a net basis.

Share based payment

Where the fair value of share options or shares under award requires the use of a valuation model, fair value is measured by use of Binomial Lattice, Black-Scholes or Monte Carlo Simulation models depending on the type of scheme, as set out in note 35. 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 provision for impairment and expected credit losses, to ensure that amounts recognised represent the recoverable amount.

Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. A provision for impairment arises where there is evidence that the Group will not be able to collect amounts due for reasons other than customer default, which is achieved by creating an allowance for doubtful debts recognised in the income statement within expenses. When a trade receivable is expected to be uncollectible for reasons other than credit-related losses, it is provided for within the allowance. Subsequent recoveries of amounts previously provided for or written off are credited against expenses.

The majority of contracts entered into by the Group are with government organisations and therefore historic levels of default are relatively low and as a result, the risks associated with this judgement are not considered to be significant.

An expected credit loss is recorded where there is evidence that a counterparty is at risk of default due to their credit worthiness. If the loss was material, the amount would be presented separately in the Consolidated Income Statement, however the Group's customer base is predominantly Government or Government-backed and as a result, the Group's expected credit loss at a given point in time across the entirety of the customer base is typically immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash, which are subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the Consolidated Cash Flow Statement.

Leases

The Group uses leases in the delivery of a number of contracts and in other centralised functions. Most notably, the Group uses accommodation leases in the delivery of the Asylum Accommodation and Support Services contract, vehicle leases in the Prisoner Escorting and Custodial Services contract and to deliver its UK vehicle fleet and support offices, amongst others. Where leases are utilised in the delivery of contracts, the Group aims to limit the duration of any non-cancellable periods of leases to be no longer than the duration of the underlying contract. For non-contract related leases, the Group has set policies on lease duration and purpose to ensure their appropriate use.

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and, simultaneously, a right of use asset is created representing the right conferred to control the manner of use of the leased asset. The Group typically uses an appropriate incremental borrowing rate, based on the lease location and duration, as it typically does not have access to the interest rate implicit in the lease.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered.

Where, on inception, the term of a lease is less than twelve months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the income statement on a straight-line basis over the term of the relevant lease.

Loans

Loans are stated at amortised cost using the effective interest-rate method. Accrued interest is recorded separately from the associated borrowings within current liabilities.

Loans are described as non-recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

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 where 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.

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 asset. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 above, Management has made the following judgements that have the most significant effect on the amounts recognised in the Consolidated Financial Statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the measurement of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustment to the carrying amounts of onerous contract provisions within the next financial year for contracts which the Directors have assessed do not require a provision as at 31 December 2020. The estimates made in relation to onerous contracts differ according to whether an existing provision is measured or not.

Major sources of uncertainty within existing onerous contract provisions which could result in a material adjustment within the next financial year are:

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels;
- Volume driven revenue and costs being within the expected ranges;
- The outcome of open claims made by or against a customer regarding contractual performance or contractual negotiations taking place where there is expected to be a positive outcome from the Group's perspective;
- The ability of suppliers to deliver their contractual obligations on time and on budget; and
- The longer term impact of Covid-19 on contract performance such as the performance and usage of leisure centres or passenger volumes in the UK and the risk that this may be impacted by any future wave of the virus which requires a subsequent lock down period, in the absence of any customer support.

In the current year, an amount of £0.1m was charged to historic provisions and releases of £5.9m have been made. One new OCP was recognised during the year with the charge being £3.3m within Underlying Trading Profit. All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date such as the impact of Covid-19. 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. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

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. Discount rates used are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS37 *Provisions, Contingent Liabilities & Contingent Assets*. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. As at 31 December 2020, the provision recognised in respect of this portfolio of contracts is £8.5m (2019: £6.2m).

The Group operates a large number of long-term contracts. Onerous contract provisions totalling £6.0m are estimated for individual contracts, based on the specific characteristics of the contract including possible contract extensions or 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 £8.5m in respect of the portfolio risk associated with operating a large number of long-term contracts, giving a total onerous contract provision of £14.5m (see note 27). Management has considered the nature of the estimate for onerous contract provisions and concluded that it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could, in aggregate, require a material adjustment to the onerous contract provision. However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts.

Impairment of assets

Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate.

We seek to mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. During the current year, the process for setting future budgets and longer-term business planning, has required an assessment of the likely future impact of Covid-19 on the Group's operations and its future activities. As noted above, in relation to both going concern and onerous contract provisions, the potential impact of Covid-19 in the future is uncertain. Management, as part of the budgeting process, have included an estimate of the potential future impact, and as a result, no specific adjustment has been made in relation to the cash flows used in the assessment of the value in use of assets.

Notes to the Consolidated Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates are performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS36 *Impairment of Assets* we calculate a pre tax rate based on post tax targets.

A key area of focus in recent years has been in the impairment testing of goodwill as a result of the pressure on the results of the Group. However, no impairment of goodwill was noted in the year ended 31 December 2020.

Current tax

Liabilities for tax contingencies require Management judgement and estimates in respect of tax audits and also tax exposures in each of the jurisdictions in which we operate. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences that arise as a consequence of different accounting and tax treatments. Key judgement areas for the Group include the correct allocation of profits and losses between the countries in which we operate and the pricing of intercompany services. Where Management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the current information available including the specific circumstances of each case and external advice, where appropriate.

These liabilities can be built up over a long period of time, but the ultimate resolution of tax exposures usually occurs at a point in time and, given the inherent uncertainties in assessing the outcomes of these exposures, these estimates are prone to change in future periods. It is not currently possible to estimate the timing of potential cash outflow, but on resolution, to the extent this differs from the liability held, this will be reflected through the tax charge or credit, which could be material for that period to the extent that the outcomes differ from the current estimates. Each potential liability and contingency is revisited on an annual basis and adjusted to reflect any changes in positions taken by the Group, local tax audits, the expiry of the statute of limitations following the passage of time and any change in the broader tax environment.

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 and other pension scheme arrangements are covered in note 31.

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 following principles:

- The asset recognised for the Serco Pension and Life Assurance Scheme is equal to the full surplus that will ultimately be available to the Group as a future refund.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.

No pension assets are invested in the Group's own financial instruments or property.

Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Critical accounting judgements

Covid-19 related impacts

During the year ended 31 December 2020, the Group's results have been impacted by Covid-19, and in a number of instances, the recognition and measurement of amounts as at 31 December 2020 has required judgements to be made about the impact of Covid-19. Management assessed each balance on the balance sheet for the impact of Covid-19 as at 31 December 2020, as well as a number of other critical judgements which could also reasonably be considered to be impacted by the ongoing effects of Covid-19. Those items for which Covid-19 was considered to be a critical element of the judgements made, are summarised below. In reviewing areas of the financial statements that could be impacted by Covid-19, Management identified a number of areas subject to judgement, but where it was considered unlikely that a material difference would result from the judgements made. These areas included:

- Compliance with banking covenants due to the headroom levels available under the current facilities;
- The impact of changes in cash flows on financing arrangements and hedging effectiveness due to the assumption that current financing arrangements are sufficient and will continue unchanged for the duration of the arrangements;
- Dividends and capital management restrictions, owing to the limited impact of Covid-19 on the Group's financial results and considerations disclosed in the Chief Executive's Review around the proposed dividend in relation to the year ended 31 December 2020;
- Alternative Performance Measures (APMs), as the impact of Covid-19 was considered too subjective to require a change to the Group's APMs, and the APMs continue to be appropriate to meet investors' requirements and for further clarity and transparency of the Group's financial performance; and
- Post balance sheet events, owing to the fact that Covid-19 has been factored into other assumptions and judgements around forecast performance into 2021, and in the absence of material events subsequent to 31 December 2020, no additional judgements were required to be made.

Going concern

As noted on page 158, the impact of Covid-19 on the ability of the Group to continue as a going concern has been considered by Management. The critical judgements are focused on the economic recovery of certain sectors in which the Group operates, as well as the potential impacts of future actions taken by governments globally. The judgements made represent severe but plausible scenarios that could occur within the going concern assessment period. The conclusion drawn by Management based on these judgements is that no material uncertainties exist in respect of the ability for the Group to continue as a going concern.

Onerous contract provisions

The calculation of onerous contract provisions is a key source of estimation uncertainty. Within the calculation of onerous contract provisions, judgements have been made by Management regarding the recovery of global economies from the impacts of Covid-19, particularly in the sectors in which the Group operates. In particular, the short-term impacts of Covid-19 have been estimated specific to each of the Group's contracts and these impacts have been included in budgets used to identify any contracts which require an onerous contract provision to be recognised. Judgements related to Covid-19 include the potential for further lock-downs, the length of any such lock-downs and the scale and speed of future recoveries. Should this be incorrect then this could lead to onerous contract provisions being recognised in future periods.

Impairment of assets

The impairment of assets is a key source of estimation uncertainty. In calculating the value in use of CGUs, Management are required to form an estimate of the future cash flows which inherently includes a degree of estimation uncertainty. Moreover, when looking at future cash flows as at 31 December 2020, Management has made judgements regarding the impact of Covid-19 over the same timeframe as the cash flows used to calculate value in use. During this timeframe, Management has considered the impact of Covid-19 specific to each existing contract, as well as opportunities in the Group's pipeline and this judgement is included in budgeted cash flows. Should this be incorrect then this could lead to impairments being recognised in future periods.

Recoverability of trade receivables

At 31 December 2020, the Group's trade receivables balance is recorded at the carrying value of trade receivables less an allowance for bad or doubtful debts. Due to the global impact of the Covid-19 pandemic, Management has reassessed the judgement made in previous periods that any expected credit losses associated with trade receivables is immaterial. Management remain confident that as the Group's customers are predominantly sovereign in nature, there remains limited risk to the recoverability of the trade receivables balances at the end of the year as a result of expected credit losses. Should this be incorrect, a charge associated with irrecoverable debts could be recognised in future periods.

Retirement benefit obligations

The net position on defined benefit pension schemes is a key source of estimation uncertainty. Covid-19 could have a material impact on any number of judgements used in valuing the Group's pension schemes as at 31 December 2020, including, but not necessarily limited to, the discount rate used, future inflation rates and the mortality assumptions in place. To ensure appropriate judgements are taken based on the most relevant information available, Management has continued to engage with third-party advisors in assessing each of these judgements. The discount rate is derived from the return on corporate bond yields, and whilst this is largely observable, any change in discount rates in the future could have a material impact on the carrying value of the defined benefit obligation. Similarly, inflation rates and mortality assumptions impact the defined benefit obligation as they are used to model future salary increases and the duration of pension payments. Whilst current assumptions use projected future inflation rates and the most up to date information available on mortality, if these judgements change, the defined benefit obligation could also change materially in future periods.

Management also considered whether an allowance was required for assets held in pension schemes owing to the impact of Covid-19 on the carrying value of assets. In concluding that such an adjustment was not required, Management's judgement focused on the fact that a significant proportion of the assets are either quoted or have market observable prices and for those which are not directly observable, sufficient assurance has been received from asset managers regarding the appropriateness of the carrying values of the underlying assets.

Going concern

Whilst there are no material uncertainties over the ability of the Group to continue as a going concern, in preparing the going concern assessment the Directors are required to make a number of judgements to reach such a conclusion. In particular, when forming an opinion for the current year, the ongoing impact of Covid-19 and the impact on headroom in the Group's financing facilities has been the most critical area of judgement.

In order to model severe but plausible scenarios to stress test the potential impact of Covid-19 on the Group's forecast, the Directors have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and slower recovery in usage of leisure centres in the UK through to the end of 2021, without mitigations that are outside of the Group's control. The Directors have also considered, for the plausible downside scenario, the absence of any repeat of contracts associated with the UK Government's response to the pandemic. The Directors have reviewed the impact on overseas operations and considered the impact of a future wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts. In the United States, the recent change in administration and escalation of Covid-19 cases has made an assessment of the impact of the response to the pandemic difficult to estimate, as the response could take a different approach to that seen under the previous administration. In an extreme case, the Directors have modelled the negative financial impact of Covid-19 as experienced during the year to 31 December 2020, without the mitigations outlined above, through another two three-month lockdown periods during the assessment period and allowed for the impact of a change in direction of the response in the United States. The scenario indicates that the Group has sufficient liquidity to withstand a potential future wave of the virus if the impact is consistent with that experienced during the first wave.

Notes to the Consolidated Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

After considering these severe but plausible scenarios, the forecasts indicate sufficient capacity in the Group's financing facilities and associated covenants to support the Group. In order to satisfy themselves that they have adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants and its ability to generate cash from trading activities and working capital requirements, as well as a series of identified mitigating actions that could be used to preserve cash in the business. In order to reverse stress test the headroom available on the Group's debt covenants and liquidity available, the Directors have considered the impact of reductions to expected win rates for new contracts and rebid contracts combined with lower margins in the period of assessment and concluded that, given the headroom available, these do not present a material risk in its ability to continue as a going concern.

In making the going concern assessment, the Directors have assumed that the US private placement loans of \$152m due to mature before 30 June 2022 are repaid without any additional refinancing occurring.

Leases

The Group makes use of leases both in assisting with the operational delivery of contracts and within support functions. Operational leases include, but are not limited to, accommodation for asylum seekers, vehicles used in the transport of service users and properties used to deliver services or administrative functions. Within the Group's support functions, the most prevalent leases are those associated with properties and the company car fleet.

The majority of the Group's operational leases are entered into either for the duration of the contract to which they relate, or with a termination option included, allowing the Group the option to exit the lease if it so desires. As a result, the most significant judgement that is made in relation to leases, is the derivation of the lease term at the outset of the lease. Extension and cancellation options included in leases, where the Group has the unilateral option to exercise, are included when assessing the lease term only to the extent that it is more likely than not they will be exercised. This assessment is revisited whenever the circumstances of a contract change, or more frequently if Management become aware of a change in the probability of exercising such options.

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS1 *Presentation of Financial Statements* requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material and outside of the normal operating practice of the company to be suitable for separate presentation. There is a level of judgement required in determining which items are exceptional on a consistent basis and require separate disclosure. Further details can be seen in note 10.

The segmental analysis of operations in note 4 include the additional performance measure of Trading Profit on operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those we consider material and outside of the normal operating practice of the Company to be suitable for separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgments 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 CODM reviews the segmental analysis for operations.

Claim for losses in respect of the 2013 share price reduction

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Recognition has been based on forecast future taxable profits.

Further details on deferred taxes are disclosed in note 16.

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2020 under IFRS8 Operating Segments are as set out below.

Reportable segments	Operating segments
UK & Europe	Services for sectors including Citizen Services, Defence, Health, Justice & Immigration and Transport delivered to UK Government, UK devolved authorities and other public sector customers in the UK and Europe
Americas	Services for sectors including Citizen Services, Defence and Transport delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government
AsPac	Services for sectors including Citizen Services, Defence, Health, 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 and Transport in the Middle East region
Corporate	Central and head office costs

Each operating segment is focused on a narrow group of customers in a specific geographic region and is run by a local Management team which report directly to the 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 operating segment level in these financial statements.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

Information about major customers

The Group has four major governmental customers which each represent more than 5% of Group revenues. The customers' revenues were £1,517.0m (2019: £1,043.3m) for the UK Government within the UK & Europe segment, £913.1m (2019: £734.9m) for the US Government within the Americas segment, £703.8m (2019: £597.5m) for the Australian Government within the AsPac segment and £237.2m (2019: £255.5m) for the Government of the United Arab Emirates within the Middle East segment.

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 operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment including right of use assets, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit asset. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,777.4	1,064.3	718.9	324.2	–	3,884.8
Result						
Trading Profit/(Loss) from operations*	69.6	100.8	32.6	13.9	(41.2)	175.7
Amortisation and impairment of intangibles arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Operating profit/(loss) before exceptional items	67.6	93.8	32.6	13.9	(41.2)	166.7
Exceptional profit on disposal of subsidiaries and operations	11.0	–	–	–	–	11.0
Other exceptional operating items**	1.0	1.4	(0.8)	–	(0.1)	1.5
Operating profit/(loss)	79.6	95.2	31.8	13.9	(41.3)	179.2
Investment revenue						1.9
Finance costs						(27.8)
Profit before tax						153.3
Tax charge						(18.9)
Tax on exceptional items						(0.4)
Profit for the year from operations						134.0

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business. Included within Other exceptional operating items are total acquisition related costs of £2.4m.

Notes to the Consolidated Financial Statements continued

4. Segmental information continued

Year ended 31 December 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	12.7	–	–	–	–	12.7
Depreciation of plant, property and equipment	(61.6)	(22.5)	(9.6)	(7.6)	(8.1)	(109.4)
Impairment of plant, property and equipment	(0.7)	–	–	–	–	(0.7)
Total depreciation and impairment of plant, property and equipment	(62.3)	(22.5)	(9.6)	(7.6)	(8.1)	(110.1)
Amortisation of intangible assets arising on acquisition	(2.0)	(7.0)	–	–	–	(9.0)
Amortisation of other intangible assets	(0.7)	(0.6)	(3.0)	(0.4)	(9.3)	(14.0)
Total amortisation and impairment of intangible assets	(2.7)	(7.6)	(3.0)	(0.4)	(9.3)	(23.0)
Segment assets						
Interests in joint ventures and associates	18.7	–	0.1	0.4	–	19.2
Other segment assets***	750.9	675.3	274.4	87.9	174.3	1,962.8
Total segment assets	769.6	675.3	274.5	88.3	174.3	1,982.0
Unallocated assets						428.3
Consolidated total assets						2,410.3
Segment liabilities						
Segment liabilities***	(626.6)	(185.0)	(200.0)	(66.7)	(170.3)	(1,248.6) (446.7)
Unallocated liabilities						
Consolidated total liabilities						(1,695.3)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,361.7	915.7	621.4	349.6	–	3,248.4
Result						
Trading Profit/(Loss) from operations*	48.2	91.7	31.2	13.9	(51.6)	133.4
Amortisation and impairment of intangibles arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Operating profit/(loss) before exceptional items	47.0	85.5	31.1	13.9	(51.6)	125.9
Other exceptional operating items**	(24.8)	15.3	(3.0)	–	(10.9)	(23.4)
Operating profit/(loss)	22.2	100.8	28.1	13.9	(62.5)	102.5
Investment revenue						2.7
Finance costs						(24.5)
Profit before tax						80.7
Tax charge						(27.4)
Tax on exceptional items						(2.7)
Profit for the year from operations						50.6

* Trading Profit/(Loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	27.3	–	0.2	–	–	27.5
Depreciation of plant, property and equipment	(37.3)	(17.4)	(9.0)	(4.7)	(6.0)	(74.4)
Impairment of plant, property and equipment	(18.9)	–	–	–	–	(18.9)
Total depreciation and impairment of plant, property and equipment	(56.2)	(17.4)	(9.0)	(4.7)	(6.0)	(93.3)
Amortisation of intangible assets arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Amortisation of other intangible assets	(0.3)	(1.2)	(4.8)	(0.4)	(11.4)	(18.1)
Total amortisation and impairment of intangible assets	(1.5)	(7.4)	(4.9)	(0.4)	(11.4)	(25.6)
Segment assets****						
Interests in joint ventures and associates	22.4	–	0.8	0.4	–	23.6
Other segment assets***	645.4	757.5	227.3	132.0	131.6	1,893.8
Total segment assets	667.8	757.5	228.1	132.4	131.6	1,917.4
Unallocated assets						163.2
Consolidated total assets						2,080.6
Segment liabilities****						
Segment liabilities***/****	(536.3)	(234.0)	(151.8)	(103.0)	(160.3)	(1,185.4)
Unallocated liabilities						(352.3)
Consolidated total liabilities						(1,537.7)

*** 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.

**** During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

5. List of principal undertakings

The following are considered to be the principal undertakings of the Group as at the year end:

Principal subsidiaries		2020	2019
United Kingdom	Serco Limited	100%	100%
Australia	Serco Australia Pty Limited	100%	100%
USA	Serco Inc.	100%	100%
Principal joint ventures and associates			
United Kingdom	AWE Management Limited	24.5%	24.5%
United Kingdom	Merseyrail Services Holding Company Limited	50%	50%

A full list of subsidiaries and related undertakings is included in the Appendix on pages 217 to 219 which form part of the financial statements.

6. Joint ventures and associates

AWE Management Limited ("AWEML") and Merseyrail Services Holding Company Limited ("MSHCL") were the only equity accounted entities which were material to the Group during the year or prior year. Dividends of £15.5m (2019: £17.6m) and £1.5m (2019: £7.8m) respectively were received from these companies in the year. The decrease in dividends received is mainly due to reduced profits from joint ventures, most notably in respect of MSHCL, where passenger volumes in particular were negatively impacted by Covid-19.

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). As part of the transaction, the Group received an amount of £11.0m for its share in the net assets of the joint venture. At the same time as disposing of the Group's interest in Viapath, the Group recovered a loan into the joint venture of £1.2m and £2.9m of profit share which was previously considered to be irrecoverable.

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWEML on 30 June 2021. The terms of the exit are in the process of being negotiated and since the full services under the contract have not been completed, judgement has been taken in relation to the milestone achievements which are to be agreed and an estimate of the costs incurred in delivering services which cannot be recovered. The agreement in respect of both of these items are to be finalised, however the final outcome is not expected to have a material impact on the Group's Financial Statements.

Notes to the Consolidated Financial Statements continued

6. Joint ventures and associates continued

Summarised financial information of AWEML and MSHCL and an aggregation of the other equity accounted entities in which the Group has an interest is as follows:

31 December 2020

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,106.8	150.7	346.5	18.6	365.1
Operating profit/(loss)	75.0	(5.7)	15.5	(0.1)	15.4
Net investment revenue/(finance cost)	0.3	(0.1)	—	—	—
Income tax (charge)/credit	(14.0)	1.5	(2.7)	—	(2.7)
Profit/(loss) from operations	61.3	(4.3)	12.8	(0.1)	12.7
Other comprehensive income	—	5.3	2.7	—	2.7
Total comprehensive income/(expense)	61.3	1.0	15.5	(0.1)	15.4
Non current assets	668.1	19.1	173.3	0.1	173.4
Current assets	191.4	43.2	68.5	1.8	70.3
Current liabilities	(169.2)	(29.6)	(56.3)	(0.8)	(57.1)
Non current liabilities	(665.9)	(8.5)	(167.4)	—	(167.4)
Net assets	24.4	24.2	18.1	1.1	19.2
Proportion of group ownership	24.5%	50.0%	—	—	—
Carrying amount of investment	6.0	12.1	18.1	1.1	19.2

* Total results of the entity multiplied by the respective proportion of Group ownership.

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	119.8	22.5	40.6	0.8	41.4
Current financial liabilities excluding trade and other payables and provisions	(0.6)	(5.5)	(2.9)	0.1	(2.8)
Non current financial liabilities excluding trade and other payables and provisions	—	(7.7)	(3.8)	—	(3.8)
Depreciation and amortisation	—	(6.1)	(3.1)	(0.4)	(3.5)
Interest income	0.3	0.1	0.1	—	0.1
Interest expense	—	(0.2)	(0.1)	—	(0.1)

* Total results of the entity multiplied by the respective proportion of Group ownership.

The Group's share of liabilities within joint ventures is £224.5m. Of this, an amount of £163.1m relates to a defined benefit pension obligation, against which Serco is fully indemnified, and a further £49.7m 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.

The financial statements of MSHCL are for a period which is different from that of the Group, being for the 52 week period ended 9 January 2021 (2019: 52 week period ended 4 January 2020). The 52 week period reflects the joint venture's internal reporting structure and is sufficiently close so as to not require adjustment to match that of the Group.

Certain employees of the groups headed by AWEML and MSHCL are members of sponsored defined benefit pension schemes. Given the significance of the schemes to understanding the position of the entities, the following key disclosures are made:

Main assumptions: 2020	AWEML	MSHCL
Rate of salary increases (%)	1.9%	2.8%
Inflation assumption (CPI %)	1.9%	1.9%
Discount rate (%)	1.5%	2.4%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	23.0	N/A
Future male industrial pensioners at 65 (years)	25.1	N/A
Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,597.7)	(450.5)
Fair value of scheme assets	1,931.8	233.8
Net amount recognised	(665.9)	(216.7)
Members' share of deficit	–	86.7
Franchise adjustment*	–	130.0
Related asset, right to reimbursement	665.9	–
Net retirement benefit obligation	–	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

AWEML is not liable for any deficiency in the defined benefit pension scheme under current contractual arrangements. The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

31 December 2019

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,065.4	177.9	350.0	44.6	394.6
Operating profit	95.4	18.9	32.7	1.1	33.8
Net investment revenue	0.8	0.2	0.3	–	0.3
Income tax charge	(18.8)	(3.8)	(6.4)	(0.2)	(6.6)
Profit from operations	77.4	15.3	26.6	0.9	27.5
Other comprehensive income	–	2.5	1.3	–	1.3
Total comprehensive income	77.4	17.8	27.9	0.9	28.8
Non current assets	510.0	23.2	136.6	2.4	139.0
Current assets	186.8	64.6	78.1	18.7	96.8
Current liabilities	(163.0)	(48.4)	(64.1)	(14.7)	(78.8)
Non current liabilities	(509.3)	(12.7)	(131.2)	(2.2)	(133.4)
Net assets	24.5	26.7	19.4	4.2	23.6
Proportion of group ownership	24.5%	50.0%	–	–	–
Carrying amount of investment	6.0	13.4	19.4	4.2	23.6

* Total results of the entity multiplied by the respective proportion of Group ownership.

Notes to the Consolidated Financial Statements continued

6. Joint ventures and associates continued

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	101.3	39.9	44.8	7.4	52.2
Current financial liabilities excluding trade and other payables and provisions	(7.6)	(7.3)	(5.6)	(0.2)	(5.8)
Non current financial liabilities excluding trade and other payables and provisions	(0.1)	(12.5)	(6.3)	(2.3)	(8.6)
Depreciation and amortisation	–	(1.6)	(0.8)	(0.9)	(1.7)
Interest income	0.8	0.2	0.3	–	0.3

* Total results of the entity multiplied by the respective proportion of Group ownership.

Key disclosures with respect of the defined benefit pension schemes of material joint ventures and associates:

Main assumptions: 2019	AWEML	MSHCL
Rate of salary increases (%)	2.1%	3.1%
Inflation assumption (CPI %)	2.1%	2.2%
Discount rate (%)	2.1%	2.1%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	22.9	N/A
Future male industrial pensioners at 65 (years)	25.0	N/A
Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,213.6)	(374.5)
Fair value of scheme assets	1,716.6	218.5
Net amount recognised	(497.0)	(156.0)
Members' share of deficit	–	62.4
Franchise adjustment*	–	93.6
Related asset, right to reimbursement	497.0	–
Net retirement benefit obligation	–	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

AWEML is not liable for any deficiency in the defined benefit pension scheme under current contractual arrangements. The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

7. Acquisitions

The Group made no acquisitions during the period. On 17 December 2020, the Group announced it had reached an agreement to acquire Facilities First Australia Holdings Pty Limited ("FFA") and the acquisition was completed on 4 January 2021 for consideration of A\$52.6m, subject to standard net working capital adjustments. Acquisition costs totalling £0.9m have been incurred during 2020 in respect of the FFA acquisition and have been treated as exceptional in accordance with the Group's accounting policies. Further details on this post year end transaction are provided in note 38.

On 16 February 2021, the Group announced that it had agreed to acquire Whitney, Bradley & Brown, Inc ("WBB"), a leading provider of advisory, engineering and technical services to the US Military, for \$295m from an affiliate of H.I.G. Capital. The acquisition will increase the scale, breadth and capability of Serco's North American defence business and will give Serco a strong platform from which to address all major segments of the US defence services market. The acquisition will be immediately accretive to earnings and will be funded through existing debt facilities; it is expected to complete in the second quarter of 2021, subject to regulatory approvals. As the transaction is yet to complete, the financial results and impact of the transaction have not been recognised in these Consolidated Financial Statements.

During the period the Group finalised the integration of Naval Systems Business Unit ("NSBU"), completed the analysis of balances acquired as part of the transaction and made closing net working capital settlements with the vendor. Two main activities were undertaken that resulted in adjustments to the fair value of acquired assets and liabilities. There were no material impacts to the post-acquisition income statement. Firstly, the Group finalised its review of provisional working capital balances which resulted in fair value changes to both receivables and payables. Secondly, one of the acquired fixed price contracts required a revision to the provisional estimate of the costs required to complete the contract. The estimated cost of completion was increased as a result of a technical defect relating to machine parts that had been in place at the acquisition date and which became known through initial testing that completed during the first six months of 2020. As a result of these activities, the Group revised the fair values of the acquired assets and liabilities as at the transaction date as follows:

	Fair value as originally stated £m	Fair value adjustment* £m	Revised fair value £m
Goodwill	115.3	3.0	118.3
Acquisition related intangible assets	52.6	–	52.6
Property, plant and equipment	3.6	–	3.6
Trade and other receivables	46.6	(1.8)	44.8
Cash and cash equivalents	0.4	–	0.4
Deferred tax asset	0.9	–	0.9
Trade and other payables	(30.7)	(0.5)	(31.2)
Deferred tax liability	(2.4)	–	(2.4)
Acquisition date fair value of consideration transferred	186.3	0.7	187.0
Satisfied by:			
Cash	184.3	–	184.3
Deferred consideration	2.0	0.7	2.7
Total consideration	186.3	0.7	187.0

* The fair value adjustments recorded represent items that were in existence at the acquisition date and therefore have no impact on profits or losses subsequent to acquisition.

The total impact of acquisitions to the Group's cash flow position during the current period was as follows:

	£m
Deferred consideration paid in respect of historic acquisition:	
Carillion health contracts	0.9
NSBU	2.7
Anglia Support Partnership	1.3
Net cash outflow in relation to acquisitions	4.9
Exceptional acquisition related costs:	
NSBU	1.5
Facilities First	0.2
Net cash outflow related to acquisition costs	1.7
Net cash impact in the period on acquisitions	6.6

Costs associated with the acquisition of NSBU which were not directly related to the issue of shares or arrangement of the acquisition facility and costs associated with the acquisition of FFA are shown as exceptional costs in the Group's Consolidated Income Statement for the year. The total acquisition related costs recognised in exceptional items for the year ended 31 December 2020 was £2.4m, of which, as noted above, £1.7m were paid during the year.

8. Disposals

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). As part of the transaction, the Group received an amount of £11.0m for its share in the net assets of the joint venture. A summary of the disposal is as follows:

	Viapath £m
Consideration	11.0
Less: Investment in joint venture disposed of	–
Profit on disposal	11.0

The net cash inflow arising on disposal and the impact on both Net Debt and Adjusted Net Debt is:

	Viapath £m
Consideration	11.0
Less: Costs associated with the disposal	–
Net cash flow on disposal	11.0

As well as consideration for its share of the net assets of Viapath, the Group also received £2.9m for the Group's share of profits and £1.2m for loans due from Viapath.

Notes to the Consolidated Financial Statements continued

9. 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 2020	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	196.6	725.2	133.3	27.0	1,082.1
Justice & Immigration	393.7	—	328.1	—	721.8
Transport	143.6	84.7	7.7	194.2	430.2
Health	245.9	—	101.4	10.0	357.3
Citizen Services	797.6	254.4	148.4	93.0	1,293.4
	1,777.4	1,064.3	718.9	324.2	3,884.8
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	1.1	—	(0.8)	—	0.3
Revenue recognised at a point in time	14.2	—	0.8	—	15.0
Products and services transferred over time	1,762.1	1,064.3	718.9	324.2	3,869.5
	1,777.4	1,064.3	718.9	324.2	3,884.8
Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	215.9	575.5	89.5	28.1	909.0
Justice & Immigration	311.9	—	279.6	—	591.5
Transport	143.5	99.7	19.7	215.3	478.2
Health	259.9	—	94.8	30.2	384.9
Citizen Services	430.5	240.5	137.8	76.0	884.8
	1,361.7	915.7	621.4	349.6	3,248.4
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	3.3	—	(0.4)	—	2.9
Revenue recognised at a point in time	19.0	—	2.6	—	21.6
Products and services transferred over time	1,339.4	915.7	619.2	349.6	3,223.9
	1,361.7	915.7	621.4	349.6	3,248.4

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. The Group has not taken the practical expedient in IFRS15.121 not to disclose information about performance obligations that have original expected durations of one year or less and therefore no consideration from contracts with customers is excluded from the amounts included below.

In assessing the future transaction price, the judgements of most relevance are the future term over which the transaction price is calculated and the estimation of variable revenue to be included.

Where a contract with a customer includes, within the term of the committed contract, provisions for price-rebasing or a provision for market testing, revenue beyond these is included to the extent that there are no indicators which suggest that the contract will not continue past this point and it is highly probable that a significant reduction will not occur. Where there is a requirement for the Group, or a customer, to enter into a new contract, rather than continuing an existing contract, such an extension is not included for the purposes of calculating future transaction price.

Additionally, the Group has a small subset of contracts that contain a termination for convenience clause, for example due to national security considerations which are assumed by the Group not to be without cause. These contracts are considered to run for the full intended term for the purpose of calculating the transaction price allocated to remaining performance obligations, other than instances where the Group believes that termination will occur before the original contract end date.

Under the terms of certain contracts which the Group has with its customers, the Group's compensation for providing those services is based on volumes or other drivers of variable activity, such as additional activities awarded under existing contracts. These volumes are not guaranteed, however based on historic volumes and the nature of the contracts in operation, such as the provision of asylum seeker accommodation or passenger transport, Management are able to prepare a sufficiently reliable estimate of the minimum level of variable

revenue that is likely to be earned. As a result, variable revenue is included only to the level at which Management remain confident that a significant reduction will not occur.

As part of the considerations around variable revenue, Management consider the impact that factors such as contractual performance, anticipated demand and pricing (including indexation) may have on future revenue recognised. Management also 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 adjustment was identified in relation to existing contracts' future revenue forecasts.

	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Within 1 year (2021)	1,296.0	507.0	673.3	223.1	2,699.4
Between 2 – 5 years (2022 – 2025)	3,624.2	140.1	1,394.5	139.6	5,298.4
5 years and beyond (2026+)	3,751.5	0.2	1,647.6	145.1	5,544.4
	8,671.7	647.3	3,715.4	507.8	13,542.2

10. Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Other exceptional operating items

For the year ended 31 December	2020 £m	2019 £m
Exceptional items arising		
Exceptional profit on disposal of subsidiaries and operations	11.0	–
Other exceptional operating items		
Restructuring costs	0.1	(12.8)
Costs associated with UK Government review	(1.3)	(25.2)
Movement in other provisions and other items	2.6	19.3
Reversal of impairment in interest in joint venture and related loan balances	2.5	–
Costs associated with the acquisition of Naval Systems Business Unit	(1.5)	(4.7)
Costs associated with the acquisition of Facilities First Australia	(0.9)	–
Other exceptional operating items	1.5	(23.4)
Exceptional operating items	12.5	(23.4)
Exceptional tax	(0.4)	(2.7)
Total exceptional operating items net of tax	12.1	(26.1)

Exceptional items arising

As explained in note 8, the Group disposed of its interest in Viapath with effect from 31 May 2020. The Group had historically impaired its investment in Viapath as it was not receiving any returns from this joint venture due to the level of investment being made back into the business, therefore the carrying value of the Group's investment in Viapath was nil. Following the announcement during the first half of 2020 that Viapath had been unsuccessful in the tender process to provide pathology services to five South East London hospitals as well as associated GP surgeries, the Group exited the joint venture, selling its stake to the remaining two investors. In May 2020, the proceeds received by the Group in exchange for its holding in the joint venture represents the profit on disposal of £11.0m.

At the same time as disposing of the Group's interest in Viapath, certain historical balances were recovered which had previously been impaired. Since the impairments associated with those balances were historically treated as exceptional items, the reversals of these impairments have been treated consistently. The exceptional credit of £2.5m consists of the recovery of a loan from the Group into the joint venture of £1.2m, the exceptional element of the recovery of profit share which was previously considered to be irrecoverable and the reversal of impairment.

Other exceptional operating items

The Group recognised the final costs associated with the Strategy Review during 2019 and, on review, certain costs which had been accrued but were not incurred were released back to exceptional operating items resulting in a credit to exceptional items of £0.1m during 2020 (2019: exceptional restructuring costs of £12.8m). Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the year totalled £7.2m (2019: £8.9m) and were included within operating profit before exceptional items.

There were exceptional costs totalling £1.3m (2019: £25.2m) associated with the UK Government reviews and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2020. The 2019 costs included £22.9m for the fine and associated costs which resulted from the SFO's investigation into Serco companies.

Notes to the Consolidated Financial Statements continued

10. Exceptional items continued

During 2019, the Group reached a legal settlement in relation to a commercial dispute which resulted in the release of a provision which accounted for the majority of the £19.3m exceptional credit. The treatment of the release as exceptional was consistent with the recognition of the charge associated with the same legal matter in 2014. During 2020, the Group reached an agreement with its insurer for the reimbursement of £2.6m of legal fees associated with the matter and, consistent with the treatment of other associated amounts, this has been treated as an exceptional credit.

The Group completed the acquisition of Naval Systems Business Unit ("NSBU") from Alion Science and Technology in 2019. The transaction and implementation costs incurred during 2020 of £1.5m (2019: £4.7m) have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs incurred during the year ended 31 December 2019. No further costs associated with this acquisition are anticipated to be recognised as exceptional.

On 17 December 2020, the Group announced it has reached an agreement to acquire Facilities First Australia Holdings Pty Limited ("FFA" or "Facilities First Australia") and the acquisition was completed on 4 January 2021. Acquisition costs totalling £0.9m have been incurred during 2020 in respect of the FFA acquisition and have been treated as exceptional in accordance with the Group's accounting policies.

Exceptional tax

Exceptional tax for the year was a charge of £0.4m (2019: £2.7m charge) which arises on exceptional items within operating profit. This charge arises mainly in connection the reimbursement of legal fees from our insurer. The charge is partially offset by tax deductions related to the acquisition of Naval Systems Business Unit.

11. Operating profit

Operating profit is stated after charging/(crediting):

Year ended 31 December	2020 £m	2019 £m
Research and development costs	1.8	0.6
Profit on disposal of property, plant and equipment	(0.4)	(0.6)
Profit on early termination of leases	(2.9)	(0.9)
Loss on disposal of intangible assets	0.6	0.4
Depreciation and impairment of owned property, plant and equipment	16.2	17.7
Depreciation and impairment of leased property, plant and equipment	93.9	75.6
Amortisation and impairment of intangible assets – arising on acquisition	9.0	7.5
Amortisation, write down and impairment of intangible assets – other	14.0	18.1
Exceptional profit on disposal of subsidiaries and operations (note 8)	11.0	–
Staff costs (note 12)	1,753.9	1,573.6
Allowance for doubtful debts charged to income statement	1.9	2.9
Net foreign exchange charge	0.3	1.1
Movement on non-designated hedges and reclassified cash flow hedges	(0.3)	(0.2)
Lease payments recognised through operating profit *	5.6	5.5
Operating lease income from sub-leases	(1.6)	(1.6)

* The lease payments recognised in operating profit are those which have not been recorded in accordance with IFRS16 Leases due to their status as either short-term or low value.

Amounts payable by the Company and its subsidiary undertakings in respect of audit and non-audit services to the Company's Auditor are shown below.

Year ended 31 December	2020 £m	2019 £m
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	1.7	1.6
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	0.6	0.3
Total audit fees	2.3	1.9
– Audit-related assurance services	0.2	0.2
Total non-audit fees	0.2	0.2

Fees payable to the Company's Auditor for non-audit services to the Company are not required to be disclosed separately because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded, are set out in the Audit Committee Report on page 94. No services were provided pursuant to contingent fee arrangements.

12. Staff costs

The average number of persons employed by the Company (including Executive Directors) was:

Year ended 31 December	2020 number	2019 number
UK & Europe	20,649	21,626
Americas	8,014	6,795
AsPac	11,740	10,441
Middle East	4,198	4,340
Unallocated	729	727
	45,330	43,929

The average number of persons employed includes all permanent employees and those with fixed term contracts. It excludes self-employed contractors and other casual workers.

Aggregate remuneration of all employees based on the average number of employees reported above was:

Year ended 31 December	2020 £m	2019 £m
Wages and salaries	1,547.3	1,384.2
Social security costs	111.0	103.0
Other pension costs (note 31)	84.4	74.8
	1,742.7	1,562.0
Share based payment expense (note 35)	11.2	11.6
	1,753.9	1,573.6

13. Investment revenue

Year ended 31 December	2020 £m	2019 £m
Interest receivable on other loans and deposits	0.2	0.5
Net interest receivable on retirement benefit obligations (note 31)	1.2	2.1
Other dividends received	0.4	—
Movement in discount on other debtors	0.1	0.1
	1.9	2.7

14. Finance costs

Year ended 31 December	2020 £m	2019 £m
Interest payable on lease liabilities	9.5	6.9
Interest payable on other loans	15.3	13.9
Facility fees and other charges	2.1	1.7
Movement in discount on provisions	0.2	1.2
	27.1	23.7
Foreign exchange on financing activities	0.7	0.8
	27.8	24.5

15. Tax

15 (a) Income tax recognised in the income statement

Year ended 31 December	Before exceptional items 2020 £m	Exceptional items 2020 £m	Total 2020 £m	Before exceptional items 2019 £m	Exceptional items 2019 £m	Total 2019 £m
Current income tax						
Current income tax charge/(credit)	41.8	0.4	42.2	22.7	(1.1)	21.6
Adjustments in respect of prior years	(1.3)	—	(1.3)	(0.2)	—	(0.2)
Deferred tax						
Current year (credit)/charge	(23.5)	—	(23.5)	4.7	3.8	8.5
Adjustments in respect of prior years	1.9	—	1.9	0.2	—	0.2
	18.9	0.4	19.3	27.4	2.7	30.1

Notes to the Consolidated Financial Statements continued

15. Tax continued

The tax expense for the year can be reconciled to the profit in the Consolidated Income Statement as follows:

Year ended 31 December	Before exceptional items 2020 £m	Exceptional items 2020 £m	Total 2020 £m	Before exceptional items 2019 £m	Exceptional items 2019 £m	Total 2019 £m
Profit before tax	140.8	12.5	153.3	104.1	(23.4)	80.7
Tax calculated at a rate of 19.00% (2019: 19.00%)	26.7	2.4	29.1	19.7	(4.4)	15.3
Expenses not deductible for tax purposes*	6.5	(0.2)	6.3	0.9	4.4	5.3
UK unprovided deferred tax**	(4.2)	(1.9)	(6.1)	4.4	2.1	6.5
Other unprovided deferred tax	2.5	—	2.5	3.0	—	3.0
Effect of the use of unrecognised tax losses	(1.1)	—	(1.1)	—	—	—
Recognition of previously unrecognised UK tax losses	(9.5)	—	(9.5)	(0.9)	—	(0.9)
Impact of changes in statutory tax rates on current income tax	—	—	—	(0.2)	—	(0.2)
Overseas rate differences	7.2	0.1	7.3	5.9	0.6	6.5
Statutory tax benefits	—	—	—	(0.2)	—	(0.2)
Other non taxable income	(1.4)	—	(1.4)	(3.1)	—	(3.1)
Adjustments in respect of prior years***	0.6	—	0.6	—	—	—
Adjustments in respect of deferred tax on pensions	(5.9)	—	(5.9)	3.0	—	3.0
Adjustments in respect of equity accounted investments	(2.5)	—	(2.5)	(5.1)	—	(5.1)
Tax charge	18.9	0.4	19.3	27.4	2.7	30.1

* Relates to costs that are not allowable for tax deduction under local tax law.

** Arises due to timing differences between when an amount is recognised in the income statement and when the amount is subject to UK tax. In the current year, the Group has received tax credits for amounts which have been charged to the income statement in previous periods in connection with items such as fixed assets.

*** Included within adjustments in respect of prior years is a charge of £4.9m being an immaterial adjustment in the current year related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS16 Leases in 2019.

The income tax charge for the year is based on the UK statutory rate of corporation tax for the period of 19.00% (2019: 19.00%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

15 (b) Income tax recognised in the SOCI

Year ended 31 December	2020 £m	2019 £m
Deferred tax		
Relating to cash flow hedges	—	0.1
Taken to retirement benefit obligations reserve	(5.9)	2.7
	(5.9)	2.8

16. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using local substantively enacted tax rates.

The movement in net deferred tax assets during the year was as follows:

	2020 £m	2019 £m
At 1 January – asset	(37.2)	(39.5)
IFRS16 restatement	—	(5.1)
Opening asset restated	(37.2)	(44.6)
Income statement (credit)/charge*	(21.6)	8.7
Items recognised in equity and in other comprehensive income	5.9	(2.8)
Arising on acquisition	—	1.5
Exchange differences	(3.4)	—
At 31 December – asset	(56.3)	(37.2)

* Included within the income statement (credit)/charge is a charge of £4.9m being an immaterial adjustment in the current year related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS16 Leases in 2019.

The movement in deferred tax assets and liabilities during the year was as follows:

	Temporary differences on assets/intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	OCPs £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2020	24.4	(15.6)	6.8	(1.9)	(21.0)	(29.9)	(37.2)
Charged/(credited) to income statement (note 15a)*	2.8	(6.2)	–	1.3	(10.1)	(9.4)	(21.6)
Items recognised in equity and in other comprehensive income (note 15b)	–	–	5.9	–	–	–	5.9
Reclassification	–	(2.0)	2.0	–	–	–	–
Exchange differences	(1.7)	(0.9)	0.1	0.1	–	(1.0)	(3.4)
At 31 December 2020	25.5	(24.7)	14.8	(0.5)	(31.1)	(40.3)	(56.3)

* Included within other temporary differences is a charge of £4.9m being an immaterial adjustment in the current year related to the deferred tax impact of the derecognition of balance sheet liabilities recognised in retained earnings on implementation of IFRS16 Leases in 2019.

Other temporary differences include amounts such as provisions and accruals which, under certain tax laws, are only allowable when expended.

The reclassification between categories in the year reflects payments in connection with employees which are considered more akin to employee benefits than retirement benefit schemes.

The movement in deferred tax assets and liabilities during the previous year was as follows:

	Temporary differences on assets/intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	OCPs £m	Derivative financial instruments £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2019	24.6	(13.7)	9.9	(7.4)	–	(20.6)	(32.3)	(39.5)
IFRS16 restatement	(5.1)	–	–	–	–	–	–	(5.1)
Opening asset restated	19.5	(13.7)	9.9	(7.4)	–	(20.6)	(32.3)	(44.6)
Charged/(credited) to income statement (note 15a)	4.1	(1.6)	(0.4)	5.4	–	(0.4)	1.6	8.7
Items recognised in equity and in other comprehensive income (note 15b)	–	–	(2.7)	–	(0.1)	–	–	(2.8)
Arising on acquisition	2.4	(0.9)	–	–	–	–	–	1.5
Exchange differences	(1.6)	0.6	–	0.1	0.1	–	0.8	–
At 31 December 2019	24.4	(15.6)	6.8	(1.9)	–	(21.0)	(29.9)	(37.2)

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 is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax liabilities	26.9	26.7
Deferred tax assets	(83.2)	(63.9)
	(56.3)	(37.2)

As at the balance sheet date, the UK has a potential deferred tax asset of £189.9m (2019: £180.8m) available for offset against future profits. A deferred tax asset has currently been recognised of £30.6m (2019: £21.1m). Recognition has been based on forecast future taxable profits. Due to the history of tax losses within the UK, no deferred tax asset has been recognised in respect of the remaining asset (net £159.3m) due to the current absence of sufficient convincing evidence of further improvements in the UK profit forecast. Measures enacted during 2016 cut the future tax rate from April 2020 from 19% to 17%. However, the March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020 and this change was substantially enacted on 17 March 2020. These measures increase the Group's future current tax charge accordingly. The deferred tax balance at 31 December 2020 has been calculated reflecting the increased rate of 19%.

Losses of £0.1m (2019: £0.1m) expire within 5 years, losses of £0.5m (2019: £0.1m) expire within 6-10 years, losses of £0.7m (2019: £0.7m) expire within 20 years and losses of £1,052.3m (2019: £1,063.9m) may be carried forward indefinitely.

Notes to the Consolidated Financial Statements continued

17. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS33 *Earnings per Share*.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	2020 millions	2019 millions
Weighted average number of ordinary shares for the purpose of basic EPS	1,229.1	1,171.4
Effect of dilutive potential ordinary shares: Shares under award	25.2	27.6
Weighted average number of ordinary shares for the purpose of diluted EPS	1,254.3	1,199.0

Earnings per share

	Earnings 2020 £m	Per share amount 2020 pence	Earnings 2019 £m	Per share amount 2019 pence
Basic EPS				
Earnings for the purpose of basic EPS	133.8	10.89	50.4	4.31
Effect of dilutive potential ordinary shares	–	(0.22)	–	(0.10)
Diluted EPS	133.8	10.67	50.4	4.21
Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	133.8	10.89	50.4	4.31
Add back exceptional items	(12.5)	(1.02)	23.4	2.00
Add back tax on exceptional items	0.4	0.03	2.7	0.23
Earnings excluding exceptional items for the purpose of basic EPS	121.7	9.90	76.5	6.54
Effect of dilutive potential ordinary shares	–	(0.20)	–	(0.15)
Excluding exceptional items, diluted	121.7	9.70	76.5	6.39

18. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2019	919.2	(339.6)	579.6
Exchange differences	(31.5)	7.8	(23.7)
Acquisitions	115.3	–	115.3
Fair value adjustment*	3.0	–	3.0
At 31 December 2019*	1,006.0	(331.8)	674.2
Exchange differences	(11.6)	7.0	(4.6)
At 31 December 2020	994.4	(324.8)	669.6

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 1 January 2020* £m	Exchange differences 2020 £m	Goodwill balance 31 December 2020 £m	Headroom on impairment analysis 2020 £m	Headroom on impairment analysis 2019* £m
UK & Europe	183.2	1.2	184.4	688.5	799.2
Americas	379.1	(12.4)	366.7	658.3	417.3
AsPac	101.7	6.9	108.6	328.0	162.7
Middle East	10.2	(0.3)	9.9	103.2	63.3
	674.2	(4.6)	669.6	1,778.0	1,442.5

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

Included above is the detail of the headroom on the 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. The increase in headroom compared to 2019 is predominantly due to higher forecast cashflows as the Group continues to forecast growth across all divisions which in most instances outweighs the increase in discount rates. This is not the case in the UK & Europe CGU, where rising discount rates have meant a reduction in headroom, whilst the impact of increased future cash flows in the AsPac CGU is enhanced by a marginal reduction in discount rates.

The key quantifiable assumptions applied in the impairment review are set out below:

	Discount rate 2020 %	Discount rate 2019 %	Terminal growth rates 2020 %	Terminal growth rates 2019 %
UK & Europe	10.2	9.4	1.9	1.7
Americas	10.7	10.4	2.5	2.2
AsPac	9.4	9.7	2.2	2.3
Middle East	12.1	11.9	1.6	1.8

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.

Terminal growth rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources.

Short term growth rates

The annual impairment test is performed immediately prior to the year end, based initially on five-year cash flow forecasts approved by senior Management. Short term revenue growth rates used in each CGU five-year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

As explained in note 9, Management consider certain sectors in which the Group operates to be more exposed to environmental risks than others. For example, changes in consumer attitudes to aviation or the use of private vehicles, may have an impact on the Group's Transport contracts. Currently, no adjustment to existing contracts is required, although Management will continue to monitor the potential impact of environmental risks and will include these in future analysis as required.

Sensitivity analysis

Sensitivity analysis has been performed for each key assumption, a 1% movement in discount rates and a 1% movement in terminal growth rates are considered to be reasonably possible, as has a degree of estimation uncertainty in the cash flows associated with each CGU of up to 10% in the final year of the plan. Performing a sensitivity analysis on short term growth rates is not a numerical exercise, as growth rates are based on known opportunities and the likelihood of those opportunities being won and turned into resulting cash flows. In order to model a sensitivity scenario for short term growth rates, Management have calculated the growth rates over the five years of cash flows, restricted these to be equivalent to the long term growth rate, and assessed what change in discount rate would be required to have resulted in the same reduction in value in use. In doing so, Management have identified increases in discount rates of between 1.0% and 3.5% across CGUs. No impairment results from these changes even when these increases in discount rates, which reflect a reduction in short term growth rates, are combined with the additional 1% increase in discount rates and 1% reduction in terminal growth rates.

Notes to the Consolidated Financial Statements continued

19. Other intangible assets

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and IT £m	Internally generated development expenditure £m	
Cost					
At 1 January 2020	99.1	–	123.6	56.9	279.6
Additions – internal development	–	–	0.9	–	0.9
Additions – external	–	–	7.4	–	7.4
Disposals	(1.5)	–	(1.8)	–	(3.3)
Reclassification from property, plant and equipment	–	–	0.4	–	0.4
Exchange differences	(2.4)	–	1.4	–	(1.0)
At 31 December 2020	95.2	–	131.9	56.9	284.0
Accumulated amortisation and impairment					
At 1 January 2020	38.4	–	90.4	54.3	183.1
Amortisation charge – internal development	–	–	2.2	1.9	4.1
Amortisation charge – external	9.0	–	9.9	–	18.9
Disposals	(1.2)	–	(1.5)	–	(2.7)
Reclassification from property, plant and equipment	–	–	0.2	–	0.2
Exchange differences	(1.4)	–	1.0	0.2	(0.2)
At 31 December 2020	44.8	–	102.2	56.4	203.4
Net book value					
At 31 December 2020	50.4	–	29.7	0.5	80.6

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and IT £m	Internally generated development expenditure £m	
Cost					
At 1 January 2019	51.7	0.2	123.1	56.7	231.7
Arising on acquisition	52.6	–	–	–	52.6
Additions – internal development	–	–	1.8	0.4	2.2
Additions – external	–	–	4.6	–	4.6
Disposals	–	–	(4.7)	–	(4.7)
Reclassification (to)/from other intangible asset categories	–	(0.2)	0.1	0.1	–
Exchange differences	(5.2)	–	(1.3)	(0.3)	(6.8)
At 31 December 2019	99.1	–	123.6	56.9	279.6
Accumulated amortisation and impairment					
At 1 January 2019	32.2	0.1	82.8	49.3	164.4
Amortisation charge – internal development	–	–	9.1	5.3	14.4
Amortisation charge – external	7.4	0.1	3.7	–	11.2
Disposals	–	–	(4.3)	–	(4.3)
Reclassification (to)/from other intangible asset categories	–	(0.2)	0.2	–	–
Exchange differences	(1.2)	–	(1.1)	(0.3)	(2.6)
At 31 December 2019	38.4	–	90.4	54.3	183.1
Net book value					
At 31 December 2019	60.7	–	33.2	2.6	96.5

Customer relationships are amortised over the average length of contracts acquired. The Group is carrying £50.4m (2019: £60.7m) in relation to customer relationships. Amortisation of intangibles arising on acquisition consists of amortisation in relation to customer relationships and licences and franchises and totals £9.0m (2019: £7.5m).

The net book value of internally generated intangible assets as at 31 December 2020 was approximately £0.5m (2019: £2.6m) in development expenditure and £19.6m (2019: £20.7m) in software and IT.

20. Property, plant and equipment

	Freehold land and buildings Owned £m	Freehold land and buildings Leased £m	Short- leasehold assets Owned £m	Machinery, motor vehicles Owned £m	Machinery, motor vehicles Leased £m	Total £m
Cost						
At 1 January 2020	4.6	424.2	33.6	128.3	126.6	717.3
Additions	0.2	134.2	4.7	36.9	24.9	200.9
Reclassification (to)/from PPE category	(0.2)	0.2	–	2.5	(2.5)	–
Reclassifications to other intangible assets	–	–	–	(0.4)	–	(0.4)
Disposals	(0.3)	(78.2)	(6.3)	(34.4)	(12.2)	(131.4)
Exchange differences	–	(0.9)	(0.1)	0.5	(0.4)	(0.9)
At 31 December 2020	4.3	479.5	31.9	133.4	136.4	785.5
Accumulated depreciation and impairment						
At 1 January 2020	3.0	128.3	20.7	95.5	77.2	324.7
Charge for the year – impairment	–	0.2	–	0.3	0.2	0.7
Charge for the year – depreciation	0.2	73.7	3.1	12.6	19.8	109.4
Reclassification (to)/from PPE category	(0.2)	0.2	–	0.5	(0.5)	–
Reclassifications to other intangible assets	–	–	–	(0.2)	–	(0.2)
Disposals	(0.2)	(60.2)	(6.3)	(14.0)	(9.5)	(90.2)
Exchange differences	–	(0.6)	–	0.4	(0.4)	(0.6)
At 31 December 2020	2.8	141.6	17.5	95.1	86.8	343.8
Net book value						
At 31 December 2020	1.5	337.9	14.4	38.3	49.6	441.7

The impairment charge for the year includes £0.2m (2019: £16.5m) charged against right of use assets arising in the year on newly entered into leases on onerous contracts.

The additions for leased freehold land and buildings include £1.3m for dilapidation provisions and £0.3m credit for non cash lease incentives.

	Freehold land and buildings Owned £m	Freehold land and buildings Leased £m	Short- leasehold assets Owned £m	Machinery, motor vehicles Owned £m	Machinery, motor vehicles Leased £m	Total £m
Cost						
At 1 January 2019	4.3	0.3	30.3	96.1	77.6	208.6
Opening adjustment – IFRS16	–	171.0	–	–	41.2	212.2
Arising on acquisition	–	–	2.3	1.3	–	3.6
Additions	0.1	264.5	3.3	14.1	39.8	321.8
Reclassification from/(to) PPE category	0.2	(0.2)	0.5	27.7	(28.2)	–
Disposals	–	(6.2)	(2.0)	(9.4)	(2.3)	(19.9)
Exchange differences	–	(5.2)	(0.8)	(1.5)	(1.5)	(9.0)
At 31 December 2019	4.6	424.2	33.6	128.3	126.6	717.3
Accumulated depreciation and impairment						
At 1 January 2019	2.7	0.2	19.5	64.2	57.2	143.8
Opening adjustment – IFRS16	–	93.0	–	–	15.0	108.0
Charge for the year – impairment	–	–	0.1	2.3	16.5	18.9
Charge for the year – depreciation	0.1	40.8	3.3	11.9	18.3	74.4
Reclassification from/(to) PPE category	0.2	(0.2)	–	27.2	(27.2)	–
Disposals	–	(4.1)	(1.9)	(9.1)	(2.1)	(17.2)
Exchange differences	–	(1.4)	(0.3)	(1.0)	(0.5)	(3.2)
At 31 December 2019	3.0	128.3	20.7	95.5	77.2	324.7
Net book value						
At 31 December 2019	1.6	295.9	12.9	32.8	49.4	392.6

Notes to the Consolidated Financial Statements continued

21. Inventories

	2020 £m	2019 £m
Service spares, supplies & consumables	21.4	18.3
	21.4	18.3

The categorisation of inventory has been updated in the year in order to better present the nature of the inventory held by the Group.

22. Contract assets, trade and other receivables

Contract assets: Current	2020 £m	2019* £m
Accrued income and other unbilled receivables	278.0	264.5
Capitalised bid costs	2.8	3.8
Capitalised mobilisation and phase in costs	15.3	19.2
	296.1	287.5

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented at 31 December 2019. Further information on the fair value can be found in note 7.

The Group's Consolidated Balance Sheet includes capitalised bid and phase in costs that are realised as a part of the normal operating cycle of the Group. These assets represent up-front investment in contracts which are recoverable and expected to provide benefits over the life of those contracts. Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs can only be capitalised when the expenditure meets all three criteria identified in note 2.

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.

Movements in the period were as follows:

Capitalised bid and phase in costs	2020 £m	2019 £m
At 1 January	23.0	22.1
Additions	1.3	7.1
Amortisation	(6.8)	(6.7)
Reclassified from contract asset	–	0.9
Exchange differences	0.6	(0.4)
At 31 December	18.1	23.0

Total trade and other receivables held by the Group at 31 December 2020 amount to £338.8m (2019*: £346.4m).

Trade and other receivables: Non current	2020 £m	2019 £m
Trade receivables	3.1	7.3
Other investments	9.4	8.9
Prepayments	1.7	0.3
Security deposits	0.5	0.5
Other receivables	10.6	9.5
	25.3	26.5

Other non current receivables include long term employee compensation plans, advances and other non-trade receivables.

Trade and other receivables: Current	2020 £m	2019* £m
Trade receivables	244.3	254.2
Prepayments	45.5	42.1
Amounts owed by joint ventures and associates	0.2	0.6
Security deposits	0.2	0.2
Other receivables	23.3	22.8
	313.5	319.9

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

Other receivables include amounts due from third parties, advances paid to suppliers, employee benefit schemes and other non-trade receivables.

The management of trade receivables is the responsibility of the operating segments, although they report to Group on a monthly basis on debtor days, debtor ageing and significant outstanding debts. The average credit period taken by customers is 23 days (2019*: 29 days) and no interest was charged on overdue amounts in the current or prior reporting period.

Each customer has an external credit score which determines the level of credit provided. However, the majority of our customers have a sovereign credit rating as a result of being government organisations. Of the trade receivables balance at the end of the year, £63.5m is due from agencies of the UK Government, the Group's largest customer, £57.1m from the Australian Government, £42.7m from the Government of the United Arab Emirates and £27.8m from the US Government. There are no other customers who represent more than 5% of the total balance of trade receivables. Of the trade receivables balance at the end of 2019, £51.8m was due from agencies of the UK Government. The maximum potential exposure to credit risk in relation to trade receivables at the reporting date is equal to their carrying value. The Group does not hold any collateral as security.

The Group does not have any material impairments associated with expected credit losses due to the sovereign credit rating of most customers. Further specific impairments to trade receivables are based on estimated irrecoverable amounts and provisions on outstanding balances greater than a year old unless there is firm evidence that the balance is recoverable. The total amount of these impairments for the Group was £7.0m as of 31 December 2020 (2019: £5.5m).

Ageing of trade receivables	2020 £m	2019* £m
Not due	175.5	188.7
Overdue by less than 30 days	49.1	43.7
Overdue by between 30 and 60 days	5.5	6.4
Overdue by more than 60 days	21.2	20.9
Allowance for doubtful debts	(7.0)	(5.5)
	244.3	254.2

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Combinations*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

Of the total overdue trade receivable balance, 73% (2019: 70%) 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	2020 £m	2019 £m
At 1 January	5.5	2.8
Net charges and releases to income statement	1.9	2.9
Utilised	(0.2)	(0.1)
Exchange differences	(0.2)	(0.1)
At 31 December	7.0	5.5

Included in the current other receivables balance is a further £0.2m (2019: £1.0m) due from agencies of the UK Government.

Notes to the Consolidated Financial Statements continued

23. Cash and cash equivalents

	Sterling 2020 £m	Other currencies 2020 £m	Total 2020 £m	Sterling 2019 £m	Other currencies 2019 £m	Total 2019 £m
Customer advance payments*	–	0.1	0.1	–	0.2	0.2
Other cash and short-term deposits	243.6	92.0	335.6	33.3	56.0	89.3
Total cash and cash equivalents	243.6	92.1	335.7	33.3	56.2	89.5

* Customer advance payments totalling £0.1m (2019: £0.2m) are encumbered cash balances.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

24. Contract liabilities, trade and other payables

Contract liabilities: Current	2020 £m	2019 £m
Deferred income	42.3	66.8
Contract liabilities: Non current	2020 £m	2019 £m
Deferred income	47.5	58.2

The allocation of deferred income between current and non current is presented on the basis that the current portion will unwind in the following twelve months through revenue. There were no material items in the current portion of deferred income in 2019 which did not unwind during the year.

Total trade and other payables held by the Group at 31 December 2020 amount to £543.3m (2019: £504.7m).

Trade and other payables: Current	2020 £m	2019* £m
Trade payables	99.6	100.8
Other payables	134.5	94.6
Accruals	299.8	294.8
	533.9	490.2

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Contributions*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

The average credit period taken for trade purchases is 25 days (2019: 26 days).

The range of costs included in the calculation of the average credit period taken has been updated in 2020 to better reflect the nature of the Group's purchases. The average credit period for 2019 has been adjusted to ensure that the calculation is consistent with the method used for the current year. Using the prior year calculation method, the average credit period in 2020 would be 32 days (2019: 36 days).

Trade and other payables: Non current	2020 £m	2019 £m
Other payables	9.4	14.5

25. Leases

The Directors estimate that the fair value of the Group's lease obligations approximates their carrying amount. The Group uses leases in the delivery of its contractual obligations and the services required to support the delivery of those contracts, including administrative functions. There are no material future cash flows relating to leases in place as at 31 December 2020 that are not reflected in the minimum lease payments disclosed above and the Group does not have any leases to which it is contracted but which are not yet reflected in the minimum lease payments. Additionally, the Group does not have any leases where payments are variable. As explained in note 3, the Group has a significant number of leases which include either termination or extension options, or both. The amounts included in amounts payable under leases below represents Management's best estimate of the mix of options likely to be exercised in line with current operational requirements.

No lease liability is recognised in respect of leases which have a lease term of less than twelve months in duration at the point of entering into the lease, or where the purchase price of the underlying right of use asset is less than £5,000.

The Group has not materially benefitted from the amendment to IFRS16 issued during the year which allows rent concessions to be recognised directly in the income statement.

	Minimum lease payments 2020 £m	Minimum lease payments 2019 £m
Amounts payable under leases		
Within one year	115.3	93.3
Between one and five years	228.9	226.5
After five years	90.5	69.7
	434.7	389.5
Less: future finance charges	(32.1)	(19.6)
Present value of lease obligations	402.6	369.9
Less: amount due for settlement within one year (shown within current liabilities)	(109.3)	(84.6)
Amount due for settlement after one year	293.3	285.3

The following amounts are included in the Group's Consolidated Financial Statements in respect of its leases:

	Note	2020 £m	2019 £m
Additions to right of use assets (including transitional adjustments)	20	159.1	516.5
Depreciation charge on right of use assets (including transitional adjustments)	20	(93.5)	(167.1)
Impairment of right of use assets	20	(0.4)	(16.5)
Net disposals of right of use assets	20	(20.7)	(2.3)
Net reclassifications (from)/to right of use assets	20	(2.0)	(1.0)
Net exchange differences on right of use assets	20	(0.3)	(4.8)
Carrying amount of right of use assets	20	387.5	345.3
Current lease liabilities	25	109.3	84.6
Non current lease liabilities	25	293.3	285.3
Capital element of lease repayments		(100.8)	(70.2)
Interest expense on lease liabilities	14	(9.5)	(6.9)
Profit on early termination of leases	11	2.9	0.9
Expenses relating to short-term or low value leases	11	(5.6)	(5.5)

26. Loans

	Total 2020 £m	Total 2019 £m
Loans are repayable as follows:		
On demand or within one year	89.7	56.1
Between one and two years	64.9	93.9
Between two and five years	124.6	155.0
After five years	109.6	–
	388.8	305.0
Less: amount due for settlement within one year (shown within current liabilities)	(89.7)	(56.1)
Amount due for settlement after one year	299.1	248.9

Included within amounts repayable within one year is £nil (2019: £50.0m) related to the draw down on the revolving credit facility. See note 23 for cash balances available.

	Carrying amount 2020 £m	Fair value 2020 £m	Carrying amount 2019 £m	Fair value 2019 £m
Loans	388.8	397.8	305.0	304.9
	388.8	397.8	305.0	304.9

The fair values are based on cash flows discounted using a market rate appropriate to the loan. All loans are held at amortised cost.

Notes to the Consolidated Financial Statements continued

26. Loans continued

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 2020 £m	Cash flow £m	Exchange differences £m	Non cash movements £m	At 31 December 2020 £m	
Loans payable	(305.0)	(99.4)	15.6	–	(388.8)	
Lease obligations	(369.9)	100.8	0.9	(134.4)	(402.6)	
Liabilities arising from financing activities	(674.9)	1.4	16.5	(134.4)	(791.4)	
Cash and cash equivalents	89.5	244.4	1.8	–	335.7	
Derivatives relating to Net Debt	1.0	–	(5.7)	–	(4.7)	
Net Debt	(584.4)	245.8	12.6	(134.4)	(460.4)	
	At 1 January 2019 £m	Opening adjustment – IFRS16 £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	
					Non cash movements £m	
					At 31 December 2019 £m	
Loans payable	(239.5)	–	(72.3)	–	6.7	0.1
Lease obligations	(14.8)	(129.1)	70.2	–	4.7	(300.9)
Liabilities arising from financing activities	(254.3)	(129.1)	(2.1)	–	11.4	(300.8)
Cash and cash equivalents	62.5	–	28.4	0.4	(1.8)	–
Derivatives relating to Net Debt	3.8	–	–	–	(2.8)	–
Net Debt	(188.0)	(129.1)	26.3	0.4	6.8	(300.8)
						(584.4)

* Acquisitions represent the net cash/(debt) acquired on acquisition.

27. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2020	62.1	13.3	16.5	69.9	161.8
Charged to income statement – exceptional	0.1	–	–	1.0	1.1
Charged to income statement – other	25.5	5.5	5.7	6.0	42.7
Released to income statement – exceptional	(0.2)	–	–	–	(0.2)
Released to income statement – other	(0.7)	(3.1)	(5.9)	(6.2)	(15.9)
Included in the valuation of right of use asset	–	1.3	–	–	1.3
Utilised during the year	(5.8)	(1.7)	(1.8)	(6.2)	(15.5)
Unwinding of discount	–	0.2	–	–	0.2
Exchange differences	2.2	0.2	–	0.1	2.5
At 31 December 2020	83.2	15.7	14.5	64.6	178.0
Analysed as:					
Current	20.9	5.8	13.8	21.6	62.1
Non current	62.3	9.9	0.7	43.0	115.9
	83.2	15.7	14.5	64.6	178.0

Employee related provisions are for long-term service awards and terminal gratuity liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until rewards fall due and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

The majority of property provisions relate to leased properties and are associated with the requirement to return properties to either their original condition, or to enact specific improvement activities in advance of exiting the lease. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in June 2039.

The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. Individual provisions are only discounted where the impact is assessed to be significant. Currently, no contract provisions are discounted. Discount rates are calculated based on the estimate risk-free rate of interest for the region in which the provision is located and matched against the ageing profit of the provision.

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Company expects to incur over an extended period, in respect of past events for which a provision has been recorded. These costs are based on past experience of similar items and other known factors and represent Management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next twelve months or over a longer period with the majority expected to be settled by 31 December 2023.

28. Capital and other commitments

Capital expenditure contracted but not provided	2020 £m	2019 £m
Property, plant and equipment	6.6	21.0
Intangible assets	3.4	0.8

29. Contingent liabilities

The Company has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £3.8m (2019: £4.3m). The actual commitment outstanding at 31 December 2020 was £3.8m (2019: £4.3m).

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 2020 was £247.9m (2019: £257.5m).

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and, therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

The Group is in discussion with HMRC regarding the application of certain employer duties from April 2017. The Group has received strong legal opinion that a court is likely to find in the Group's favour and therefore no provision has been recorded on the balance sheet in respect of the matter. Due to the range of subjective outcomes it is not possible to disclose any meaningful quantitative amount associated with any liability where a cost to the Group of nil continues to be the most likely outcome.

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.

30. Financial risk management

30 (a) Fair value of financial instruments

i) Hierarchy of fair value

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: Inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 31 December 2020 and the comparison fair values for loans and leases, are all considered to fall into Level 2. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. There have been no transfers between levels in the year.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

The Group held the following financial instruments which fall within the scope of IFRS9 *Financial Instruments* at 31 December:

	Carrying amount (measurement basis)			Comparison fair value	Carrying amount* (measurement basis)			Comparison fair value*		
	Amortised cost 2020 £m	Fair value – Level 2 2020 £m	2020 £m		Amortised cost 2019 £m	Fair value – Level 2 2019 £m	2019 £m			
Financial assets										
Financial assets – current										
Cash and bank balances	335.7	–	335.7	89.5	–	89.5				
Derivatives designated as FVTPL										
Forward foreign exchange contracts	–	4.5	4.5	–	2.9	2.9				
Derivative instruments in designated hedge accounting relationships										
Forward foreign exchange contracts	–	–	–	–	0.1	0.1				
Receivables										
Trade receivables (note 22)	244.3	–	244.3	254.2	–	254.2				
Security deposits (note 22)	0.2	–	0.2	0.2	–	0.2				
Amounts owed by joint ventures and associates (note 22)	0.2	–	0.2	0.6	–	0.6				
Financial assets – non current										
Receivables										
Trade receivables (note 22)	3.1	–	3.1	7.3	–	7.3				
Other investments (note 22)	9.4	–	9.4	8.9	–	8.9				
Security deposits (note 22)	0.5	–	0.5	0.5	–	0.5				
Financial liabilities – current										
Derivatives designated as FVTPL										
Forward foreign exchange contracts	–	(9.2)	(9.2)	–	(1.8)	(1.8)				
Derivative instruments in designated hedge accounting relationships										
Forward foreign exchange contracts	–	(0.1)	(0.1)	–	(0.1)	(0.1)				
Financial liabilities at amortised cost										
Trade payables (note 24)	(99.6)	–	(99.6)	(100.8)	–	(100.8)				
Loans (note 26)	(89.7)	–	(91.2)	(56.1)	–	(56.1)				
Lease obligations (note 25)	(109.3)	–	(109.3)	(84.6)	–	(84.6)				
Financial liabilities – non current										
Derivative instruments in designated hedge accounting relationships										
Forward foreign exchange contracts	–	(0.1)	(0.1)	–	–	–				
Financial liabilities at amortised cost										
Loans (note 26)	(299.1)	–	(306.6)	(248.9)	–	(248.8)				
Lease obligations (note 25)	(293.3)	–	(293.3)	(285.3)	–	(285.3)				

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Contributions*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

ii) Fair value of derivative financial instruments

The fair value of derivative financial instruments results in a net liability of £4.9m (2019: net assets of £1.1m) comprising current assets of £4.5m (2019: £3.0m), current liabilities of £9.3m (2019: £1.9m) and non current liabilities of £0.1m (2019: £nil).

	1 January 2020 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2020 £m
Forward foreign exchange contracts	1.1	(0.2)	(5.8)	(4.9)
	1.1	(0.2)	(5.8)	(4.9)
	1 January 2019 £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 2019 £m
Cross currency swaps	5.1	(5.1)	–	–
Forward foreign exchange contracts	(1.0)	–	2.1	1.1
	4.1	(5.1)	2.1	1.1

The fair value of financial liabilities recognised at fair value through profit and loss is £9.2m (2019: £1.8m) 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.

30 (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.

30 (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 2020 £m	Drawn 2020 £m	Utilised for bonding facility 2020 £m	Total facility available 2020 £m
Syndicated revolving credit facility	Sterling	250.0	–	–	250.0
Term loan facility	Sterling	45.0	45.0	–	–
	Currency	Amount 2019 £m	Drawn 2019 £m	Utilised for bonding facility 2019 £m	Total facility available 2019 £m
Syndicated revolving credit facility	Sterling	250.0	50.0	–	200.0
Term loan facility	Sterling	45.0	45.0	–	–

In October 2020, the Group issued \$200m (£155.9m) of new US private placement notes. In total, the Group has £346.7m (2019: £213.0m) of US private placement loan notes which will be repaid as bullet repayments between 2021 and 2032.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

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 2020	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Trade payables (note 24)	99.6	–	–	–	99.6
Obligations under leases (note 25)	109.3	79.2	131.1	83.0	402.6
Loans* (note 26)	90.9	65.8	125.1	109.9	391.7
Future loan interest	15.2	10.8	21.8	16.1	63.9
Derivatives settled on gross basis:					
Outflow	1,007.8	–	–	–	1,007.8
Inflow	(1,003.2)	–	–	–	(1,003.2)
	319.6	155.8	278.0	209.0	962.4

* Loans are stated gross of capitalised finance costs.

At 31 December 2019	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 24)	100.8	–	–	–	100.8
Obligations under leases (note 25)	84.6	75.2	142.9	67.2	369.9
Loans* (note 26)	56.1	93.9	157.9	–	307.9
Future loan interest	12.3	10.7	12.5	–	35.5
Derivatives settled on gross basis:					
Outflow	407.6	–	–	–	407.6
Inflow	(398.2)	–	–	–	(398.2)
	263.2	179.8	313.3	67.2	823.5

* Loans are stated gross of capitalised finance costs.

Gross cash flows in the table above relating to forward foreign exchange contracts total £1,003.2m (inflow) and £1,007.8m (outflow) on demand or within one year (2019: £398.2m (inflow) and £407.6m (outflow) on demand or within one year).

30 (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 2020, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or highly probable forecast transactions.

ii) Translational

Where possible the Group will raise external funding to match the currency profile of its foreign operations, in order to mitigate translation exposure. If matched funding is not possible, currency derivatives may be used to protect against movements in foreign exchange.

iii) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Details of the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IFRS9 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:

	2020 £m	2019 £m
Sterling	(6.0)	(3.3)
US Dollar	–	0.3
Indian Rupee	6.0	3.0

All derivatives designated as cash flow hedges are highly effective and as at 31 December 2020, a net fair value loss of £0.2m (2019: £0.1m gain) has been deferred in the hedging reserve. During the year to 31 December 2020, £0.1m (2019: £nil) of fair value losses were transferred to the hedging reserve and £0.1m (2019: £0.1m) reclassified to the Consolidated Income Statement.

iv) Currency sensitivity

The Group's currency exposures in respect of monetary items at 31 December 2020 that result in net currency gains and losses in the income statement and equity arise principally from movement in US Dollar and Euro exchange rates. The impact of a 10% movement is summarised below:

	Pre-tax profits gain/(loss) 2020 £m	Equity gain/ (loss) 2020 £m	Pre-tax profits gain/(loss) 2019 £m	Equity gain/ (loss) 2019 £m
US Dollar	(0.1)	–	0.8	–
Euro	–	–	0.1	–
Indian Rupee	–	(0.6)	–	(0.3)
	(0.1)	(0.6)	0.9	(0.3)

30 (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 2020 £m	Fixed rate 2020 £m	Weighted average interest rate 2020 %	Floating rate 2019 £m	Fixed rate 2019 £m	Weighted average interest rate 2019 %
Cash and cash equivalents	335.7	–	–	89.5	–	–

Financial liabilities	Floating rate 2020 £m	Fixed rate 2020 £m	Weighted average interest rate 2020 %	Floating rate 2019 £m	Fixed rate 2019 £m	Weighted average interest rate 2019 %
US Dollar loans	–	346.7	4.6	–	213.0	5.3
Other loans	45.0	–	1.5	95.0	–	2.1
	45.0	346.7	4.3	95.0	213.0	4.3

Exposure to interest rate fluctuations is mitigated through the issuance of fixed rate debt and the use of interest rate derivatives. Excluded from the above analysis is £402.6m (2019: £369.9m) of amounts payable under leases, which are subject to fixed rates of interest.

ii) Interest rate sensitivity

The effect of a 100 basis point increase in LIBOR rates on the net financial liability position (excluding leases) at the balance sheet date, with all other variables held constant, would have resulted in a £2.9m increase in pre-tax profit for the year to 31 December 2020 (2019: decrease of £0.1m).

30 (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 2020 (2019: none).

The Group's Treasury function only transacts with counterparties that comply with Board policy. 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 2020, the Company has issued guarantees in respect of certain joint ventures and associates as per note 29.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

30 (g) Capital risk

The Board's objective is to maintain a capital structure that supports the Group's strategic objectives, including but not limited to reshaping the portfolio through mergers, acquisitions and disposals. In doing so the Board seeks to manage funding and liquidity risk, optimise shareholder return and maintain an implied investment grade credit position. This strategy is unchanged from the prior year.

The Board reviews and approves at least annually a treasury policy document which covers, inter alia, funding and liquidity risk, capital structure and risk management. This policy details targets for committed funding headroom, diversification of committed funding and debt maturity profile.

The Group plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders.

The following table summarises the capital of the Group:

	2020 £m	2019* £m
Cash and cash equivalents	(335.7)	(89.5)
Loans	388.8	305.0
Obligations under leases	402.6	369.9
Equity	715.0	542.9
Capital	1,170.7	1,128.3

* During the year ended 31 December 2020, but within twelve months of the date of the acquisition, the Group finalised fair value measurements for a number of contracts, which had previously been provisionally valued, associated with the acquisition of Naval Systems Business Unit which was completed 1 August 2019. As a result, in accordance with IFRS3 *Business Contributions*, goodwill has been revised and the fair value of acquired assets and liabilities have been adjusted, resulting in an amendment to their carrying value as presented as at 31 December 2019. Further information on the fair value can be found in note 7.

31. Retirement benefit schemes

31 (a) Defined benefit schemes

i) Characteristics and risks

The Group contributes to defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. The normal contributions expected to be paid during the financial year ending 31 December 2021 are £8.0m (2020: £12.7m).

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2018 and resulted in an actuarially assessed deficit of £26.0m for funding purposes. Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. As at 31 December 2020 the estimated actuarial deficit of SPLAS was £20.0m (2019: £27.0m) based on the actuarial assessment on the funding basis whereas the accounting valuation resulted in an asset of £114.6m (2019: £78.3m). The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions.

The scheme was comfortably on track to achieve full funding on the funding basis by March 2028 as planned in the 2018 valuation. As a scheme well hedged for inflation risk, the impact of RPI reform is significant at a £65m increase to liabilities. This will be partially offset by changes to mortality assumptions and the scheme will work with the Trustees during the 2021 valuation process to address the impact on the funding level.

A revised schedule of contributions for SPLAS was agreed during 2019, with 30.8% of pensionable salaries due to be paid from 1 November 2019, changing to 30.3% from 1 November 2020. The schedule of contributions also determined that additional shortfall contributions were required. A total of £9.2m of these have already been made, with further amounts of £4.0m due in March 2021 then £1.7m for the years 2022 to 2028.

The assets of funded schemes are held independently of the Group's assets in separate trustee administered schemes. The trustees of each pension scheme are required by law to act in the interest of the scheme and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regard to the assets of the scheme. The Group's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost method for accounting purposes. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions including discount rates to determine the present value of benefits, inflation assumptions, projected rates of salary growth and life expectancy of pension plan members. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Pension assets and liabilities in the different defined benefit schemes are not offset.

The schemes typically expose the Group to risks that impact the financial performance and position of the Group and may affect the amount and timing of future cash flows. The key risks are set out below:

- Investment risk. The schemes hold assets with which to discharge the future liabilities of these schemes. Any decline in the value of these investments directly impacts on the ability of the scheme to meet its commitments and could require the Group to fund this shortfall in future years. As a result of the SPLAS's investment strategy, which aims to reduce volatility risk by better matching assets to liabilities, 46% of the scheme's assets are annuity policies, 27% are Liability Driven Investments (LDIs) and the remainder is split between equities, bonds, pooled investment funds and cash or cash equivalents. The annuity policies result in an insurer funding the future benefit payments to the relevant members and therefore eliminate the risk of changes in the future value of the benefits to the scheme. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays and are therefore linked to the key drivers of the scheme's liabilities. The value of these investments vary in line with gilt yields, which have decreased from 2.05% p.a. to 1.39% p.a. during 2020 resulting in an increase in the value of these assets. SPLAS previously identified an investment strategy consisting of Multi-Asset Absolute Return (MAAR), Buy and Maintain credit (B&M) and LDI. SPLAS previously transferred assets to a passive LDI portfolio managed by BlackRock, over the course of late 2016 and early 2017. This ensures that the scheme remains protected against changes to interest rates and long term inflation expectations, with the funding level therefore being relatively stable. The Buy and Maintain credit implementation comprised of four tranches, the last of which completed during 2020.
- Interest risk. The present values of the defined benefit schemes' liabilities are calculated using a discount rate determined by reference to high quality corporate bond yields and therefore a decrease in the bond interest rate will increase the schemes' liabilities. This will be partially offset by an increase in the return of the schemes' debt investments.
- Longevity risk. The present values of the defined benefit schemes' liabilities are calculated by reference to the best estimate of the mortality of the schemes' participants both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liabilities.
- Inflation risk. The present values of the defined benefit schemes' liabilities are calculated to include the effect of inflation on future purchasing power based on estimations around inflation rates. An increase in expected future inflation rates will increase the schemes' liabilities.
- Salary risk. The present values of the defined benefit schemes' liabilities are calculated by reference to the future salaries of the schemes' participants, as such, an increase in the salary of the schemes' participants will increase the schemes' liabilities.

The defined benefit schemes are grouped together as follows:

- Contract specific. These are pre-funded defined benefit schemes. Under contractual arrangements the Group sponsors a section of an industry wide defined benefit scheme, the Railways Pension Scheme (RPS), paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund a deficit at the end of the franchise period and any costs are shared 60% by the employer and 40% by the members. The Group also makes contributions under Admitted Body status to a number of sections of the Local Government Pension Scheme for the period to the end of the relevant customer contracts. The Group will only participate in the Local Government Pension Schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions. In addition, the Group may be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Group recognises a sufficient level of provision in these financial statements based on the IAS19 Employee Benefits valuation at the reporting date and contractual obligations.
- Non-contract specific. These do not relate to any specific contract and consist of two pre-funded defined benefit schemes and an unfunded defined benefit scheme. Any liabilities arising are recognised in full and the liabilities in relation to the unfunded scheme amount to £0.3m (2019: £0.4m). The unfunded scheme is the only non-UK scheme in which the Group participates. The funding policy for the pre-funded schemes is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis. One of these schemes is SPLAS and the other is a non-contract specific section of the RPS.

ii) Events in the year

The Group agreed with the Trustees of SPLAS a staggered schedule for the £4.0m deficit recovery payment which originally fell due in March 2020 during the period when the impact of Covid-19 on the Group's cash flows was being evaluated. Following that review, the outstanding instalments were paid in June 2020. A further £4.0m due for payment in March 2021 will be paid in tranches from January 2021 to March 2021 as a gesture of goodwill for the Trustees agreeing to the delayed payments in 2020.

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

iii) Values recognised in total comprehensive income in the year

The amounts recognised in the Consolidated Financial Statements for the year are analysed as follows:

	Contract specific 2020 £m	Non contract specific 2020 £m	Total 2020 £m
Recognised in the income statement			
Current service cost – employer	1.2	3.5	4.7
Administrative expenses and taxes	0.1	1.5	1.6
Recognised in arriving at operating profit after exceptionals			
Interest income on scheme assets – employer	(0.2)	(29.1)	(29.3)
Interest on franchise adjustment	(0.1)	–	(0.1)
Interest cost on scheme liabilities – employer	0.4	27.8	28.2
Finance cost/(income)	0.1	(1.3)	(1.2)

	Contract specific 2020 £m	Non contract specific 2020 £m	Total 2020 £m
Included within the SOCI			
Actual return on scheme assets	0.1	216.7	216.8
Less: interest income on scheme assets	(0.3)	(29.1)	(29.4)
Effect of changes in demographic assumptions			
Effect of changes in financial assumptions	0.4	–	0.4
Effect of experience adjustments	(3.6)	(170.0)	(173.6)
Remeasurements	(0.6)	4.6	4.0
Change in franchise adjustment	(4.0)	22.2	18.2
Change in members' share	2.5	–	2.5
Actuarial profit on reimbursable rights	1.3	0.1	3.9
Total pension (loss)/gain recognised in the SOCI	(0.2)	22.3	22.1

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Recognised in the income statement			
Current service cost – employer	1.1	3.2	4.3
Past service cost	0.2	1.2	1.4
Administrative expenses and taxes	–	2.0	2.0
Recognised in arriving at operating profit after exceptionals	1.3	6.4	7.7
Interest income on scheme assets – employer	(0.4)	(37.5)	(37.9)
Interest on franchise adjustment	(0.1)	–	(0.1)
Interest cost on scheme liabilities – employer	0.5	35.4	35.9
Finance income	–	(2.1)	(2.1)

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Included within the SOCI			
Actual return on scheme assets	2.8	125.3	128.1
Less: interest income on scheme assets	(0.5)	(37.6)	(38.1)
Effect of changes in demographic assumptions			
Effect of changes in financial assumptions	2.3	40.6	39.9
Effect of experience adjustments	(0.7)	(143.8)	(148.6)
Remeasurements	(4.8)	–	(1.6)
Change in franchise adjustment	(3.2)	(1.6)	(20.3)
Change in members' share	2.0	0.1	2.0
Actuarial profit on reimbursable rights	1.1	–	1.2
Total pension loss recognised in the SOCI	3.1	0.1	3.2
	(0.1)	(17.0)	(17.1)

iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Contract specific 2020 £m	Non contract specific 2020 £m	Total 2020 £m
Scheme assets at fair value			
Equities	11.3	44.3	55.6
Bonds except LDIs	4.1	363.2	367.3
Pooled investment funds	–	62.8	62.8
LDIs	–	408.3	408.3
Property	1.6	–	1.6
Cash and other	4.1	10.6	14.7
Annuity policies	–	690.2	690.2
Fair value of scheme assets	21.1	1,579.4	1,600.5
Present value of scheme liabilities	(37.0)	(1,497.8)	(1,534.8)
Net amount recognised	(15.9)	81.6	65.7
Franchise adjustment*	8.4	–	8.4
Members' share of deficit	5.6	–	5.6
Net retirement benefit asset	(1.9)	81.6	79.7
Net pension liability	(1.9)	(33.0)	(34.9)
Net pension asset	–	114.6	114.6
Net retirement benefit asset	(1.9)	81.6	79.7
Deferred tax liabilities	–	(15.2)	(15.2)
Net retirement benefit asset (after tax)	(1.9)	66.4	64.5

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Scheme assets at fair value			
Equities	10.8	43.9	54.7
Bonds except LDIs	4.1	298.1	302.2
LDIs	–	447.4	447.4
Property	1.7	–	1.7
Cash and other	4.1	5.1	9.2
Annuity policies	–	614.0	614.0
Fair value of scheme assets	20.7	1,408.5	1,429.2
Present value of scheme liabilities	(31.1)	(1,353.4)	(1,384.5)
Net amount recognised	(10.4)	55.1	44.7
Franchise adjustment*	5.8	–	5.8
Members' share of deficit	3.8	–	3.8
Net retirement benefit asset	(0.8)	55.1	54.3
Net pension liability	(0.8)	(23.2)	(24.0)
Net pension asset	–	78.3	78.3
Net retirement benefit asset	(0.8)	55.1	54.3
Deferred tax liabilities	–	(9.2)	(9.2)
Net retirement benefit asset (after tax)	(0.8)	45.9	45.1

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets, assuming the full settlement of plan liabilities in the event of a plan wind-up. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Group either in the form of future refunds or, for plans still open to benefit accrual, in the form of possible reductions in future contributions.

As required by IAS19 *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 IFRS13 *Fair Value Measurement*. Virtually all equity and debt instruments have quoted prices in active markets. Annuity policies, private debt mandates and property assets can be classified as Level 3 instruments, and LDIs are classified as Level 2.

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

	Contract specific £m	Non contract specific £m	Total £m
Changes in the fair value of scheme liabilities			
At 1 January 2019	23.8	1,263.3	1,287.1
Current service cost – employer	1.0	3.2	4.2
Current service cost – employee	0.5	–	0.5
Past service costs	0.2	1.2	1.4
Scheme participants' contributions	0.1	0.2	0.3
Interest cost – employer	0.5	35.5	36.0
Interest cost – employee	0.1	–	0.1
Benefits paid	(0.6)	(54.9)	(55.5)
Effect of changes in demographic assumptions	0.7	(40.6)	(39.9)
Effect of changes in financial assumptions	4.8	143.9	148.7
Effect of experience adjustments	–	1.6	1.6
At 1 January 2020	31.1	1,353.4	1,384.5
Current service cost – employer	1.2	3.5	4.7
Current service cost – employee	0.7	–	0.7
Scheme participants' contributions	–	0.1	0.1
Interest cost – employer	0.4	27.8	28.2
Interest cost – employee	0.2	–	0.2
Benefits paid	(0.4)	(52.4)	(52.8)
Effect of changes in demographic assumptions	(0.4)	–	(0.4)
Effect of changes in financial assumptions	3.6	170.0	173.6
Effect of experience adjustments	0.6	(4.6)	(4.0)
At 31 December 2020	37.0	1,497.8	1,534.8
Changes in the fair value of scheme assets			
At 1 January 2019	17.6	1,334.3	1,351.9
Interest income on scheme assets – employer	0.4	37.6	38.0
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	(0.1)	(2.0)	(2.1)
Employer contributions	0.6	5.5	6.1
Contributions by employees	0.3	0.3	0.6
Benefits paid	(0.5)	(54.9)	(55.4)
Return on scheme assets less interest income	2.3	87.7	90.0
At 1 January 2020	20.7	1,408.5	1,429.2
Interest income on scheme assets – employer	0.2	29.1	29.3
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	(0.1)	(1.5)	(1.6)
Employer contributions	0.5	7.9	8.4
Contributions by employees	0.3	0.2	0.5
Benefits paid	(0.4)	(52.4)	(52.8)
Return on scheme assets less interest income	(0.2)	187.6	187.4
At 31 December 2020	21.1	1,579.4	1,600.5
Changes in the franchise adjustment			
At 1 January 2019			3.7
Interest on franchise adjustment			0.1
Recognised in the SOCI			2.0
At 1 January 2020			5.8
Interest on franchise adjustment			0.1
Recognised in the SOCI			2.5
At 31 December 2020			8.4

v) Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which reflects 91% of total liabilities and 94% of total assets of the defined benefit pension scheme in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Group continued to set RPI inflation in line with the market break even expectations less an inflation risk premium. The inflation risk premium has been decreased from 0.4% at 31 December 2019 to 0.3% at 31 December 2020, reflecting a decrease in potential market distortions caused by the RPI reform proposals. For CPI, the Group increased the assumed difference between the RPI and CPI by 0.3% to an average of 0.9% per annum for pre-retirement scheme participants.

The average duration of the benefit obligation at the end of the reporting period is 17.4 years (2019: 16.8 years).

Main assumptions	2020 %	2019 %
Rate of salary increases	2.50	2.70
Rate of increase in pensions in payment	2.40 (CPI) and 2.75 (RPI)	2.20 (CPI) and 3.00 (RPI)
Rate of increase in deferred pensions	2.20 (CPI) and 2.80 (RPI)	2.30 (CPI) and 3.30 (RPI)
Inflation assumption – pre-retirement	2.00 (CPI) and 2.90 (RPI)	2.20 (CPI) and 3.20 (RPI)
Inflation assumption – post-retirement	2.40 (CPI) and 2.75 (RPI)	2.20 (CPI) and 2.70 (RPI)
Discount rate	1.40	2.10

Post retirement mortality	2020 years	2019 years
Current pensioners at 65 – male	21.6	21.6
Current pensioners at 65 – female	24.2	24.1
Future pensioners at 65 – male	23.9	23.8
Future pensioners at 65 – female	26.3	26.2

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 December 2020 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 2020 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

(Increase)/decrease in defined benefit obligation	2020 £m	2019 £m
Discount rate – 0.5% increase	(125.3)	(108.5)
Discount rate – 0.5% decrease	142.4	122.9
Inflation – 0.5% increase	103.7	88.9
Inflation – 0.5% decrease	(96.6)	(83.3)
Rate of salary increase – 0.5% increase	3.7	3.2
Rate of salary increase – 0.5% decrease	(3.5)	(3.1)
Mortality – one-year age rating	59.8	48.6

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Assumptions in respect of the expected return on scheme assets are required when calculating the franchise adjustment for the contract-specific plans. These assumptions are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2020 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% (2019: 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.

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

31 (b) Defined contribution schemes

The Group paid employer contributions of £79.3m (2019: £69.2m) into UK and other defined contribution schemes and foreign state pension schemes.

Serco accounts for certain pre-funded defined benefit schemes relating to contracts as defined contribution schemes because the contributions are fixed until the end of the current concession and at rebid any surplus or deficit would transfer to the next contractor. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

32. Share capital

	2020 £m	Number 2020 millions	2019 £m	Number 2019 millions
Issued and fully paid				
1,223,380,637 (2019: 1,098,564,237) ordinary shares of 2p each at 1 January	24.5	1,223.4	22.0	1,098.6
Issued: 10,000,000 (2019: 124,816,400) ordinary shares of 2p	0.2	10.0	2.5	124.8
1,233,380,637 (2019: 1,223,380,637) ordinary shares of 2p each at 31 December	24.7	1,233.4	24.5	1,223.4

In the year, 10,000,000 (2019: 13,600,000) shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share plan schemes.

In May 2019, the Company completed a placement of 111,216,400 new ordinary shares of 2p, each raising net proceeds of £138.7m. There were no such placements in 2020.

The Company has one class of ordinary shares which carry no right to fixed income.

33. Share premium account

	2020 £m	2019 £m
At 1 January	462.9	327.9
Arising on shares issued	0.2	135.0
At 31 December	463.1	462.9

The movement on the account in the current year is the release of an accrual for costs associated with the 2019 share issue that will no longer be incurred.

34. Reserves

34 (a) 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.

34 (b) 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 awards schemes satisfied by own shares.

34 (c) 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 2020, the ESOT held 7,036,349 (2019: 4,805,612) shares equal to 0.6% of the current allotted share capital (2019: 0.4%). The market value of shares held by the ESOT as at 31 December 2020 was £8.4m (2019: £7.8m).

34 (d) 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.

	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2019	(0.1)	5.5	5.4
Total comprehensive income for the year	(0.1)	(33.3)	(33.4)
At 1 January 2020	(0.2)	(27.8)	(28.0)
Total comprehensive income for the year	(0.2)	7.9	7.7
At 31 December 2020	(0.4)	(19.9)	(20.3)

35. Share based payment expense

The Group recognised the following expenses related to equity-settled share based payment transactions:

	2020 £m	2019 £m
Long Term Incentive Plan	4.9	2.0
Performance Share Plan	4.6	7.8
Deferred Bonus Plan	0.9	1.4
Equity Settled Bonus Plan	0.8	0.4
	11.2	11.6

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 2020 thousands	Weighted average exercise price 2020 £	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £
Outstanding at 1 January	11,468	Nil	–	Nil
Granted during the year	11,582	Nil	11,832	Nil
Exercised during the year	(11)	Nil	–	–
Lapsed during the year	(890)	Nil	(364)	Nil
Outstanding at 31 December	22,149	Nil	11,468	Nil

The awards over shares outstanding at 31 December 2020 were all unvested and had a weighted average contractual life of 1.9 years (2019: 2.4 years).

In the year, seven grants were made, of which four were non-performance. The remaining three awards were performance based awards with 85% of the award split equally between Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC) performance conditions and 15% linked to Strategic Objectives based on improvements in order book and employee engagement. The rewards subject to market-based performance conditions (such as the TSR condition for these awards) were valued using the Monte Carlo Simulation model. For awards subject only to non-market based performance conditions (such as the EPS and ROIC conditions) the Black-Scholes model was used. The Black-Scholes model was also used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the Absolute Share Price or TSR based awards.

The Monte Carlo and Black-Scholes models used the following inputs:

	2020
Weighted average share price	£1.28
Weighted average exercise price	Nil
Expected volatility	34.7%
Expected life	2.5 years
Risk free rate	0.00%

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 £1.15 (2019: £1.25).

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.

Notes to the Consolidated Financial Statements continued

35. Share based payment expense continued

Performance Share Plan (PSP) continued

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 2020 thousands	Weighted average exercise price 2020 £	Number of options or shares under award 2019 thousands	Weighted average exercise price 2019 £
Outstanding at 1 January	28,485	0.02	43,551	0.02
Exercised during the year	(5,834)	0.02	(10,906)	0.02
Lapsed during the year	(3,560)	0.02	(4,160)	0.02
Outstanding at 31 December	19,091	0.02	28,485	0.02

Of these awards, 6,459,304 (2019: 4,373,694) were exercisable at the end of the year. The awards outstanding at 31 December 2020 had a weighted average contractual life of 6.2 years (2019: 6.9 years).

The awards subject to market-based performance conditions (such as the TSR condition for these awards), were valued using the Monte Carlo Simulation model. For awards subject only to non-market based performance conditions (such as the EPS and ROIC conditions) the Black-Scholes model was used. The Black-Scholes model was also used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the Absolute Share Price or TSR based awards.

There were no new awards granted under the Performance Share Plan in the year.

Deferred Bonus Plan (DBP)

Under the DBP, eligible employees are entitled to participate in a voluntary bonus deferral, using up to 50% of their earned annual bonus to purchase shares in the Group at market price. In connection with this, the Group will make a matching share award, up to a maximum of two times the gross bonus deferred, which will vest provided they remain in employment for that period, the shares are retained for that period and the performance measures have been met.

	Number of shares under award 2020 thousands	Weighted average exercise price 2020 £	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £
Outstanding at 1 January	3,380	Nil	5,021	Nil
Granted during the year	594	Nil	496	Nil
Exercised during the year	(1,928)	Nil	(2,137)	Nil
Outstanding at 31 December	2,046	Nil	3,380	Nil

The awards over shares outstanding at 31 December 2020 and 2019 were all unvested and had a weighted average contractual life of 1.3 years (2019: 1.0 years).

There were 593,920 new awards granted under the Deferred Bonus Plan in the year, subject to the same EPS performance conditions as the LTIP. The awards were valued using the Black-Scholes model.

The Black-Scholes model used the following inputs:

	2020
Weighted average share price	£1.29
Weighted average exercise price	Nil
Expected volatility	34.5%
Expected life	2.6 years
Risk free rate	-0.03%

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 £1.29 (2019: £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 2020 thousands	Weighted average exercise price 2020 £	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £
Outstanding at 1 January	308	Nil	–	Nil
Granted during the year	600	Nil	308	Nil
Outstanding at 31 December	908	Nil	308	Nil

The awards over shares outstanding at 31 December 2020 were all unvested and had a weighted average contractual life of 2.0 years (2019: 2.3 years).

There were 599,869 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:

	2020
Weighted average share price	£1.31
Weighted average exercise price	Nil
Expected volatility	30.6%
Expected life	3 years
Risk free rate	0.09%

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 £1.31 (2019: £1.23).

36. 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 2020 £m	Current outstanding at 31 December 2020 £m	Non current outstanding at 31 December 2020 £m
Sale of goods and services			
Joint ventures	0.1	–	–
Associates	2.3	0.2	–
Other			
Dividends received – joint ventures	4.3	–	–
Dividends received – associates	15.5	–	–
Receivable from consortium for tax – joint ventures	(0.1)	2.0	0.1
Total	22.1	2.2	0.1

Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. No guarantees have been given or received.

Notes to the Consolidated Financial Statements continued

36. Related party transactions continued

	Transactions 2019 £m	Outstanding at 31 December 2019* £m
Sale of goods and services		
Joint ventures	1.3	0.1
Associates	8.4	0.5
Other		
Dividends received – joint ventures	7.8	–
Dividends received – associates	17.6	–
Receivable from consortium for tax – joint ventures	4.4	4.8
Total	39.5	5.4

* All amounts outstanding as at 31 December 2019 are due within 12 months of the balance sheet date.

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). As part of the transaction, the Group received an amount of £11.0m for its share in the net assets of the joint venture. At the same time as disposing of the Group's interest in Viapath, the Group recovered a loan into the joint venture of £1.2m and £2.9m of profit share which was previously considered to be irrecoverable.

Remuneration of key Management personnel

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and Directors' liability insurance.

The remuneration of the key Management personnel of the Group is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures:

	2020 £m	2019 £m
Short-term employee benefits	9.3	8.9
Share based payment expense	5.4	5.3
	14.7	14.2

The key Management personnel comprise the Executive Directors, Non-Executive Directors and members of the Executive Committee (2020: 18 individuals, 2019: 17 individuals).

Aggregate Directors' remuneration

The total amounts for Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations were as follows:

	2020 £m	2019 £m
Salaries, fees, bonuses and benefits in kind	3.6	3.9
Amounts receivable under long-term incentive schemes	3.4	3.0
Gains on exercise of share awards	3.6	5.1
	10.6	12.0

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 105 to 133.

37. Notes to the Consolidated Cash Flow statement

Year ended 31 December	2020 Before exceptional items £m	2020 Exceptional items £m	2020 Total £m	2019 Before exceptional items £m	2019 Exceptional items £m	2019 Total £m
Operating profit for the year	166.7	12.5	179.2	125.9	(23.4)	102.5
Adjustments for:						
Share of profits in joint ventures and associates	(12.7)	–	(12.7)	(27.5)	–	(27.5)
Exceptional distribution from joint venture	–	(1.9)	(1.9)	–	–	–
Share based payment expense	11.2	–	11.2	11.6	–	11.6
Impairment of property, plant and equipment – owned	0.3	–	0.3	2.4	–	2.4
Impairment of property, plant and equipment – leased	0.4	–	0.4	16.5	–	16.5
Depreciation of property, plant and equipment – owned	15.9	–	15.9	15.3	–	15.3
Depreciation of property, plant and equipment – leased	93.5	–	93.5	59.1	–	59.1
Amortisation of intangible assets – owned	23.0	–	23.0	25.6	–	25.6
Exceptional profit on disposal of subsidiaries and operations	–	(11.0)	(11.0)	–	–	–
Reversal of impairment on loans to JVs	–	(1.2)	(1.2)	–	–	–
Profit on early termination of leases	(2.9)	–	(2.9)	(0.9)	–	(0.9)
Profit on disposal of property, plant and equipment	(0.4)	–	(0.4)	(0.6)	–	(0.6)
Loss on disposal of intangible assets	0.6	–	0.6	0.4	–	0.4
Increase/(decrease) in provisions	16.2	(4.0)	12.2	(43.1)	(20.5)	(63.6)
Other non cash movements	–	–	–	(1.2)	–	(1.2)
Total non cash items	145.1	(18.1)	127.0	57.6	(20.5)	37.1
Operating cash inflow/(outflow) before movements in working capital	311.8	(5.6)	306.2	183.5	(43.9)	139.6
(Increase)/decrease in inventories	(2.9)	–	(2.9)	4.4	–	4.4
Increase in receivables	(0.1)	–	(0.1)	(36.7)	–	(36.7)
(Decrease)/increase in payables	(2.3)	3.6	1.3	32.2	(5.3)	26.9
Movements in working capital	(5.3)	3.6	(1.7)	(0.1)	(5.3)	(5.4)
Cash generated by operations	306.5	(2.0)	304.5	183.4	(49.2)	134.2
Tax paid	(35.9)	–	(35.9)	(31.2)	–	(31.2)
Non cash R&D expenditure	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Net cash inflow/(outflow) from operating activities	270.5	(2.0)	268.5	152.1	(49.2)	102.9

38. Post balance sheet events

Facilities First Australia

On 4 January 2021, the Group acquired 100% of the issued share capital of Facilities First Australia Holdings Pty Limited ("FFA"), for consideration of AU Dollars \$52.6m (£29.8m) in cash, on a cash free, debt free basis, subject to standard working capital and completion adjustments. At the same time, the Group transferred AU Dollars \$25.2m (£14.3m) to allow FFA to settle existing debt and debt-like balances. FFA is a specialist provider of cleaning, facility maintenance and management services in Australia. The financial results and impact of this transaction have not been recognised in these Consolidated Financial Statements, the operating results, assets and liabilities will be recognised with effect from 4 January 2021. The amounts shown below in respect of the assets and liabilities acquired remain provisional until the Group has finalised the associated acquisition accounting.

	Provisional fair value AU Dollars \$m	Provisional fair value £m
Acquisition related intangibles	78.0	44.2
Property, plant and equipment	7.0	4.0
Deferred tax asset	3.3	1.9
Trade and other receivables	28.3	16.0
Cash and cash equivalents	3.6	2.0
Trade and other payables	(42.9)	(24.3)
Borrowings	(16.5)	(9.4)
Current tax liabilities	(1.3)	(0.7)
Non current payables	(6.9)	(3.9)
Acquisition date fair value of consideration transferred	52.6	29.8
Acquisition of shares	52.6	29.8
Total Cash Consideration	52.6	29.8

Notes to the Consolidated Financial Statements continued

38. Post balance sheet events continued

Whitney, Bradley & Brown, Inc

On 16 February 2021, the Group announced that it had agreed to acquire Whitney, Bradley & Brown, Inc ("WBB"), a leading provider of advisory, engineering and technical services to the US Military, for \$295m from an affiliate of H.I.G. Capital. The acquisition will increase the scale, breadth and capability of Serco's North American defence business and will give Serco a strong platform from which to address all major segments of the US defence services market. The acquisition will be immediately accretive to earnings and will be funded through existing debt facilities; it is expected to complete in the second quarter of 2021, subject to regulatory approvals. As the transaction is yet to complete, the financial results and impact of the transaction have not been recognised in these Consolidated Financial Statements.

Serco share repurchase programme

On 31 December 2020, the Group announced that with effect from 4 January 2021, it was commencing a programme to purchase its own shares with a value of up to £40m over the period to 11 June 2021, subject to a maximum number of shares of 122,338,063 being purchased. These shares will subsequently be transferred into treasury, either to be used for existing employee share schemes or to be cancelled.

Dividends

Subsequent to the year end, the Board has recommended the payment of a final dividend in respect of the year ended 31 December 2020 of 1.4p. 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.

Financing facility

On 24 February 2021, the Group entered into a new financing facility totalling £75m with a syndicate of banks. The three year facility is undrawn, but it is anticipated that it will be drawn at completion of the acquisition of WBB, currently expected to be during the second quarter of 2021.

Company Balance Sheet

At 31 December	Note	2020 £m	2019 £m
Non current assets			
Property, plant and equipment	40	0.1	0.1
Investments in subsidiaries	41	2,032.7	2,029.5
		2,032.8	2,029.6
Current assets			
Debtors: amounts due within one year	42	5.0	4.6
Debtors: amounts due after more than one year	42	366.1	211.9
Derivative financial instruments due within one year	46	4.5	2.9
Corporation tax asset		1.0	0.4
Cash at bank and in hand		206.2	14.2
		582.8	234.0
Total assets		2,615.6	2,263.6
Creditors: amounts falling due within one year			
Trade and other payables	43	(73.2)	(67.2)
Loans	44	(89.7)	(56.1)
Provisions	45	(11.3)	(9.0)
Derivative financial instruments	46	(9.2)	(1.8)
		(183.4)	(134.1)
Net current assets		399.4	99.9
Creditors: amounts falling due after more than one year			
Trade and other payables	43	–	(0.1)
Loans	44	(299.1)	(248.9)
Amounts owed to subsidiary companies		(1,046.5)	(782.9)
Provisions	45	(41.1)	(41.1)
		(1,386.7)	(1,073.0)
Total liabilities		(1,570.1)	(1,207.1)
Net assets		1,045.5	1,056.5
Capital and reserves			
Called up share capital	48	24.7	24.5
Share premium account	49	463.1	462.9
Capital redemption reserve		0.1	0.1
Profit and loss account	50	493.0	515.5
Share based payment reserve	51	66.7	57.9
Own shares reserve		(2.1)	(4.4)
Hedging and translation reserve	53	–	–
Total shareholders' funds		1,045.5	1,056.5

The accompanying notes form an integral part of the financial statements.

The financial statements (registered number 02048608) were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Rupert Soames
Group Chief Executive Officer

Angus Cockburn
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	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m
At 1 January 2019	22.0	327.9	0.1	580.0	60.7	(18.7)	(0.2)	971.8
Total comprehensive income for the year	–	–	–	(64.5)	–	–	0.2	(64.3)
Issue of share capital	2.5	135.0	–	–	–	(0.3)	–	137.2
Shares transferred to award holders on exercise of share awards	–	–	–	–	(14.4)	14.6	–	0.2
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	7.8	–	–	7.8
Expense in relation to share based payments	–	–	–	–	3.8	–	–	3.8
At 1 January 2020	24.5	462.9	0.1	515.5	57.9	(4.4)	–	1,056.5
Total comprehensive income for the year	–	–	–	(22.5)	–	–	–	(22.5)
Issue of share capital	0.2	0.2	–	–	–	(0.2)	–	0.2
Shares transferred to award holders on exercise of share awards	–	–	–	–	(2.4)	2.5	–	0.1
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	3.2	–	–	3.2
Expense in relation to share based payments	–	–	–	–	8.0	–	–	8.0
At 31 December 2020	24.7	463.1	0.1	493.0	66.7	(2.1)	–	1,045.5

The accompanying notes form an integral part of the financial statements.

Notes to the Company Financial Statements

39. Accounting policies

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with 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. The total loss for the year was £22.5m (2019: £64.5m), and loss in total comprehensive income for the year was a loss of £22.5m (2019: loss of £64.3m).

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.

40. Property, Plant and Equipment

Leased Motor Vehicles of £0.1m (2019: £0.1m) have been included on the balance sheet following the adoption of IFRS16.

41. Investments held as fixed assets

Shares in subsidiary companies at cost	£m
At 1 January 2019	2,021.7
Awards over parent's shares made to employees of subsidiaries	7.8
At 1 January 2020	2,029.5
Awards over parent's shares made to employees of subsidiaries	3.2
At 31 December 2020	2,032.7

The Company directly owns 100% of the ordinary share capital of the following subsidiaries:

Name	% ownership
Serco Holdings Limited	100%

42. Debtors

Amounts due within one year	2020 £m	2019 £m
Other debtors	5.0	4.6

Included within other debtors is prepaid intercompany interest of £4.2m (2019 £2.6m), amounts owed by other subsidiary companies £0.7m (2019: £0.8m) and other prepayments of £0.1m (2019: £1.2m).

Amounts due after more than one year	2020 £m	2019 £m
Amounts owed by subsidiary companies	366.1	211.9

Notes to the Company Financial Statements continued

43. Trade and other payables

	2020 £m	2019 £m
Amounts due within one year		
Amounts owed to subsidiary companies	55.6	49.7
Trade creditors	0.4	0.3
Accruals and deferred income	15.9	14.6
Other creditors including taxation and social security	1.3	2.6
	73.2	67.2
Amounts due after more than one year		
Other creditors	—	0.1

44. Loans

	2020 £m	2019 £m
Loans are repayable as follows:		
On demand or within one year	89.7	56.1
Between one and two years	64.9	93.9
Between two and five years	124.6	155.0
After five years	109.6	—
	388.8	305.0
Less: amount due for settlement within one year (shown within current liabilities)	(89.7)	(56.1)
Amount due for settlement after one year	299.1	248.9

Included within amounts repayable within one year is £nil (2019: £50.0m) related to the draw down on the revolving credit facility.

45. Provisions

	Contract £m	Other £m	Total £m
At 1 January 2020	6.2	43.9	50.1
Charged to income statement	2.3	—	2.3
At 31 December 2020	8.5	43.9	52.4
Analysed as:			
Current	8.5	2.8	11.3
Non-current	—	41.1	41.1
	8.5	43.9	52.4

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Company expects to incur over an extended period, in respect of past events, for which a provision has been recorded. These costs are based on past experience of similar items and other known factors and represent Management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next twelve months or over a longer period with the majority expected to be settled by 31 December 2023.

46. Derivative financial instruments

	Assets 2020 £m	Liabilities 2020 £m	Assets 2019 £m	Liabilities 2019 £m
Forward foreign exchange contracts	4.5	(9.2)	2.9	(1.8)
Analysed as:				
Current	4.5	(9.2)	2.9	(1.8)

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 30 of the Group's Consolidated Financial Statements.

47. Deferred tax

The deferred tax asset not recognised is as follows:

At 31 December	2020 £m	2019 £m
Depreciation in excess of capital allowances	0.2	0.3
Short-term timing differences	1.3	0.9
Losses	40.0	31.8
	41.5	33.0

48. Called up share capital

Issued and fully paid	2020 £m	Number 2020 millions	2019 £m	Number 2019 millions
1,223,380,637 (2019: 1,098,564,237) ordinary shares of 2p each at 1 January	24.5	1,223.4	22.0	1,098.6
Issue: 10,000,000 (2019: 124,816,400) ordinary shares of 2p	0.2	10.0	2.5	124.8
1,233,380,637 (2019: 1,223,380,637) ordinary shares of 2p each at 31 December	24.7	1,233.4	24.5	1,223.4

In the year, 10,000,000 (2019: 13,600,000) shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share plan schemes.

In May 2019, the Company completed a placement of 111,216,400 new ordinary shares of 2p, each raising net proceeds of £138.7m. There were no such placements in 2020.

The Company has one class of ordinary shares which carry no right to fixed income.

49. Share premium account

	2020 £m	2019 £m
At 1 January	462.9	327.9
Arising on shares issued	0.2	135.0
At 31 December	463.1	462.9

The movement on the account in the year is the release of an accrual for costs associated with the 2019 share issue that will no longer be incurred.

50. Profit and loss account

	2020 £m	2019 £m
At 1 January	515.5	580.0
Loss for the year	(22.5)	(64.5)
At 31 December	493.0	515.5

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 loss for the year was £22.5m (2019: loss of £64.5m), and loss in total comprehensive income for the year was a loss of £22.5m (2019: loss of £64.3m).

Notes to the Company Financial Statements continued

50. Profit and loss account continued

The Company plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders. During 2015, Serco Group plc as a statutory entity, created £519m of reserves from the Rights Issue which was structured to ensure that these reserves were distributable. As a result of this transaction, the Group has sufficient distributable reserves to facilitate the payment of distributions by Serco Group plc.

51. Share based payment reserve

	2020 £m	2019 £m
At 1 January	57.9	60.7
Awards over parent's shares made to employees of subsidiaries	3.2	7.8
Share based payment charge	8.0	3.8
Shares transferred to award holders on exercise of share awards	(2.4)	(14.4)
At 31 December	66.7	57.9

Details of the share based payment disclosures are set out in note 35 of the Group's Consolidated Financial Statements.

52. Own shares

The own shares reserve represents the cost of shares in Serco Group plc held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy awards under the Group's share plan schemes. At 31 December 2020, the ESOT held 7,036,349 (2019: 4,805,612) shares equal to 0.6% of the current allotted share capital (2019: 0.4%). The market value of shares held by the ESOT as at 31 December 2020 was £8.4m (2019: £7.8m).

53. Hedging and translation reserve

	2020 £m	2019 £m
At 1 January	–	(0.2)
Fair value gain on cash flow hedges during the period	–	0.2
At 31 December	–	–

54. Contingent liabilities

The Company has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £3.8m (2019: £4.3m). The actual commitment outstanding at 31 December 2020 was £3.8m (2019: £4.3m).

Both 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 2020 was £228.6m (2019: £239.8m).

The Company also provides parent company guarantees in respect of trading performance and/or recovery of liabilities owed to customers by its subsidiaries. These are not expected to result in any material financial loss to the Company.

Following the announcement during 2020 that the Group has received a claim seeking damages for alleged losses as a result of the reduction in Serco's share price in 2013, the Group has continued to assess the merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group. Any outcome is subject to a number of significant uncertainties and therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.

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.

55. 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
Aeradio Technical Services LLC ²	24%	Headquarters Building, PO Box 126, Doha, Qatar
Aeradio Technical Services WLL ^{2/4}	49%	Headquarters Building, Building # 1605, Road # 5141, Askar # 951, PO Box 26803 Manama, Kingdom of Bahrain
AWE Management Limited ³	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, England
AWE Pension Trustees Limited	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, England
AWE plc	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, England
Cardinal Insurance Company Limited	100%	Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
COMPASS SNI Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Confluent Innovations, L.L.C.	49%	5880 Innovation Drive, Dublin, OH 43016, United States
Djurgardens Farjetrafik AB	50%	Svensksundsvagen 17, 111 49 Stockholm, Sweden
DMS Maritime Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Hong Kong Parking Limited	40%	Room 2601, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong
Innu Serco Inc.	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
Innu Serco Limited Partnership	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
International Aeradio (Emirates) L.L.C. – Abu Dhabi	49%	Office No. 503, 5th Floor, Al Muhairy Building, Zayed The First Street, PO Box 3164 Abu Dhabi, United Arab Emirates
International Aeradio (Emirates) L.L.C. – Dubai	49%	19th Floor, Rolex Tower, Sheikh Zayed Road, PO Box 9197 Dubai, United Arab Emirates
JBI Properties Services Company L.L.C.	49%	7th Floor, Al Sila Tower Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates
Joint Integrated Range Solutions, L.L.C.	49%	8337 W. Sunset Road, Suite 250, Las Vegas, NV 89113, United States
Khadamat Facilities Management L.L.C.	49%	The United Arab Emirates University, Al Jamea Street, Al Maqam District, PO Box 66718 Al Ain, United Arab Emirates
Logtec Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Mahani Technical Services, L.L.C.	49%	511 Duckwater Fall Road, Duckwater, Nevada 89314, United States
Merseyrail Electrics 2002 Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, England
Merseyrail Infraco Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, England
Merseyrail Services Holding Company Limited ³	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES, England
Northern Rail Holdings Limited	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES, England
Northern Rail Limited	50%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Priority Properties North West Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco (Jersey) Limited	100%	AquaSplash, The Waterfront Centre, La Rue De L'Etat, St Helier, Jersey, JE2 4HE
Serco Australia Pty Limited ³	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Belgium S.A.	100%	Avenue de Cortenbergh 60 – 1000 Brussels, Belgium
Serco Caledonian Sleepers Limited	100%	Basement and Ground Floor Premises, 1-5 Union Street, Inverness, IV1 1PP, Scotland

Appendix: List of subsidiaries and related undertakings continued

Company name	Serco Group interest	Registered office address
Serco Canada Inc.	100%	330 Bay Street, Suite 400, Toronto, ON, M5H 2S8, Canada
Serco Canada Marine Corporation	100%	330 Bay Street, Suite 400, Toronto, ON, M5H 2S8, Canada
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, England
Serco Czech Republic s.r.o.	100%	Praha City Centre, Klimentksa 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%	Avenue de Cortenbergh 60-1000 Brussels, Belgium
Serco Defence Services Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Environmental Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
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, England
Serco Geografix Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Gestión de Negocios S.L.U.	100%	Calle Ayala, 13 1ºDr, 28001 Madrid, Spain
Serco Group (HK) Limited	100%	Unit 3103, 31/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong
Serco Group Pty Limited	100%	Level 23, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Holdings Limited ¹	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Inc. ³	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Serco Integrated Transport Private Limited ²	100%	Office# 431, Level 4, Augusta Point, Sector 53 Golf Course Road, Gurgaon 122002, India
Serco International Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco International S.à r.l	100%	17 Boulevard Royal, L-2449, Luxembourg
Serco Italia S.p.A.	100%	Viale della Tecnica 161, 00144, Rome, Italy
Serco Leasing Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Leisure Operating Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Limited ³	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Listening Company Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Luxembourg S.A.	100%	Rue Sainte Zithe, 33, L-2763, Luxembourg
Serco Nederland B.V.	100%	Kapteynstraat 1, 2201 BB Noordwijk ZH, Netherlands
Serco New Zealand (Asset Management Services) Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland, 1010, New Zealand
Serco New Zealand Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland, 1010, New Zealand
Serco New Zealand Training Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland, 1010, New Zealand
Serco North America (Holdings), Inc.	100%	1209 Orange Street, Wilmington, DE 19801, United States
Serco North America Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England

Company name	Serco Group interest	Registered office address
Serco Paisa Limited	50%	Ci Tower, St. George's Square, New Malden, Surrey, KT3 4TE, England
Serco PIK Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Pension Trustee Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Projects L.L.C.	49%	Global Business Centre 3, Third Floor, Building No. 36, Zone 27, Street 230, C-Ring Road, PO Box 25422 Doha, State of Qatar
Serco Regional Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, England
Serco Safety Services L.L.C.	49%	Hala Business Center, Al Khor Building, Office 201, 202, Baniyas Street, Al Buteen Area Deira, Dubai
Serco Sarl	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco SAS	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco Saudi Arabia L.L.C.	100%	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 31, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Saudi Services L.L.C.	60%	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 30, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Services GmbH	100%	Lise-Meitner-Strasse 10, 64293 Darmstadt, Germany
Serco Services Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, Virginia 20170, United States
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, England
Serco-IPS Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Vivo Defence Services Limited	50%	Shared Services Centre Q3 Office, Quorum Business Park, Benton Lane, Newcastle-Upon-Tyne, NE12 8EX, England

1 Serco Holdings Limited is directly owned by Serco Group plc. All other subsidiaries and associated undertakings are held indirectly via Group companies.

2 Companies in liquidation as at 31 December 2020.

3 Companies key to the consolidated numbers, all of which are engaged in the provision of support services.

4 Companies with a non controlling interest due to being consolidated in full as a result of considerations over control.

Appendix: Supplementary information

Five-year record (unaudited)

	2020 £m	2019 £m	2018 £m	2017 (restated*) £m	2016 £m
Adjusted Revenue	4,249.9	3,643.0	3,211.9	3,307.3	3,529.0
Less: Share of revenue of joint ventures and associates	(365.1)	(394.6)	(375.1)	(356.4)	(481.0)
Revenue	3,884.8	3,248.4	2,836.8	2,950.9	3,048.0
Underlying Trading Profit	163.1	120.2	93.1	69.3	82.1
OCP and Contract and Balance Sheet Review adjustments	5.8	0.8	23.6	(24.2)	14.2
Include benefit from non-depreciation and amortisation of assets held for sale	—	—	—	—	0.5
Include other one-time items	6.8	12.4	—	—	3.5
Trading Profit	175.7	133.4	116.7	45.1	100.3
Amortisation and impairment of intangibles arising on acquisition	(9.0)	(7.5)	(4.3)	(4.4)	(5.1)
Operating profit before exceptional items	166.7	125.9	112.4	40.7	95.2
Exceptional profit/(loss) on disposal of subsidiaries and operations	11.0	—	(0.5)	0.3	0.1
Other exceptional operating items	1.5	(23.4)	(31.4)	(19.9)	(70.6)
Operating profit	179.2	102.5	80.5	21.1	24.7
Net finance costs	(25.9)	(21.8)	(13.9)	(11.2)	(12.6)
Exceptional finance income/(costs)	—	—	7.5	—	(0.4)
Other gains	—	—	—	0.7	—
Profit before tax	153.3	80.7	74.1	10.6	11.7
Tax charge	(19.3)	(30.1)	(6.7)	(18.6)	(12.8)
Profit/(loss) after tax	134.0	50.6	67.4	(8.0)	(1.1)
Net Debt	(460.4)	(584.4)	(188.0)	(141.1)	(109.3)
	Pence	Pence	Pence	Pence	Pence
Earnings per share before exceptional items	9.90	6.54	8.20	1.50	6.12
Basic earnings/(loss) per share	10.89	4.31	6.16	(0.76)	(0.11)
Dividend per share	—	—	—	—	—

* Results for the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 *Revenue from contracts with customers* with effect from 1 January 2017. No changes were made to earlier periods hence the results for the year ended 31 December 2016 would need to be restated for the impact of IFRS15 in order to be prepared in accordance with current International Financial Reporting Standards. IFRS9 *Financial instruments* has also been implemented during the period covered by the supplementary information above, however the new standard had no material impact on the Group's reported financial information, therefore no such adjustment would be required in respect of the standard.

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 Depository Receipts (ADRs)

Serco has established a sponsored Level I ADR programme. Serco ADRs are traded on the US over-the-counter market (SCGPY).

For queries relating to your ADR holding, please contact our ADR depository bank, Deutsche Bank Trust Company Americas.

Managing your shares online

Shareholders can manage their holding online by registering to use our shareholder portal at www.shareview.co.uk. This free service is provided by our Registrar, giving quick and easy access to your shareholding.

Electronic communications

We encourage shareholders to consider receiving their communications electronically which means you receive information quickly and securely and allows us to communicate in a more environmentally friendly and cost-effective way. You can register for this service online using our share portal at www.shareview.co.uk

Duplicate documents

Some shareholders find that they receive duplicate documentation due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact our Registrar, Equiniti.

Changes of address

To avoid missing important correspondence relating to your shareholding, it is important that you inform our Registrar of your new address as soon as possible.

Sharegift

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to Sharegift (Registered Charity no.10526886), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org or by calling +44 (0) 207 930 3737.

Dividend

Proposed final dividend

The Directors have recommended payment of a final dividend of 1.4p in respect of the year ended 31 December 2020, subject to approval by shareholders at the Annual General Meeting.

Key dates

Annual General Meeting 21 April 2021
Ex-dividend date 13 May 2021
Record date 14 May 2021
Payment date 4 June 2021

Dividend payment

Shareholders are encouraged to receive dividends directly to their bank or building society which saves paper, helping to minimise our environmental impact and reducing the cost of printing and delivery. Mandate forms are available at www.shareview.co.uk

Useful Contacts

Serco's registered office

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY
United Kingdom

Telephone: +44 (0)1256 745 900
Email: investorcentre@serco.com

Registered in England and Wales No. 2048608

Group General Counsel and Company Secretary

David Eveleigh

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

Telephone: 0371 384 2932 (from within UK)
+44 (0)121 415 7047 (from outside UK)
Lines are open 8.30am to 5.30pm
Monday to Friday. (excluding public holidays
in England and Wales)

Website: www.shareview.co.uk

Shareholders can securely send queries via the website using the
'Help' section.

Legal Disclaimer

This Annual Report and Accounts contains certain statements 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" and similar expressions 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 conditions; wars and acts of terrorism; cyber-attacks; and pandemics, epidemics or natural disasters.

ADR depositary bank

Deutsche Bank Trust Company Americas
c/o American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn NY 11219
USA

Telephone: +1 866 249 2593 (toll-free within USA)
+1 718 921 8124 (from outside USA)

Website: www.adr.db.com
Email: db@astfinancial.com

Brokers

JP Morgan Cazenove
Bank of America Merrill Lynch

Auditor

KPMG LLP

Unsolicited mail and shareholder fraud

Shareholders are advised to be wary of unsolicited mail or telephone calls offering free advice, to buy shares at a discount or offering free company reports. For further information on how shareholders can be protected from investment scams visit www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams

Notification of major interests in shares (TR1 Forms)

Email: cosec@serco.com

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 on pages 72 to 78. 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, 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.

Serco is subject to the regulatory requirements of the Financial Conduct Authority of the United Kingdom



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