serco

Annual Report and Accounts 2022

Contents

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

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

20+
COUNTRIES

500+
CONTRACTS

50,000+
COLLEAGUES

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

Strategic Report

Highlights

Revenue
£4.5bn
2021: £4.4bn

Order book
£14.8bn
2021: £13.7bn

Underlying Trading Profit
£237m
2021: £229m

Reported operating profit
£217m
2021: £216m

Underlying EPS, diluted
13.9p
2021: 12.6p

Reported EPS, diluted
12.8p
2021: 24.4p

Dividend per share
2.86p
2021: 2.41p

Underlying ROIC
20.6%
2021: 23.7%

Free cash flow
£159m
2021: £190m

Employee engagement
70 points
2021: 70 points

Major incident frequency
0.44 per 1m hours
2021: 0.36 per 1m hours

Lost time incident frequency
5.7 per 1m hours
2021: 4.2 per 1m hours

See KPIs on pages 28-30 for definitions

See pages 06-14 for more information on our business

At a Glance

What we do

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

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

We deliver services through people, supported by effective processes, technology and skilled management. Our customers define what outcomes or services they need to deliver, and we develop new and more effective ways to deliver them. We provide innovative solutions to some of the most complex challenges facing governments, bringing our experience, capability and scale to deliver the service standards, cost efficiencies and policy outcomes governments want. In this way we make a positive difference to the lives of millions of people around the world, often looking after some of the most vulnerable and disadvantaged in society and helping to keep nations safe.

Our core sectors

Our business is focused across five core sectors, with revenue in 2022 of £4,534m or £4,772m, including our share of joint ventures and associates, to reflect our total scale in each sector.

Defence	Justice & Immigration	Transport	Health & other Facilities Management	Citizen Services
£1,502m	**£1,212m**	**£443m**	**£592m**	**£1,023m**

Some key services

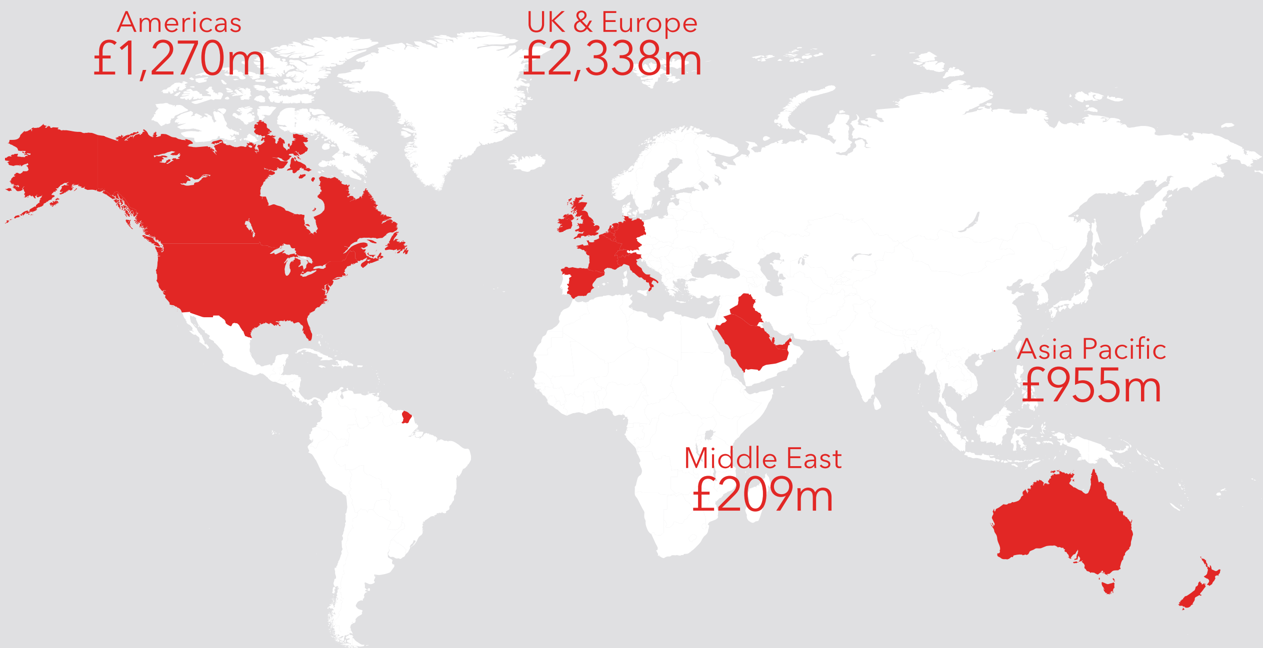
Defence	Justice & Immigration	Transport	Health & other Facilities Management	Citizen Services
Base and operational support Engineering, management and information services Space and maritime services	Custodial services Asylum seeker accommodation Immigration detention services Detainee transport and monitoring	Rail, ferry and cycle operations Road traffic management Air traffic control	Integrated facilities management Clinical and non-clinical support services Patient administration and contact	Contact centres and case management Employment and skills services Covid-19-related services Environmental services Leisure services

Our fundamental role in the functioning of an orderly society

Defence	**Justice & Immigration**	**Transport**	**Health & other FM**	**Citizen Services**
Protecting national and international security interests	Safeguarding those in our care and beyond	Facilitating safe and efficient movement of people and goods	Enhancing public sector infrastructure, patient experience and care quality	Contributing to the wellbeing of citizens and communities

Where we operate

Serco's operations are across four geographic regions:

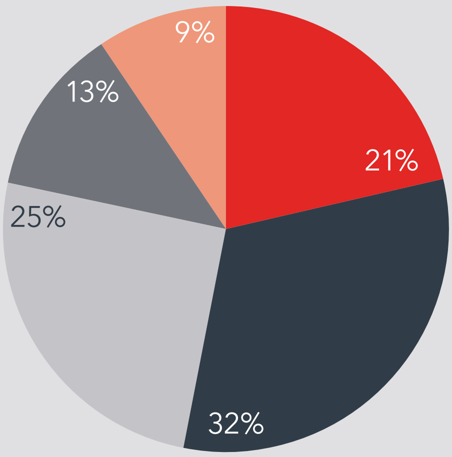


Revenue in 2022 (including share of joint ventures and associates).

Our business mix

Serco's revenue by sector and geographic division:

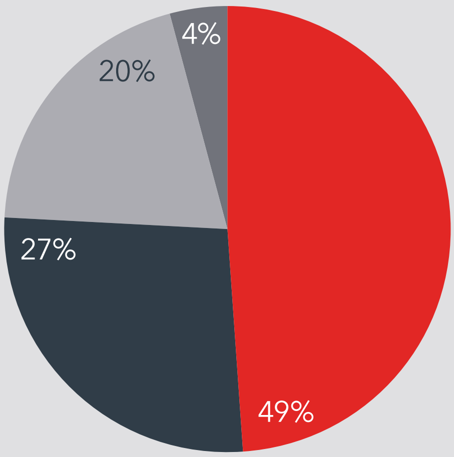
Revenue by sector



Total revenue **£4,772m**

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

Revenue by Division



Total revenue **£4,772m**

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

See pages 06-14 for more information on our business model

Revenue in 2022 (including share of joint ventures and associates).

Chairman's Statement

> Serco has navigated the global challenges of the last few years well. This provides a powerful endorsement of the strategy and a solid foundation for future growth."

John Rishton
Chairman

Introduction

My key areas of focus when I became Chair were growth, succession and ESG. We have made good progress on all three in 2022.

- On growth, we exceeded our expectations at the start of the year by offsetting the substantial reduction caused by the end of Covid-related work.
- On CEO succession, the work we have done over several years proved invaluable as we were able to appoint an internal candidate, Mark Irwin, to replace Rupert Soames who decided to retire after nine successful years as CEO.
- ESG is an area we place great importance on but have, at times, found difficult to navigate due to divergent views on the social value of some of the work we do. As we have frequently said, we work to implement government policy and believe that we play a critical role in delivering vital services to society in our various geographies and sectors. Our role in defence has caused concern for some but, following Russia's invasion of Ukraine, I have heard a more thoughtful discussion about its role and importance. We have repositioned and strengthened our ESG approach, messaging and reporting over the year and seen a better understanding of our ESG credentials with improved scores from a number of ESG agencies. In 2023, while continuing to prioritise all aspects of ESG, we will be placing particular focus on the health and wellbeing of our colleagues.

Our performance

The Company delivered resilient financial results in 2022. Revenue and Underlying Trading Profit both grew despite our Covid-19 Test & Trace work coming to an end. Good growth in other parts of the business helped compensate for the large negative impact of Covid-related work ending, which I think is a powerful endorsement of the strategy that has been implemented over recent years. Earnings Per Share increased by 11% and the strong cash generation of the business was demonstrated again, with cash conversion of 97%.

Acquisitions are an important part of our strategy and we made two during the year. In July we acquired Sapienza, a leading European provider of services in the space sector. The acquisition expands our offering and capabilities in the fast-growing space market, supporting the Group's growth strategy of becoming a leading provider of complex managed services for the space sector. In September we bought ORS, a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy. The business adds scale to our European operations and capability to Serco's position in immigration services, already one of our core sectors, and one in which we expect to see growth in the coming years.

Returns to our shareholders were increased significantly in 2022. Consistent with our stated capital allocation priorities, we progressed with our plan of increasing ordinary dividends and, in addition, we returned £90m of surplus capital to shareholders through a share buyback. The Board is recommending a final dividend of 1.92p which is an increase of 19% and has agreed a further £90m share buyback for 2023.

Succession

Rupert Soames stepped down from his role as Chief Executive at the end of December 2022. Serco has been rejuvenated under his leadership, with the business he leaves unrecognisable from the one he joined in 2014. Having successfully ensured the Company survived, Rupert subsequently transformed the internal operations and culture of the Company, as well as rehabilitating its customer relationships. This provided a base from which to grow and over the five years from 2017 the business has

Highlights of 2022

- Revenue up 2% to £4.5bn, despite an 11% drag from lower levels of Covid-19-related work.
- Underlying Trading Profit of £237m, 22% higher than our initial guidance.
- Free cash flow of £159m, cash conversion of 97% covenant net debt: EBITDA at the year-end of 0.8x.
- Order intake of £4.2bn.
- Successful CEO succession process.
- Significantly increased returns to shareholders, with recommended ordinary dividend up 19% and a share buyback of £90m in 2022 and further £90m in 2023.

increased revenue by a compound average growth rate of 9% and Underlying Trading Profit by 28%. On behalf of the Board, I would like to thank Rupert for the exceptional work he has done.

I am delighted that Mark Irwin has been appointed as your new Chief Executive. Mark was chosen by the Board after a rigorous selection process that involved both internal and external candidates. It was clear during our selection process that Mark's deep knowledge of Serco in the UK, Europe and Asia Pacific, as well as his prior experience working in the US and the tremendous results he has delivered for us in all his roles, make him the ideal person to lead the Group through its next phase of growth. Anthony Kirby, our Chief Operating Officer, has been made CEO UK&E, replacing Mark.

The Board and I would also like to thank David Dacquino who has led and transformed our North American business since becoming its Chief Executive in 2017. David retired in September and was succeeded by Tom Watson, another terrific internal appointment.

That we have been able to fill these three key roles with internal candidates reflects the strength of the management team that has been put in place over recent years.

Strategy

In 2021 we undertook a comprehensive review of our markets and strategy. We estimated the markets in which we operate are worth around £715bn per year and that they will grow at 2-3% per year on average in the coming years. It was, and remains, our view that the focused Business-to-Government (B2G) operating model established at Serco over recent years is delivering competitive advantage and differentiation, and should enable the business to grow its revenue faster than the market, profit faster than revenue and to convert that profit into cash.

The transition from Rupert to Mark provides an opportunity to identify ways to make the B2G platform even better in the coming years. Our strategic framework remains unchanged but there will be increased focus on three areas; customers, colleagues and capability. We will look to grow revenues through deep customer relationships, grow colleague enablement by increasing the value of their work, and grow margins through the use of technology and the pursuit of efficiency.

With these value enhancing levers to strengthen our B2G platform and a strong pipeline of new business opportunities, the Group is well positioned to deliver our medium-term growth targets.

Corporate Governance

One of my roles as Chair is to ensure that Serco has strong governance. In recent years this has become an area of intense focus by all stakeholders and one that I take very seriously. Governance responsibilities cover many areas (and are covered in detail in our Corporate Governance Report on page 111), including Board diversity and effectiveness, remuneration, financial reporting as well as environmental and societal considerations.

There were no changes to Non-Executive Board members in the year.

A focus for the Board during the year was engagement with Serco's workforce. Dame Sue Owen is the Board's employee representative and worked closely with the Company to ensure that the Board understands employee perspectives and issues. All Non-Executive Directors participated in virtual and face-to-face meetings with employees in each of our markets throughout the year to discuss contracts and hear about issues that were important to them. During the year we held one of our Board meetings in North America at our main office near Washington DC. This gave the Board the opportunity to meet with our US Board members, the US executive team and many US employees, including those from our recent acquisition, WBB. The non-executives also participated in the annual regional leadership conferences that provided a great opportunity to meet the local teams and visit contracts. In addition, non-executives joined calls discussing health and safety, diversity and other environmental, social and governance (ESG) issues, and in our annual employee engagement survey we include a section called 'Ask the Board', where employees are given the opportunity to raise issues for our attention. We discuss these topics during Board meetings and follow up to ensure common or significant matters are addressed. I was delighted to see that despite all of the challenges brought about by the pandemic our engagement scores remained high, at levels comparable with 2019.

ESG has always been important to Serco. We have been clear on our purpose, values and impact on society for many years. This year has brought more attention to these areas and the need for companies to address environmental and societal issues with more urgency and focus. Our major customers are governments and frequently the contracts we enter into have specific measures for ESG. More detail on our ESG commitments and performance is included on pages 36 to 73.

It would be remiss of me not to mention the significant challenges that I know many of our employees are facing due to the cost-of-living crisis. As a Board we have encouraged management (although they did not really require much encouragement) to consider carefully how we can provide additional support to our colleagues. We paid additional one-off payments to all colleagues across the globe outside management grades of around £6m at the beginning of 2022 and another £9m in the second half. The Serco People Fund, which provides financial support for current and former Serco colleagues and their close family in a range of situations, including hardship or personal crisis and when help is required, was very active over the year, helping more than 250 people and gave over £200k to people in the UK and Australia. The Board will continue to discuss and support management in finding ways to ease the financial challenges many face.

Our Board evaluation during the year was an internal review and the results were discussed at the December Board meeting. The conclusions were that the Board was operating effectively and should continue to focus its attention on strategy, growth, ESG and leadership, and talent succession. The year also saw the expiry of the Deferred Prosecution Agreement (DPA) and associated undertakings that Serco agreed with the Serious Fraud Office (SFO) in 2019. The agreement related to issues with Serco's Electronic Monitoring contract that were reported in 2013. The SFO confirmed Serco cooperated fully and has fulfilled all its obligations agreed as part of the DPA, including reviewing, improving and enhancing aspects of our Group-wide compliance programme related to internal controls, compliance policies, and procedures. This brings to an end the obligations entered into under the agreement.

Looking ahead

I am optimistic that the worst of Covid is behind us, that inflation will ease and that a solution will be found to end the conflict in the Ukraine. The extraordinary volatility and turmoil of the last few years has undoubtedly created the most difficult business environment I have ever known. Serco has navigated these challenges with great skill and huge effort from the entire workforce. Our teams, our strategy and our culture have been tested in battle and proven resilient. I am confident that if we can remain agile and innovative, we will continue to deliver competitive returns while meeting the needs of our multiple stakeholders. Finally, and on behalf of the Board, let me express our profound appreciation to the hardworking employees of Serco, and our many partners, for their incredible commitment and achievements during another difficult and challenging year.

John Rishton
Chairman
27 February 2023

Our Market

Introduction

Serco's strong performance and resilience in 2022 is all the more impressive against the backdrop of the turbulent and profound global changes we have all witnessed. While Covid-19 left a dramatic and lasting impact in terms of government debt and 'the great resignation', two years later the Russian invasion of Ukraine has brought war to Europe, refugees, food shortages, energy price rises, inflation at levels not seen for a generation and global disruption of efforts to rebuild post-pandemic. Yet despite this, and despite our work supporting governments in responding to Covid-19 fading away as expected in 2022, our revenues nonetheless grew at 2% and our margin held steady at 5.2%. We have performed well.

While the specifics of the macro-economy and its future direction are extremely difficult to predict at present, our current expectation is that 2023 will see the market return to more normal patterns of growth and our plan remains to grow our business at about twice the rate of the market in real terms over the medium term, alongside delivering 5-6% margins, and strong, sustainable and growing returns to shareholders. The next steps in our growth journey will focus on strengthening our B2G Platform further and executing our existing strategy through three key new value drivers: Customers – growing customer impact and market share; Colleagues – growing the value of colleagues' work; and Capabilities – growing margins and efficiency. Together, these will help us to deliver our expectations to all our stakeholders, and ultimately to impact a better future.

Our market

Serco delivers services in partnership with governments and other institutions who serve the public or protect vital national interests in the UK, continental Europe, North America, Asia Pacific and the Middle East. We focus on five sectors primarily – Defence, Justice & Immigration, Transport, Health & other Facilities Management and Citizen Services – however, our Business to Government Platform and the depth and breadth of our capabilities ensure we are well placed to respond to government needs across a very broad spectrum of services.

Our sectors and markets

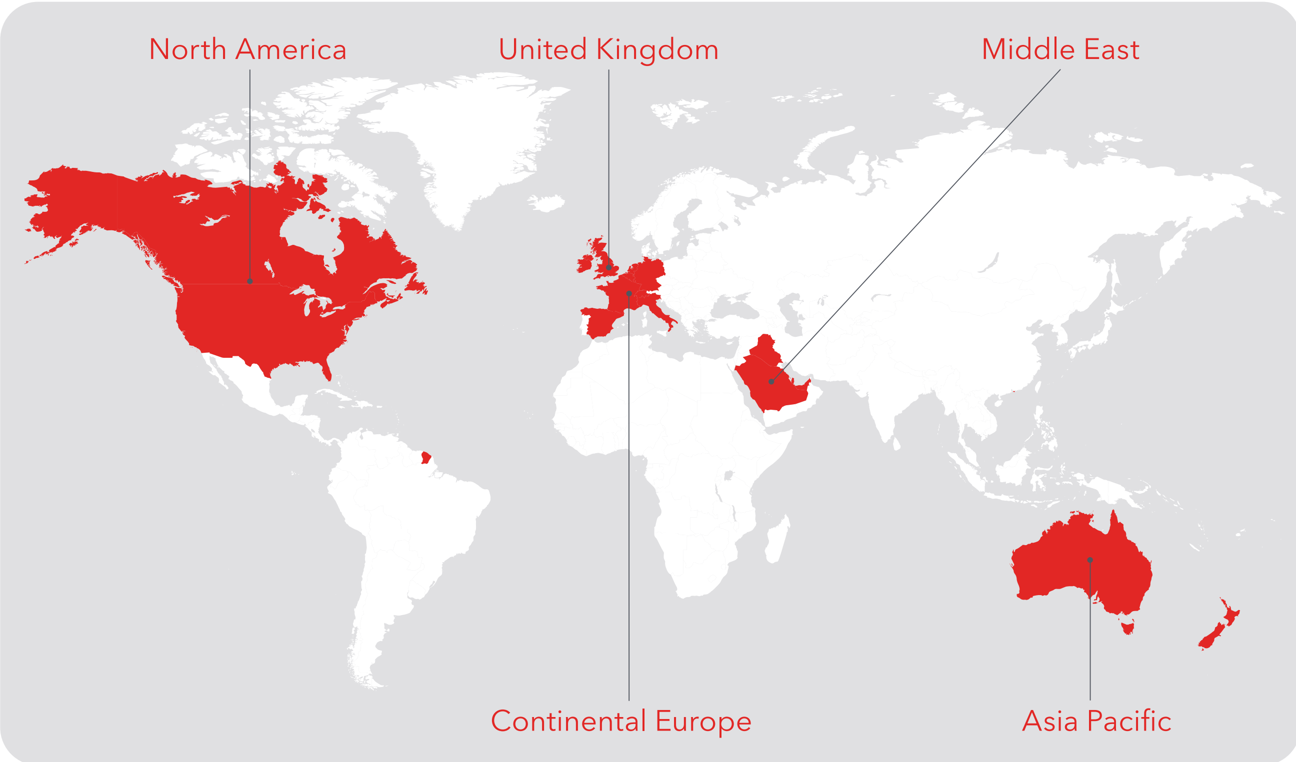
Transport
Facilitating safe and efficient movement of people and goods

Citizen Services
Contributing to the wellbeing of citizens and communities

Justice & Immigration
Safeguarding those in our care and beyond

Defence
Protecting national and international security interests

Health & other FM
Enhancing public sector infrastructure, patient experience and care quality



Government and the private sector – partnering for public impact

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

Governments have two basic responsibilities: to develop policies which meet the needs and priorities of their citizens; and to ensure that those policies are delivered effectively and at a cost which represents value for money. Many of the services that support policy delivery can be run most effectively and efficiently on behalf of government by private companies using techniques, management, technology and processes developed in the private sector.

In summary, partnering with the private sector helps governments deliver more, and better, for less:

- It allows governments to concentrate on development of policy and measurement of outcomes.
- Choice brings new ideas and innovation.
- Competition drives public services' quality up and drives cost down.
- It brings skills and attributes governments do not always have.

Serco specifically has two attributes which make it a particularly effective government partner: a dedicated focus on and deep understanding of government through our B2G Platform; as well as our international footprint and access to global best practice.

What the private sector brings to enhance public impact

- Risk transfer
- Innovation and technology
- Efficiency and productivity
- Focus on outcomes and citizens
- Delivery of social value and ESG objectives
- International best practice
- Lower cost, better value
- Accountability, transparency, KPIs
- Flexibility and agility

Our Market continued

Research on outsourced services, commissioned by the Serco Institute, and carried out by Capital Economics, the independent economic research consultancy, supports the view that private companies can help governments deliver "more, and better, for less":

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

Unique demands of public service delivery create barriers to entry

Providing government services to citizens, funded by taxpayers, is tangibly different, and in many ways more demanding, than providing services to the private sector or consumers.

Responsibility for public service delivery requires careful management of politics and the expectations of communities. Alongside reputational risk, transparency, public procurement regulations, financial reporting standards, information standards, and other requirements also tend to be far more complex than those generally seen in the private sector. Supplying governments requires unique skills and imposes significant cost and complexity. The combination of these market characteristics has the effect of creating barriers to entry that aren't apparent at first glance.

It is not controversial to say that efficiency, flexibility and dynamism are not always core skills of government administration, and Serco has deep expertise in providing a bridge between the skills and culture of the private and public sectors. Our ingrained public service ethos means we can help deliver government services efficiently, but in a way that recognises the need for public accountability and trust.

Supplying critical services to governments requires unique skills; imposes significant cost and complexity; creates barriers to entry:

Complex, differing and constantly changing government procurement regulations	Social value/ESG targets inherent in procurement	Mandatory and discretionary pre-qualification and exclusion criteria	Financial reporting and transparency; caps on profitability and profit sharing
Government-specific cyber security, national security and information standards	Defence-specific restrictions; corporate and individual security clearances	Oversight, audit and scrutiny by customer, politicians and press; reputational risk	Hard-to-change and complex contracts

Some history to note

In the UK in particular, our sector has learned some important lessons from history.

For nearly 30 years between 1980 and 2010, Serco grew rapidly as the market for outsourcing public services developed around the world. Privatisation and outsourcing became popular in many countries and drove rapid growth of an industry that had barely existed before. Suppliers became profitable and skilled at delivering value for all parties from government work.

As the global financial crisis of 2008 took hold, governments began to urgently seek ways of reducing costs, and the private sector, representing a significant proportion of government expenditure, became the object of close government attention. Then, in 2010 in the UK, the Conservative-Liberal Democrat Coalition, with an avowed intent of reducing the deficit, demanded rebates of hundreds of millions of pounds from contractors, strengthened its commercial teams and procurement practices, and set about transferring significant amounts of risk to the private sector. In the US, 'Lowest Price, Technically Acceptable' was increasingly used instead of an approach of overall 'Best Value' as a tender evaluation methodology.

In the subsequent years, the UK government services outsourcing industry was characterised by over-supply, aggressive behaviour by both government and suppliers, and the ill-advised transfer of risks that private companies had limited ways to mitigate or manage. Multiple companies suffered huge losses on government contracts and, as a consequence, the UK Government is now faced by a more wary, and less vibrant, supply chain. An illustration of this is the number of responses the Government receives from suppliers to its tenders. In 2013, just 4% of public tenders in the UK had only one supplier respond but by 2020 this had increased to 23%*.

In response, in recent years the UK Government has developed a series of 'playbooks', with the intention of working back towards a more balanced and sustainable position which sets out common best-practice approaches to procurement. Over time, this is driving value for money for taxpayers, high quality and reliable services, innovation and improved efficiencies, as well as fair returns to suppliers, which will in turn ensure that government again benefits from a vibrant and diverse supply chain. This moving of the relative power between buyer and seller is common to many markets as they mature.

* Source: Spend Network

Moreover, there has been an increasing focus on the impact we make not just through our capabilities, but on the communities we serve. We have seen the ESG agenda become more prominent, and in the UK 'social value' become a mandatory element of central government procurement.

The years 2020-21 in particular were characterised by the Covid-19 pandemic which had a profound, but essentially temporary, impact on the government services market. Across the whole of government's response, the private sector was mobilised to support their efforts.

And finally in 2022, before the turbulence of Covid-19 had fully faded, the Russian invasion of Ukraine brought world-wide disruption of the efforts to rebuild after the virus. The concatenation of these two catastrophes will shape public policy for years to come. Governments are struggling to square promises to invest in energy transition and to 'build back better' with the realities of materially increased levels of public debt incurred mitigating the impact of Covid-19; the need to increase defence expenditure; and inflation, with its outriders of unplanned increases in debt service and other costs – notably in pay for public servants. When they look to balance the value equation, however, we think governments will need more than ever the innovation, efficiency and skilled operational management the private sector can bring to the effective delivery of public services.

Drivers of demand

Governments are, and will continue to be, required to deliver services to their citizens – be it in defence, transport, health, education or social care – and the essential job of governments of collecting taxes which they then use to provide services to the benefit of their citizens is highly unlikely to alter in our lifetimes.

We have developed a model which describes drivers of demand for our services, which we call the 'Four Forces' and we think the Four Forces will only have been amplified by recent market forces and world events and are compounded by the current constraints on labour markets, technology deficits within governments, and geopolitical uncertainty.

Of course, the shape, size and form of services will evolve. However, as a learning organisation, we continue to develop our offering and these Four Forces give, in our view, a structural under-pinning to the enduring need for governments to provide more public services, of higher quality and resilience, for less money. In short 'more, and better, for less'. As discussed in more detail above, we believe that to deliver this impact, for less, governments will need the skills, resources, innovation and nimbleness of the private sector.

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

The Four Forces

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 very hard to define. 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 large and complex addressable market into new areas through acquisitions and building new capabilities.

Over the years, and most recently in December 2021, we commissioned work to try and size the market in the sectors and geographies we currently operate in, which are clearly a subset of the global market. In the latest exercise we used two independent research firms – Renaissance Strategic Advisers and Oxford Economics – to estimate market size and growth rates, from which we have formed our own central estimates.

We estimated that total spending by governments on outsourced services in the markets in which we operate was around £715bn, which we estimated represents around 65% of the world market, excluding, for example, China and Russia, and that our market share was between 1% and 3%, depending on whether we look at segments we operate in or the market as a whole. And we estimated that the market will grow at around 2-3% per year in the medium term. Rather than concentrate on the absolute number, which is likely to have a significant margin for error, some key conclusions from our work are:

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

Our Market continued

Benefits of sector breadth and geographic reach

Our business is highly diversified, spanning five areas of government service – Defence, Justice & Immigration, Transport, Health & other Facilities Management and Citizen Services – and with substantial operations across North America, UK & Europe, the Middle East and Asia Pacific. We know of no other company in our market which offers such a broad range of services covering front, middle and back-office requirements across multiple geographies and areas of public service delivery. Most companies are heavily focused in either a particular sector, or within a geography, with Serco a rare beast.

Serco is able to transfer insights, skills and processes from one sector or region to another, with governments globally facing similar challenges: new approaches to running prisons and reducing youth re-offending in the UK emanate from Australia; and our Defence business in the Middle East serves Australian armed forces with fire services using UK and North American expertise. This international and interdepartmental sharing of ideas and best practice is something which governments can often find hard to achieve and we are therefore well positioned to help governments anticipate and meet new and unexpected challenges.

We also believe diversifying our exposure to individual governments and sectors is beneficial and represents a competitive advantage in an environment in which governments can be capricious: decision-making processes regularly come to a halt around elections; the attitude to using private companies can be volatile; and political priorities can change quickly. As we continue to grow, leveraging our B2G platform, we will elevate our customer relationships, increasingly partner with governments to identify challenges, and broaden our value chain participation so that it stretches from solution discovery to service delivery.

Agile suppliers with an international footprint and a range of service offerings can follow demand and shift their focus to where they can get a fair return for the risk they take on.

Market – summary

To recap, the market for the provision of public services for private companies is huge (at an estimated £715bn per annum), diverse, liquid, growing at an estimated 2-3% compound annual growth rate (CAGR) to 2026 in real terms and is unlikely to disappear.

Serco's market share is estimated to be somewhere between 1% and 3% depending on the business segment, and we believe we can grow revenues twice as fast as the market in real terms to gain share.

Since 2018, Serco's revenues have grown by 60% – a compound annual growth rate of 12.4%. Underlying Trading Profit over the same period has grown from £93m to £237m – a compound annual growth rate of 26%. This illustrates our ability to grow faster than the market.

~£715bn

is our estimate of spend on outsourced government services in Serco's regions in **2021**

~65%

of worldwide* **outsourced** government services **spend is to be found in Serco's target geographies**

~1%

is our estimate of **Serco's share of the market**, broadly defined; this is around 3% for the segments we currently address

~2-3%

is our estimate of the **CAGR of outsourced government services** spending in Serco's regions **to 2026**

Four Forces

The Four Forces are only growing stronger, driving demand for more, and better, for less

Public Service Trends

Tech, data, digital, ESG, social value, agility, citizen insight, flexibility, **workers' rights** and transparency **all growing in importance**

Economic and Political Volatility

A new federal government in Australia, a new Government in the UK, a war in Europe and inflation all demand careful attention

Talent

The 'great resignation' labour shortages post Covid-19, rising wages and **the battle for talent continues to impact across regions**

Sources: Renaissance Strategic Advisors, Oxford Economics, Serco

* Does not include China and Russia

Our Management Philosophy

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

Our Values

Trust | Care | Innovation | Pride

Our Purpose – what we want to be

A valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference for our fellow citizens

Our Organising Principles

Flair, agility, innovation Empowerment Decentralisation of execution	Loose-Tight management Disciplined entrepreneurialism	Rigour, discipline Common processes Centralised intent

Our Method

Winning good business	Being the best-managed company in the sector	A place people are proud to work
Executing brilliantly		Profitable and sustainable

Our Longer-Term Deliverables

Revenue growth	Trading margin	Employee engagement
4-6%	**5-6%**	**70 points or above**

Our Values

The core of our business is people – many thousands of them – delivering public services. It is of central importance to our success that our colleagues, many of whom are former public servants, and our customers know that we have values appropriate to a company delivering services paid for by taxpayers to often vulnerable and disadvantaged citizens. Our people care about their work, they know the work they do is important, and they take pride in doing it well. That's why, supported by productivity-improving technologies, we are looking to further enhance the value our colleagues bring, and empower them.

Before our customers will award us sensitive work, they have to trust us. And to win business we have to come up with innovative solutions which will enable governments to deliver more, and better, for less. This is why our values of Trust, Care, Innovation and Pride are so important. We are not so naive 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 behaving in the right way; 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. In this, we reflect the values of our customers, which they call a 'public service ethos', and we call our Values.

Our Management Philosophy continued

Our organising principles

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

> *"Loose-Tight… is the coexistence of central direction and maximum individual autonomy. …Organisations that live by the loose-tight principle, are on the one hand rigidly controlled, yet at the same time allow (indeed insist on), autonomy, entrepreneurship, and innovation from their people."*
>
> **Tom Peters: In Search of Excellence**
>
> *"Avoid bureaucracy and hierarchy and instead create a culture of discipline. When you put two complementary forces together – a culture of discipline with an ethic of entrepreneurship – you get a magical alchemy of superior performance and sustained results."*
>
> **Jim Collins: Good to Great**

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

Our method – the strategic priorities to achieve our aspiration

The method we use to deliver our strategy and our aspiration to be the best-managed business in our sector is to concentrate on doing four things really well:

- winning good business;
- executing brilliantly;
- being a place people are proud to work; and
- being profitable and sustainable.

Our medium-term targets

Between 2018 and 2022, our revenue grew at a compound annual rate of 12.4% and our Underlying Trading Profit grew at a compound annual rate of 26%, with our margins improving from 3.3% in 2018 to 5.2% in 2022.

Our medium-term financial targets are that, from the 2022 base, as laid out in December 2021, we expect:

The market will grow at ~2.3%	Revenue will grow on average about twice as fast as the market	Profits to grow faster than revenues as margins increase	Strong conversion of profit into cash	Shareholder returns to grow faster than profits
2-3% Market CAGR	4-6% Average revenue growth	5-6% Trading profit margin	>80% Cash conversion	>4x ➡ 3x Dividend cover + share buybacks

Underpinned and enhanced by value-adding M&A

Intensified inflationary pressures on government expenditure may result in government expenditure on outsourced services growing faster than expected and while we believed that we could grow our revenues at twice an assumed market rate of 2-3%, were nominal government expenditure to grow much faster as a result of inflation, for example 5%, we would not expect to grow our revenues twice as fast on a nominal basis.

Our B2G Platform

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

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

1	**Public Service DNA**	This relates to our values, culture, reputation with buyers, understanding of government, public service ethos, demonstrated social responsibility and our transparency and sustainability commitments
+		
2	**Deep sector expertise, IP and know-how**	This relates to our knowledge of our market and sectors, and the know-how and IP developed delivering complex contracts in many jurisdictions over 30 years
+		
3	**Solutions delivered in >20 countries by large regional businesses**	This relates to our global position, scale, depth, expertise and cross-Divisional collaboration, as well as the strength of our customer relationships
+		
4	**Supported by efficient shared services and capabilities**	This relates to our HR, finance, assurance, governance, procurement, IT and cyber security, legal and commercial, risk management and M&A functions and activities, as well as our approach to workforce management and asset management
=	**Our B2G Platform**	

Our **public service DNA** means that we speak the same language as our customers and this builds trust and the right instincts. In turn, this brings **deep insight, understanding and know-how** about the development and delivery of public services and a culture and commitment to the delivery of public service that reflects our customers.

Underpinning all of this is a **large and well-invested shared services platform**. Our customers' objective is to buy more, and better, for less, yet they often insist on buying contracts as a bespoke item, and generally standardisation is not necessarily valued.

The way we square this circle is to consider how contracts are the same. All our contracts use HR, finance, compliance, assurance, governance, procurement, IT and cyber security, legal and commercial, risk management, workforce management, talent development, and bidding support. And we provide these things collectively and in common across contracts from an efficient shared services infrastructure, which means we can bring the advantages of efficiency and scale to bespoke solutions.

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

Our B2G Platform continued

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

Agility is important, because, as touched upon above, governments change their mind and the flow of funding, while in aggregate may stay the same or increase, takes different paths into the supply chain. We have a well-developed process to identify and respond to these changing government priorities and the revenues we have generated from this agility are astonishing: one example of this is Obamacare – before its introduction in the United States, we had never done healthcare eligibility testing, but since winning a role in this programme we have generated revenues of over £1.45bn.

Our **breadth** of offerings across a wide range of government activities is important, as this enables us to tap into multiple sources of government funding, while international reach gives us a far wider horizon to scan for new opportunities, and the ability to focus our resources on the most attractive opportunities across multiple jurisdictions.

Marry the **international reach**, with the agility, with the breadth of services, and Serco has a powerful platform for selling and delivering services and growing faster than the market.

But we also need to be **efficient** – no more so than today in our current macroeconomic environment – and Serco is organised with common approaches to common services, which allow us, subject to security restrictions in each country, to share these services across our businesses.

A key part of **resilience** relates to risk management. Resilience in our business comes from two sources: diversification of exposure by segment and geography – which we have just covered – and robust risk management. Serco has had experience of risk-gone-wrong, and when the current management joined the Company in 2014, there were more than 50 loss-making contracts against which provisions had to be made.

Inevitably, in a business like Serco, contracts will become loss-making from time to time, but today we seek to mitigate this by having a strong bidding process, which has a series of gates from pre-qualification through go/no-go decisions, customer shortlisting, confirming bid decisions, approving bids and through to contract signature. And this process applies to all new contracts and rebids. Once a contract has been signed it is then reviewed on a regular basis through the monthly business unit and Divisional performance reviews.

As we proceed into 2023, and we look to further strengthen our platform, we have identified three areas in particular where driving the execution of our strategy can have highest impact in the coming period. These are: Customers – growing customer impact and market share; Colleagues – growing the value of colleagues' work; and Capabilities – growing margins and efficiency. You can read about these in more detail under Strategic Objectives and Achievements on page 25.

Summary

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

Chief Executive's Review

> Strong results from a more diverse and resilient business, and the opportunity to make a positive difference to people, place, and planet to impact a better future."

Mark Irwin
Chief Executive Officer

Year ended 31 December	2022	2021	Change at reported currency	Change at constant currency
Revenue[1]	£4,534.0m	£4,424.6m	2%	(1%)
Underlying Trading Profit (UTP)[2]	£237.0m	£228.9m	4%	(3%)
Reported Operating Profit[2]	£217.2m	£216.2m	0%	
Underlying Earnings Per Share (EPS), diluted[3]	13.92p	12.56p	11%	
Reported EPS (i.e. after exceptional items), diluted	12.79p	24.43p	(48%)	
Dividend Per Share (recommended)	2.86p	2.41p	19%	
Free Cash Flow[4]	£159.1m	£189.5m	(16%)	
Adjusted Net Debt[5]	£203.9m	£178.0m	15%	
Reported Net Debt[6]	£649.9m	£608.3m	7%	

Highlights of 2022

- **Revenue:** grew by 2% to £4.5bn, despite Covid-related revenues reducing by £480m. Revenue excluding Covid and currency grew by 11%.
- **Underlying Trading Profit:** increased by 4% to £237m, a margin of 5.2%. Performance of international portfolio strong; three-quarters of Group UTP derived from outside the UK[7].
- **Underlying Earnings Per Share:** increased by 11%.
- **Reported Earnings Per Share:** prior year included recognition of £145m UK deferred tax asset.
- **Free Cash Flow:** above prior guidance at £159m, Underlying Trading Profit cash conversion of 97%.
- **Order book:** grew by 8% to £14.8bn.
- **Adjusted Net Debt:** increased by only £26m, after £120m returned to shareholders through dividends and share buyback, and acquisition funding of £26m; covenant leverage at the year-end of 0.8x EBITDA, similar to prior year.
- **Order intake:** at £4.2bn, book to bill of 93%. New business pipeline of £8.4bn strong and slightly up on H1.
- **Dividend Per Share:** recommended final dividend per share of 1.92p, +19% year on year.
- **New £90m share buyback in 2023:** continuing to return capital to shareholders as a result of strong trading and cash conversion consistent with our capital allocation priorities.
- **Unchanged revenue and profit guidance for 2023:** Underlying Trading Profit expected to be similar to 2022 at around £235m[8].
- **Strategy remains unchanged:** execution focused on three value drivers; customers, colleagues and capabilities, to support growth across all our divisions.
- **Medium-term outlook:** short-term growth profile influenced by Covid-related work dropping out and the impact of rebidding two of our largest contracts; medium-term growth targets unchanged at 4-6% revenue growth a year on average.

Chief Executive's Review continued

Resilient operational and financial performance against a backdrop of profound global challenges in 2022 with revenue ex-Covid and currency up 11%; Guidance for 2023 maintained, as are medium term growth targets.

I am immensely proud of the achievements of all my Serco colleagues around the world during 2022 in another year of profound global challenges as we faced war in Europe; inflation at levels not seen for a generation; labour shortages; the lingering effects of Covid, and the manifestation of climate change bringing risk to lives and livelihoods.

Against this very difficult backdrop Serco has delivered another year of strong operational and financial performance, growing revenues and profits despite Covid work coming to an end. Between 2019 - the last year without any Covid-related work - and 2022, we have increased revenue by 40% and almost doubled Underlying Trading Profit from £120m to £237m. As well as a strong and consistent financial performance, we move out of the Covid period, with a business that has stronger customer relationships, improved geographic diversity, more resilience, and greater opportunities focused on impacting a better future for people, place, and planet.

Order intake in the year of £4.2bn represented a book-to-bill ratio of 93%. Given the long-term nature of our order book we look at book-to-bill on an average basis, which over the last five years, has averaged 112%. The strength of our international portfolio is highlighted by our North American business which achieved a book to bill of 157% in the year. This included very strong new award and rebid rates in our Maritime Engineering Technology & Sustainment (METS) business unit which is predominantly composed of the NSBU business we acquired in 2019. Our order book remains robust at £14.8bn which excludes the £1.5bn of order book in Vivo, our joint venture with Equans. Our qualified pipeline of new business stands at £8.4bn, a healthy level.

In response to the surge in inflation during 2022, we increased colleagues' pay faster than we had expected to at the beginning of the year, and we also distributed an additional £9m in one-off payments to colleagues around the world outside management grades, recognising the pressure many people, particularly our frontline colleagues, are under at this time. This followed a previously announced colleague payment of £6m made in February and a broader portfolio of support through our Employee Assistance Program, Financial Wellbeing Hub, hardship grants from the Serco People Fund and Serco MyBenefits program which offers savings at more than 1,000 retailers.

Our commitment to the safety and wellbeing of colleagues remains foremost in our efforts to protect and deepen the relationship between Serco and the people whose dedication and commitment stand behind our success. Physical safety measures and mental wellbeing initiatives have been under constant review to take on new learnings and adapt to operating environment changes. We have maintained high levels of employee engagement and strengthening our employee value proposition has enabled a reduction in vacancies despite tight global labour markets.

Our results for 2022 continue a track record of strong performance over recent years which has enabled us to deliver on all the pillars of our capital allocation strategy: investing in the business to support growth and efficiency; growing returns to shareholders by increasing dividends and executing share buybacks; making value-adding acquisitions.

The business has repeatedly shown that when work draws to a close on any particular contract – such as Covid work or AWE – the agility and scale of our B2G platform and strong customer relationships mean we can replace this with new work or growth from the existing portfolio. The anticipated changes in our contract portfolio will require us to continue doing this as Covid-related work completely drops out and we see the impact of rebidding two of our largest contracts where profitability is likely to be lower at the beginning of any new service period. We have now secured the CMS rebid and continue our preparation for the Australian immigration services procurement which is expected in 2023. Although the Group's growth profile will be affected in the near term as these factors work their way through, we expect the rest of the business to continue to grow, and we have the prospective pipeline to be able to replace over time any reduction in contribution from contract portfolio changes.

Our expectation remains, as we set out at our Capital Markets Day in December 2021 and our full year results in February 2022, that the business will grow revenues at an average of 4-6% a year over the medium term as governments, more than ever, look to the innovation, efficiency and skilled operational management that partnership with Serco can bring to their most pressing challenges. In this regard, our strategic framework remains unchanged but with a clear execution focus on three key value drivers: growing market share through deeper relationships with customers and a more ambitious and rigorous targeting of the post-pandemic government services market; growing the value of work to increase the enablement, retention and advocacy of colleagues; and growing our margins by more actively embracing technology to deliver productivity through process automation and workforce augmentation.

Looking forward we cannot predict the precise nature of the changes which lie ahead for citizens, communities and the governments that serve them, but we don't expect they will lack challenge or complexity. We therefore believe the need to partner with our customers and others to deliver a positive impact has never been clearer, or the opportunity to grow more compelling.

As we move to the next stage of our mission to partner with governments to impact a better future, we remain grateful to our customers for their trust, to our colleagues for their dedication and commitment, and to our shareholders for their confidence and support.

Guidance for 2023

Our guidance for 2023 is unchanged from our pre-close trading statement on 15 December 2022, other than net debt, which reflects the better-than-expected cash performance in 2022 and the new £90m share buyback. We expect the known headwinds from Covid and some other contracts ending to be compensated by increased contribution from newer contracts ramping up and improvement across the portfolio. We enter 2023 with good visibility of the value enhancing levers to strengthen our B2G platform and a strong pipeline of new business opportunities to deliver our medium-term growth targets.

	2022	2023	
Guidance	Actual	Initial guidance December 22	New guidance
Revenue	£4.5bn	At least £4.6bn	At least £4.6bn
Organic sales growth	(4%)	~0%	~0%
Underlying Trading Profit	£237m	~£235m	~£235m
Net finance costs	£20m	£25m	£25m
Underlying effective tax rate	22%	25%	25%
Free Cash Flow	£159m	~£120m	~£120m
Adjusted Net Debt	£204m	~£130m	~£200m

NB: The guidance uses an average GBP:USD exchange rate of 1.23 in 2023 and GBP:AUD of 1.76, which is based on currency rates as 31 January 2023. New Net Debt guidance includes the £90m share buyback programme that we expect to complete in 2023. We expect a weighted average number of shares in 2023 of 1,132m for basic EPS and 1,153m for diluted EPS, which assumes the share buyback is completed evenly across the remainder of 2023 at a share price of £1.49 (the closing price on 27 February).

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 2022 into sterling at the average exchange rates for the prior year. Change excluding Covid is calculated by removing Covid-related revenue from the prior and current years.

(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 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 £m	2022	2021
Underlying Trading Profit	**237.0**	**228.9**
Include: non-underlying items		
OCP charges and releases	0.2	1.3
Other Contract and Balance Sheet Review adjustments and one-time items	4.0	3.2
Trading Profit	**241.2**	**233.4**
Amortisation of intangibles arising on acquisition	(21.6)	(16.0)
Operating Profit before exceptional items	219.6	217.4
Operating exceptional items	(2.4)	(1.2)
Reported Operating Profit	**217.2**	**216.2**

(3) Underlying EPS is derived from 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 is used by Serco as an additional non-IFRS Alternative Performance Measure (APM). This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities including those recognised under IFRS16.

(6) Reported Net Debt includes all lease liabilities, including those recognised under IFRS16. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:

As at 31 December £m	2022	2021
Adjusted Net Debt	**203.9**	**178.0**
Include: all lease liabilities	446.0	430.3
Reported Net Debt	**649.9**	**608.3**

(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 2022 was £281.6m.

(8) Our outlook for 2023 is based upon currency rates as 31 January 2022. The rates used, along with their estimated impact on revenue and UTP are:

Year ended 31 December	2023 outlook	2022 actual	2021 actual
Average FX rates:			
US Dollar	1.23	1.24	1.38
Australian Dollar	1.76	1.78	1.83
Euro	1.14	1.18	1.16
Year-on-year impact:			
Revenue	~£30m	£175m	(£73m)
UTP	~£3m	£14m	(£7m)

Reconciliations and further detail of financial performance are included in the Finance Review on pages 83 to 94. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The Consolidated Financial Statements and accompanying notes are on pages 189 to 259.

Summary of financial performance

Revenue, Underlying Trading Profit and Underlying Earnings Per Share

Revenue increased by 2%, or £109m, to £4,534m (2021: £4,425m), despite the £480m year-on-year reduction as Covid-19 work came to an end. Much of this 11% drag was offset by growth in other areas such as case management and immigration services. Organic revenue growth in the rest of the business offset the Covid-19 drag by 7% and consequently the overall organic revenue decline was held to 4% (£183m). This decline was more than offset by acquisitions, which contributed 3% (£117m) and favourable currency movements that added 4% (£175m).

Underlying Trading Profit (UTP) increased by 4%, or £8m, to £237m (2022: £229m). On a constant currency basis, excluding the £14m benefit from favourable currency movements, UTP decreased by 3%. Reduced Covid-related work and the ending of our AWE contract in June 2021 together reduced profit by around £65m, or nearly 30% of prior year UTP. Underlining the resilience of our business, these impacts were offset by strength in our case management work in North America, increased demand for immigration services, and the positive effect of new work secured in 2021 such as the DWP Restart Programme and the Defence Infrastructure Organisation (VIVO JV) contracts. The Americas, Asia Pacific and Middle East regions all improved their Underlying Trading Profit margins, which offset the impact of lower margins in the UK & Europe division, helping our UTP margin remain stable at 5.2%.

Year ended 31 December 2022 £m	Americas	UK&E	AsPac	Middle East	Corporate costs	Total
Revenue	**1,269.8**	**2,100.2**	**954.6**	**209.4**	**–**	**4,534.0**
Change	*+13%*	*(1%)*	*+5%*	*(21%)*		*+2.5%*
Change at constant currency	*+2%*	*(2%)*	*+2%*	*(28%)*		*(1.5%)*
Organic change at constant currency	*(1%)*	*(5%)*	*+0%*	*(28%)*		*(4.4%)*
Underlying Trading Profit	**136.6**	**72.1**	**56.9**	**16.0**	**(44.6)**	**237.0**
Margin	*10.8%*	*3.4%*	*6.0%*	*7.6%*	*(1.0%)*	*5.2%*
Change	*+16%*	*(25%)*	*+11%*	*+17%*	*(11%)*	*+3.5%*
Onerous contract provision charges & releases	0.1	0.1	–	–	–	0.2
Other one-time items	–	4.0	–	–	–	4.0
Trading Profit/(Loss)	**136.7**	**76.2**	**56.9**	**16.0**	**(44.6)**	**241.2**
Amortisation of intangibles arising on acquisition	(16.5)	(1.5)	(3.6)	–	–	(21.6)
Operating profit/(loss) before exceptionals	**120.2**	**74.7**	**53.3**	**16.0**	**(44.6)**	**219.6**

Diluted Underlying Earnings Per Share increased by 11% to 13.92p (2021: 12.56p). The percentage improvement was higher than the increase in UTP due to reduced net finance costs, a 2% decrease in the effective tax rate, which benefitted from a reduction in provisions following a review of tax positions, and a 2% reduction in the weighted average number of shares because of our share buyback.

The Revenue and Underlying Trading Profit performances are discussed in more detail in the Divisional Reviews, starting on page 31.

Cash flow and Net Debt

Free Cash Flow at £159m was lower than the prior year (2021: £190m), but still represented a 97% Underlying Trading Profit conversion. The prior year conversion was 112% and included the benefit of a working capital inflow of £25m, helped by the successful collection of some older receivables on our Dubai Metro contract and short payment terms on our Covid-related work. Average working capital days remained at appropriate levels for a government contractor with debtor days of 22 (2021: 19 days) and creditor days of 21 (2021: 23 days). Of all UK supplier invoices, 87% were paid in under 30 days (2021: 89%) and 95% were paid in under 60 days (2021: 95%). No working capital financing facilities were utilised in this or the prior year.

Adjusted Net Debt increased by £26m to £204m at 31 December (31 December 2021: £178m). Excluding a £25m adverse impact from foreign exchange movements, Adjusted Net Debt was flat, while Free Cash Flow was spent largely on the share buyback programme (£91m), dividend payments (£30m) and acquisitions (£26m).

The period end Adjusted Net Debt compares to a daily average of £231m (2021: £216m) and a peak of £377m (2021: £346m). While we typically see a range across the year due to the timing of working capital flows, dividends, share buyback activity, acquisition spend and currency fluctuations, it was pleasing to have similar year-end and average debt levels.

Our measure of Adjusted Net Debt excludes lease liabilities, which aligns closely with the covenants on our financing facilities. Lease liabilities totalled £446m at the year-end (2021: £430m), the majority being leases on housing for asylum seekers under the AASC contract. The terms of these leases do not extend beyond the expected life of the contract we have with the customer.

At the closing balance sheet date, our leverage for debt covenant purposes was 0.8x EBITDA (2021: 0.7x). This compares with the covenant requirement for net debt to be less than 3.5x EBITDA and our target range of 1-2x.

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

Return on Invested Capital

Underlying Return on Invested Capital, which is calculated pre-tax, remained high at 20.6% (2021: 23.7%). The reduction versus 2021 reflected the prior year benefitting from a relatively limited increase in the invested capital base. This was due to strong collections of some older receivables, low working capital requirements of the Covid-19 related work and because the goodwill related to the acquisitions of Facilities First and WBB was in the closing balance sheet but not the opening position.

Capital allocation and returns to shareholders

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

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

We continued to deliver our capital allocation policy in 2022:

- **Invest to support organic growth:** we have continued to invest in our colleagues, infrastructure and capabilities. Increased investment has been put into business development, which has supported our healthy pipeline of new opportunities. We continue to invest in our IT systems and cyber security, and we are further developing our enterprise workforce solutions. We increased colleagues' pay faster than we had expected to at the beginning of the year, made additional one-off payments and a broader portfolio of support. We also restarted our Oxford Management Training programme, which was suspended during Covid, and we have developed and launched our Women in Leadership programme in partnership with Saïd Business School.
- **Increase ordinary dividends:** the Board is recommending a final dividend of 1.92p per share. Following the interim dividend of 0.94p, this results in a full year dividend of 2.86p, an increase of 19% compared to 2021, as we continue on our path to reduce dividend cover progressively towards 3x over the coming years.
- **Invest in acquisitions:** we completed the acquisition of ORS, a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy, and we also acquired Sapienza, a European provider of software services to the space sector. We continue to assess other opportunities aligned to our strategy.
- **Return surplus cash to shareholders:** in 2022 we completed a £90m share buyback and the Board has agreed that it intends to buy back a further £90m of its shares during 2023.

Contract awards, order book, rebids and pipeline

Contract awards

Order intake in 2022 was £4.2bn, a book-to-bill rate of 93%. Order intake in the government services sector is lumpy by its nature and after an extremely strong 2021, book-to-bill dropped to slightly below 100% in 2022. North America had the strongest book-to-bill at 157%, with robust new order intake in Defence and Citizen Services as well as a strong rebid performance in Defence. Over the five-year period, our aggregate global book-to-bill ratio has been around 112%. There were around 60 contract awards worth more than £10m each and 3 with a total contract value of more than £200m. Around £2.0bn, nearly half, of the order intake came from the Americas, £1.9bn, or approximately 45%, from the UK & Europe, with the remainder in Asia Pacific and the Middle East.

Chief Executive's Review continued

Approximately half of the order intake was constituted by the value of new business and half was rebids and extensions of existing work. The win rate by value for new work was around 25% while the win rate by value for retaining existing work was approximately 60% in the year.

Our North American defence business won the Ship Acquisition Programme / Project Management (SHAPM) contract from the US Navy, which we expect to be worth £280m over five years and a £60m, 2.5-year contract for design, prototype construction and demonstration of a next generation large, unmanned ship as part of the No Manning Required Ship (NOMARS) programme. We were also successful in the rebid of our US Navy SEA21 contract. The new contract is expected to be worth around £330m over five years and will see us provide technical services related to international fleet support, surface ship modernisation, surface ship in-service readiness and surface training systems. In Canada, we were selected by the Government of Ontario as part of the province's Employment Services Transformation (EST) program. The programme aims to assist job seekers develop their skills and match them to employment opportunities that result in meaningful long-term careers, and is expected to be worth around £110m over five years. In the UK, the largest single new business award was our contract to manage the new HMP Fosse Way prison on behalf of the Ministry of Justice, which we expect to generate revenue of more than £400m over its life. Also, in our Justice and Immigration sector, significant increases in the numbers of service-users led to us securing additional immigration work that is expected to be worth an estimated £500m over two years. VIVO Defence Services, our joint venture with Equans, followed on from its success in 2021 by securing contracts from the UK Defence Infrastructure Organisation (DIO) to deliver asset and facilities management services to the United States Visiting Forces (USVF). These have an estimated value to Serco of around £60m over the initial three-year period. Also in the UK, we successfully rebid our contract to provide facilities management services at Norfolk and Norwich University Hospital, with an estimated value of £130m over five years.

Bids for new work that were unsuccessful in the period included a contract to deliver vehicle licensing and registration for the State of Victoria transport department, services as part of the redevelopment of Frankston Hospital, also in Victoria, and the contract to provide estate management and other services to the Ministry of Defence's Training Estate. In addition, we withdrew from the competition to build three new Fleet Solid Support ships for the Royal Navy. Rebids in the UK that were unsuccessful included Lowdham Grange prison, some work for the Department of Work and Pensions, and two environmental services contracts. Included in the above numbers is the announcement from UK MoD on February 15 2023 on the outcome of the Skynet 6 procurement, where the Athena consortium, of which Serco was a member, was unsuccessful.

Order book

The order book increased by 8% from £13.7bn at the start of the year to £14.8bn at the end of December. Our order book definition gives our assessment of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods and the order book would be £1.9bn (2021: £1.2bn) higher if option periods in our US business, which typically tend to be exercised, were included. If joint venture work was included this would add a further £2.0bn (2021: £2.2bn) to our order book.

Rebids

In our portfolio of existing work, we have around 70 contracts with annual revenue of £5m or more where an extension or rebid will be required before the end of 2025, with an aggregate annual revenue of £1.5bn. Contracts which will either need to be rebid or extended in 2023 have an annual contract value of around £0.7bn, which includes our Immigration Services in Australia, scheduled to end in December 2023. As announced on 23 February 2023, we have successfully rebid Centers for Medicare & Medicaid Services in the US with an estimated value of $690m over a 4 year and 7 month term comprising a one-year base period and four option periods. The annual value of rebids reduces to approximately £0.5bn in 2024 and £0.3bn in 2025.

New business pipeline

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

Our pipeline was £8.4bn at the end of 2022, a reduction, as expected, from the record £9.9bn level at the end of 2021 but still more than 30% higher than the £6.4bn at the end of 2020. It is pleasing to see the pipeline at such a healthy level given 2021 was a strong year for wins and with several large bids having exited the pipeline in 2022. The pipeline now consists of over 40 bids with an ACV averaging more than £30m and an average contract length of around six years. The pipeline of opportunities for new business that have an estimated ACV of less than £10m has continued to increase, now totalling £2.5bn. This is around 20% higher than the £2.0bn at the end of 2021 and around 45% more than at the end of 2020.

Acquisitions

We continue to view acquisitions as an important part of our strategic toolkit, which, if deployed correctly, can add significant value to the business. They should therefore supplement and be capable of delivering new opportunities for organic growth. Generally speaking, we regard acquisitions as higher risk than organic growth, so any potential opportunities have to meet our stringent criteria of being both financially and strategically compelling. We judge potential acquisitions against three criteria: do they add new, or strengthen existing, capability? Do they add scale which we can use to increase efficiency? Do they bring us access to new and desirable customers and markets? We also recognise that acquisition opportunities come in different shapes, sizes and sectors, and a small one can be strategically important to a region, but not necessarily significant at Group level. But large or small, the execution of all acquisitions is centrally managed by Group and follow the same rigorous process. Equal focus and discipline is applied to post-acquisition value drivers such as effective integration and value realisation from synergy and growth.

We made two acquisitions in 2022:

- In July we acquired **Sapienza**, a leading European provider of services in the space sector, for €1m (£1m). The acquisition expands our offering and capabilities in the fast-growing space market, supporting the Group's growth strategy of becoming a leading provider of complex managed services for the space sector.
- In September we acquired **ORS**, a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy, for CHF40m (£36m). The business adds scale to our European operations and access to new immigration markets, already one of our core sectors, and one in which we expect to see growth in the coming years.

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

Strategy

I have been a member of the Serco Executive Committee since 2014 and part of the team that developed the Group's strategy, which was communicated to investors at a Capital Markets Day in December 2021.

I remain confident our strategy provides the best pathway to value creation for our customers, our colleagues and our shareholders, and our performance framework to grow revenue faster than the market, profit faster than revenue and convert that profit into cash serves as measure for that. Our focus therefore in the coming years is the execution of our strategy to achieve our goal of 4-6% growth at increased margins over the medium term and to make a positive difference to people, place, and planet to impact a better future.

Specifically, we see the following key factors supporting our growth:

- **Large attractive market.** The market for private sector delivery of government services is large and growing. Partnering with the private sector to deliver impact allows governments flexibility in the design of solutions, the efficient delivery of services and measurement of impact for citizen, community and country. While noting the market remains fragmented, and despite being a leading international provider of services to government, our market share is estimated to be between 1 and 3% offering significant opportunity for organic growth.
- **Four Forces intensifying.** For some time, we have described how demographic and societal trends, as well as rising expectations of service quality from citizens drive increased challenges for governments. At the same time, record levels of national debt, and resistance to tax increases compounds those challenges. Furthermore, the impacts of what we call the Four Forces have become more intense because of the longer-term consequences of the Covid-19 pandemic and inflation levels not seen for decades. Geopolitical uncertainty has shifted to tangible international instability. Structural challenges in the labour market pose capacity and economic challenges for governments in similar ways as they do to the broader economy. As governments confront these complex, compounding and ever-changing issues, we believe partnership with the private sector can bring new ideas and skills governments don't always have, while delivering flexibility and value for money.
- **B2G focus.** Since 2014, Serco has been a focused Business-to-Government (B2G) service provider. It provides the company with competitive differentiation and opportunities for growth. Serco offers capacity, capability and agility that augments rather than replaces public sector effort. We will continue to develop our customer base by building on the credibility we have earned as a service provider to expand participation across the value chain from advisory to operations, from designing services to delivering impact.
- **Geographic and sectoral diversity.** We gain growth opportunities, scale, expertise, and diversification by operating across five sectors and four geographies. Our existing footprint covers around 65% of worldwide outsourced government services spend. All our regions add something different to the Group and have an important role in our future. We will actively manage our portfolio to ensure we benefit from scale, maintain competitive advantage, and avoid fragmentation.
- **B2G platform.** Over recent years we have developed a B2G operating model that allows us to deliver a wide range of bespoke government contracts. It enables us to respond quickly to changing government needs wherever they may be and provide high quality, customer-centric solutions. Supporting this is a well-invested range of services and capabilities that are shared across the Group. In our 2021 Capital Markets Day, we identified areas where we can improve our B2G platform. Our immediate focus is on execution of the areas where improvements will deliver the greatest impact.

Chief Executive's Review continued

- **Culture.** Part of the corporate renewal programme that occurred after 2014 was to assess and reorientate the culture and ethical framework at Serco. Today Serco is a place where our shared values of Trust, Care, Innovation and Pride are lived, and where people are proud to work. We place huge importance on how we enable our people to make a positive difference to society at the same time as having robust controls, risk management processes and governance, and being transparent and open in dealings with our customers, suppliers, colleagues, and investors. These foundations are now part of our corporate DNA and on which we will continue to build Serco's future.
- **Potential for growth.** It is clear to us that we have significant opportunities to grow share of the existing market, and that the manifestation of Four Forces in the context of profound changes that are likely to accelerate from structural labour market challenges and development and convergence of technology, provide fertile ground to achieve our growth objectives. We are therefore confident that the case for our international B2G strategy holds strong, and our focus on effective execution of that strategy offers the best way to realise value for our shareholders.

Three key value drivers

We embark on the next stage of Serco's development from an enviable position; our foundations are strong and the strategy is working as demonstrated by the high growth delivered over recent years. Following my appointment as CEO, I have the responsibility to lead the evolution of the existing strategy to meet our medium-term goals, and the opportunity to create value by driving execution in areas where we can have the highest impact. These adaptations will be thoughtful, disciplined and enacted systematically. We want to invigorate the organisation to enable us to not only take, but also make opportunities to grow. In the coming period, we will execute on three value drivers in particular: Customers, Colleagues and Capabilities.

Customers

We have worked hard in recent years to earn credibility and our customer relationships are now strong. We will work even harder in the period ahead to elevate our relationships with customers and be forensic in our understanding of the existing market, while remaining agile and flexible to respond to new and emerging opportunities. The unprecedented scale and complexity of challenges seen across the world in recent years has intensified the need for governments to balance cost with quality, resilience, delivery, security, and sustainability. Over the coming years we aim to elevate customer relationships so that we can broaden our participation across their value chain from solution discovery to service delivery. In our chosen markets, we already have the broadest touchpoints with government among their strategic suppliers. We will build stronger partnerships by giving them long-term, cross-department, non-institutionalised and pragmatic perspectives and create mutual value by co-creating solutions to address their challenges drawn from Serco's experience and capability around the world.

Our mission is to impact a better future; we can best do that by evolving from outsourcer to Impact Partner to the world's leading governments.

Colleagues

Our commitment to the safety and wellbeing of colleagues remains foremost in our efforts to protect and deepen the relationship between Serco and the people whose dedication and commitment stand behind our success. We will evolve colleague support which extends across physical and mental wellness to financial wellbeing. Our Speak Up, Employee Assistance Program, MyBenefits and Serco People Fund have served us well in recent years and we will look to continue the programs while responding pragmatically to economic, social and environmental factors.

We respect the choice everyone has in relation to where they work. We will therefore continue to develop our employee value proposition by building on the purpose-driven and values led foundations we have, to grow the value of the work we ask people to do. Renewed emphasis on work process re-engineering with a technology-first approach will reduce or eliminate tasks that are manual, inefficient or can be standardised to support productivity and create capacity to continuously make our business better. Extending high levels of engagement to high levels of enablement will allow our colleagues to bring their commitment to bear in areas of highest social and economic value for our customers. By growing the value of work to deepen the relationship between the company and our colleagues, we hope that they will not only choose to stay but will become advocates for Serco impacting a better future.

We will support this by re-energising but not changing or compromising our values of Innovation, Trust, Care and Pride:

- **Innovation.** Colleagues who embrace our spirit of innovation will be recognised, empowered, and rewarded by extending our current performance framework beyond operational outcomes to include the measurable value they deliver from innovation.
- **Trust.** Our teams will be empowered with the information, support systems, and agency to make us a better business and to better partner with our customers to deliver positive impact.
- **Care.** Our mantra of everyone matters, everyone belongs harnesses the true power and value of diversity. Further, colleagues will be supported to explore Serco's wider opportunity landscape and identify learning opportunities that enable their development, while also powering public service for public good.
- **Pride.** We will invite our colleagues to be our advocates into new customer engagements, where they will help to spread our purpose-driven culture to citizens, with communities and across countries.

Capabilities

We are going to put significantly more emphasis on technology-enablement and continuous learning across the work we do, across the solutions we offer our customers, across our Group.

The acceleration in the development and convergence of technology is expected to profoundly change the way in which we work in coming years. It will likely fundamentally influence the way we define work itself. We have invested in building robust IT infrastructure and cyber capability in recent years. We will continue to protect those core elements of our technology platform while accelerating our capability to fully exploit the functionality of platforms we have already invested in and raising our ambition to harness new and emerging technology to help everyone in the business work safer, be more productive and grow value.

Scaling artificial intelligence (AI) has potential competitive advantage and recent developments that have seen AI not only read and write but also understand information will likely make AI a key agenda item for both government and industry in the coming years. Our focus for technology-enablement will not be the glamour of AI but understanding in a very practical sense how we can extract value by applying it to decision making and operations, and then to evolve structure and culture around the optimisation it may offer.

In the coming years, we will proactively partner with both start-up and established technology businesses, as well as academic and research institutions to create a broader capability ecosystem from which to deliver future growth.

Market outlook

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

- 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 is currently small, and although it is larger in some specific segments, the opportunity to grow within the market is significant.
- The market itself is likely to continue to grow and, given our small market share, there is opportunity for us to grow faster than the market.

Since we did this market review, the direct impacts of the Covid pandemic have receded, but new challenges have arisen for all governments, including inflation and labour shortages. In markets where labour is in high demand, and governments have been challenged with the affordability of matching wage adjustments to inflation, it becomes increasingly hard then to recruit and retain the people needed to deliver public services.

While inflation may subside, it will likely take government years to make good on real wages to their employees due to historical pay conditions potentially lagging the market, compounded by the recent significant cost of living increases. And it is hard to see how labour shortages and the demographics of ageing working populations will not continue to make it extremely hard for governments to recruit and retain people. We see these factors – inflation and labour shortage – persisting for some years and putting a premium on agility, mobilisation at scale, high productivity, and effective management.

While technological evolution has been ever present in the design and delivery of services for decades, we believe rapid acceleration in the development and convergence of technology will usher in generational change in coming years. Most governments enter this new era with technology debt and a history of challenges with digital transformation. The opportunity for Serco to pair our operator-led responses with the agility and breadth of a technology partner ecosystem offers a credible alternative to the emerging needs of citizens and government.

We believe that the imperative to provide more, and better, for less will become even more urgent in the years ahead, and to deliver those objectives governments will need the skills, resources, innovation and agility of a partnership ecosystem. We are tempted to think that labour cost and shortages may in time become a potent additional factor to drive growth in our markets. And how technology debt may manifest in the difference between what was promised and what is actually delivered in relation to digital transformation of government services may very well become a further force for growth in the model in coming years.

Guidance for 2023

Our initial outlook for 2023 anticipates revenue will increase slightly and UTP will be similar to 2022. We expect some known headwinds to be compensated for by increased contribution from newer contracts ramping up and improvement across the existing portfolio. We have entered 2023 with a strong pipeline of new business opportunities.

Revenue: the outturn for revenue will be affected by inflation-related adjustments on contracts which given macro-economic volatility, is hard to predict at this point. However, we have planned on the basis that revenue in 2023 will be at least £4.6bn, which would be around 2% higher than the £4.5bn in 2022 on a reported basis and stable organically. We expect the impact of Covid work and other contracts ending or reducing in size, to be offset by growth in other parts of the business.

Underlying Trading Profit: UTP is expected to be around £235m, similar to 2022. The year will benefit from the annualization of new contracts from 2022, continued ramp up of the VIVO and Restart contracts, efficiency improvements across the existing portfolio and the exit from our loss-making Barts Health FM contract. These should offset the drag from Covid work, known contract losses, the initial impact of our successful CMS rebid, and at least £8m of mobilisation costs in the first year of our contract to run HMP Fosse Way, a new prison in the UK. The inflation protection in many of our contracts means we would not expect a material impact from inflation on UTP.

Chief Executive's Review continued

Net finance costs and tax: Net finance costs are expected to be around £25m. This is higher than 2022 due to higher lease-related interest, the currency impact on our dollar-denominated debt and higher interest rates on the portion of our debt that is floating. The underlying effective tax rate is expected to be around 25%, although this is sensitive to the geographic mix of our profit and any changes to current corporate tax rates.

Financial position: Free cash flow is expected to be around £120m in the year. This is lower than 2022, reflecting the timing of new contracts, but is consistent with our ongoing expectation of converting at least 80% of profit into cash. We expect Adjusted Net Debt to end the year at around £200m.

Returns to shareholders: While it is anticipated earnings will be broadly stable in 2023, we intend to continue on our path of increasing dividends to shareholders as part of our policy of progressively reducing dividend cover towards 3x over the coming years. In addition, due to continued strong cash generation and with covenant leverage in December 2022 of 0.8x EBITDA, below the bottom end of our target leverage of 1-2x net debt to EBITDA, we plan to buy back shares up to a value £90m in 2023. At a share price of £1.49 (the closing price on 27 February), the buyback would reduce the share count by around 5%.

Summary and concluding thoughts

At our Capital Markets Day in December 2021, and subsequently at our full year results in February 2022, we set out our expectations for the medium-term growth of the business. These were from a baseline of guidance for 2022 of revenues between £4.1-4.2bn and Underlying Trading Profit of £195m. Our targets were for revenues to grow at an average of 4-6% per year, and for margins to grow to be in the 5-6% range. Our outlook for 2023 has to be seen in the context of having done very much better already: revenues in 2022 were 9% above the baseline, UTP was 22% higher and margin was 5.2%.

Our results further build on Serco's track record of delivering better outcomes for citizens, customers, colleagues and shareholders. It gives confidence that our strategy of being a focused provider of services to governments, operating through our Serco Management Framework, and using our B2G platform to win and deliver business, continues to create value. At a time when governments will look to partnerships to solve their most pressing problems our international platform differentiates us from our competitors and gives us agility, reach, breadth, efficiency, and resilience.

We believe these foundations will continue to serve us well over the coming years. In the immediate period ahead, we will place renewed focus on growing our market share, growing the value of colleagues' work, and growing our margins consistent with our goals of revenues growing faster than the market, profits growing faster than revenues, and shareholder returns growing faster than profits to achieve our medium-term goals.

Importantly we will do this by staying true to our values, assuring robust governance practices and embedding our commitment to protect our people and our planet in everything we do, in our mission to impact a better future.

Mark Irwin
Group Chief Executive
27 February 2023

Serco – and proud of it.

Strategic Objectives and Achievements

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

Serco 2014

- Low employee engagement
- Unfocused commercial/ government portfolio
- Ineffective IT and shared services
- Little international collaboration
- Troubled client relationships
- Significant number of loss-making contracts
- Weak balance sheet

Serco 2022

- Profitable
- Strong balance sheet
- Strong employee engagement
- Focused international B2G business
- 112% Book to Bill since 2017
- Strong governance and values
- Extensive international cooperation
- Well-invested IT and systems infrastructure
- Strong client relationships
- Successful M&A

Serco 2026

- The best-managed business in our sector
- Increased reach and breadth
- Increased scale and greater efficiency
- World-class shared services platform
- Recognised expertise in application of data analytics and citizen experience
- Recognised for practical and effective approach to ESG

You can see a very brief summary of top-level progress, against our drive to solidify further our B2G platform, and against our formal 'deliverables' below.

Key
● On track ● Some good progress ● Behind plan

High-level strategic progress since 2021 – our key deliverables

Key deliverables to 2026 as set out in 2021	Progress since 2021	Key
1 **Revenue growth of 4-6%**	2% revenue growth in 2022; 10% excluding COVID and currency	●
2 **Margin of 5-6%**	Margin of 5.2% in 2022	●
3 **Engagement of 70 and increasing**	Global engagement score of 70 points in 2022 despite challenging macroenvironment	●

High-level strategic progress since 2021 – embedding our B2G platform

Embedding our B2G Platform	Progress since 2021	Key
1 **Efficiency**	Contract margins improving: 10.7% (2021) vs 11.1% (2022). UTP margins above target of 5-6% in 3 of 4 regions in 2022	●
2 **Reach**	58% of revenues and 77% of UTP generated from outside the UK in 2022	●
3 **Agility**	UTP growth of 4% in 2022 despite losing 30% of UTP due to AWE and COVID work. Regions exploring multiple new segments	●
4 **Resilience**	Continued progress on governance including SMS revision and Enterprise Risk Management work. DPA concluded	●
5 **Breadth**	Four of our five sectors each contributed more than 10% of Group revenue in 2022. 2022 Divisional strategies show plans to enter 13 new segments	●

Strategic Objectives and Achievements
continued

As is detailed in the Chief Executive's Review, as we look to make further progress, we have identified three new areas of focus in particular where we believe driving the execution of our strategy and improvements to our B2G Platform can have highest impact in the coming period. These areas are Customers, Colleagues and Capabilities, which together we believe will help us grow our revenues, grow colleague enablement, and grow our margins. You can see each of these set out in more detail below, and we look forward to updating on them next year.

1
CUSTOMERS
Growing customer impact and market share

i. Forensic understanding of our markets
ii. Target untapped opportunities, leveraging capabilities across regions
iii. Elevate customer relationships from outsourcer to 'impact partner'
iv. Grow our value chain participation from solution discovery to service delivery
v. Bring our cross-sector and international insight to innovate and enhance outcomes for citizens, government and society

2
COLLEAGUES
Growing the value of colleagues' work

i. 'Think safe, work safe, home safe' to be a reality for every colleague
ii. Continually evolve our employee value proposition to attract and retain the best talent
iii. Re-energise our values to empower
iv. Automate, digitise, and standardise processes to drive productivity
v. Colleagues to be ambassadors for our purpose, enabled through inclusivity, insight, systems and opportunity

3
CAPABILITIES
Growing margins and efficiency

i. Drive culture of continuous learning and innovation
ii. Exploit functionality of existing technology platforms
iii. Data and analytics strategy to enhance decision-making and drive business optimisation
iv. Digital primacy in solution development
v. Exploit ecosystem of technology start-ups and R&D partners to accelerate and scale innovation

In summary

Our strategy has worked well and continues to do so. We have a strong track record of delivery to date – since 2018 we have seen revenue CAGR of 12.4% and Underlying Trading Profit CAGR of 26.3%. Underlying returns on Invested Capital have also increased from 13.6% (restated) to 20.6%. Looking forward, while the specifics of the macro-economy and its future direction are impossible to predict with certainty at this time of volatility, our best expectation is that 2023 will see the market return to more normal patterns of growth. Our plan remains to grow our business at about twice the rate of the market in real terms over the next five years, alongside delivering 5-6% margins, and strong, sustainable and growing returns to shareholders.

Overall, our strategic outlook is bright...

Our market is attractive and growing

MARKET OPPORTUNITY	Large, diverse & growing market	Governments facing increasing challenges	Private sector partnerships offer agility, capability & efficiency	Drive for public service innovation e.g. connected citizens; digital services

Our business model is delivering

BUSINESS MODEL	Clear purpose	Strong culture & values	Geographic & sectoral diversity	Powerful, scalable, & unique B2G platform	Strong balance sheet and cash generation to support investment	Focus on Customers, Colleagues & Capabilities to drive value

Our medium-term performance outlook remains positive

PERFORMANCE	Consistent track record of delivery	Expect revenues to grow ~4-6%	Expect profits to grow faster than revenues; margins ~5-6%	Expect >80% conversion of profit into cash	Expect returns to shareholders to grow faster than profits

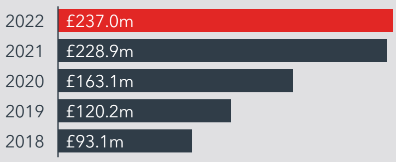
Key Performance Indicators

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 2022. There are no changes in 2022 to the existing KPIs presented and therefore there is comparability and consistency with our focus in the business and the guidance we issue. The Finance Review provides further detailed definitions and reconciliations of our use of Alternative Performance Measures (APMs). Information on our carbon emissions that was presented in this section in previous years can be found within our ESG Report on pages 70 to 73. ESG performance and disclosure data can also be found on those pages, as well as in our complete Serco ESG Databook 2022, which is available on our website.

1. Underlying Trading Profit (UTP)



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 83 to 94.

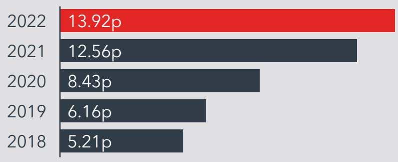
Relevance to strategy

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 25 that the delivery of strategic success has potential to deliver annual revenue growth of 4-6%, in the medium term, and trading margins of 5-6%.

Performance

The outcome was a 22% improvement over the £195m we expected at the start of the year. The wind down of our Test & Trace work and the AWE contract ending in June 2021 had a significant negative impact on UTP. However, this was offset by increased demand for immigration services in the UK and Australia, strong trading in our case management work in North America, the positive effect of new work secured in 2021, such as the DWP Restart Programme and the Defence Infrastructure Organisation contracts, moving into profitability, and favourable currency movements.

2. Underlying Earnings Per Share (EPS), diluted



Definition

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

Underlying net finance costs and tax are used to calculate Underlying EPS to remove the impact of typical non-recurring or out of period items.

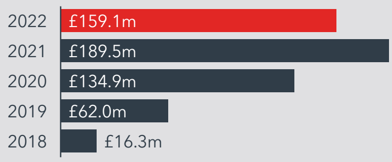
Relevance to strategy

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 11% increase on 2021 reflects UTP growth in combination with lower net finance costs and a reduced underlying effective tax rate.

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

Free Cash Flow was again strong at £159m. The prior year included the benefit of a working capital inflow of £25m, helped by the successful collection of some older receivables on our Dubai Metro contract and short payment terms on our Covid-related work. Underlying Trading Profit conversion in 2022 was 97% (2021: 112%).

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

ROIC remained high at 20.6%.
The reduction versus 2021 reflected the prior year benefitting from a relatively limited increase in the invested capital base. This was due to strong collections of some older receivables, low working capital requirements of the Covid-19 related work and because the goodwill related to the acquisitions of Facilities First and WBB was in the closing balance sheet but not the opening position.

5. Pipeline of larger new bid opportunities

Definition

The estimated aggregate value at the end of the reporting period of new bid opportunities with Annual Contract Value (ACV) greater than £10m and which we expect to bid and awarded within a rolling 24-month timeframe. It does not include 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 of the bids within it which is an indicator of how successfully we convert the opportunities within the pipeline, will be at the heart of our strategy to grow the business.

Performance

Our pipeline was £8.4bn at the end of 2022, a reduction, as expected, from the record £9.9bn level at the end of 2021 but still more than 30% higher than the £6.4bn at the end of 2020. It is pleasing to see the pipeline at such a healthy level given 2021 was a strong year for wins and with several large bids having exited the pipeline in 2022. The pipeline now consists of over 40 bids with an ACV averaging around £30m and an average contract length of around six years.

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. The definition is 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 £14.8bn would be £16.7bn if option periods in our US business were included. Order intake is the value of business which has been won during the year and typically includes a Serco's share of order intake from its joint ventures.

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. Order intake provides a measure of how the business in building its order book.

Performance

The order book increased by 8% from £13.7bn at the start of the year to £14.8bn at the end of December. This excludes unsigned extension periods and the order book would be £1.9bn (2021: £1.2bn) higher if option periods in our US business, which typically tend to be exercised, were included.

Key Performance Indicators continued

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

Definition

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

The MIFR is calculated using the total number of major incidents, normalised using the total number of hours worked in the period. This provides a view on the frequency of major incidents, regardless of movements in staff numbers, which is comparable across all areas where major incidents are incurred.

Relevance to strategy

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

Performance

There were over 107 million hours worked in 2022, 18 million less than in 2021, and 47 major injury incidents were reported. The resulting frequency rate of 0.44 incidents per 1 million hours worked was an increase from the 2021 rate of 0.36. The increase was mainly caused by an increase in violence and aggression across the custodial estate.

The Group has a number of ongoing continuous improvement initiatives, including contract-based focus on tackling specific root cause issues, supported by wider, collaborative Divisional and Group activities. These were an area of focus in 2022 that will continue in 2023.

Further performance data and details of initiatives implemented to improve performance are covered in the ESG Report on pages 48 to 49.

8. Lost Time Incident Frequency Rate (LTIFR)

Definition

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

The LTIFR is calculated using the total number of Lost Time Incidents, normalised using the total number of hours worked in the period. This provides a view on the frequency of lost time incidents, regardless of movements in staff numbers, which is comparable across all areas where LTIs are incurred. Minor revisions can be made to prior reported performance based on data received post publication date.

Relevance to strategy

Our vision of Zero Harm recognises that delivering excellent service to our customers requires us to try to operate in the safest way possible at all times. A positive approach to safety and the continuous drive to improve our safety culture also has a direct bearing on the commitment and engagement of our people.

The LTIFR is a more relevant indicator of safety than the major incident frequency rate as it captures all lost time issues, not just those related to a major injury. It gives us greater insight into the everyday experience of the broader colleague population compared to those roles where major injury is a larger risk and it underpins our ESG approach.

Performance

Despite considerable focus on reducing LTIs, the rate increased from 4.17 to 5.72 in 2022, missing our threshold for the year of 4.64. There were four key ways in which the LTIFR was negatively impacted:

(i) exiting our Test & Trace work, which by its nature had much lower frequency of LTIs;

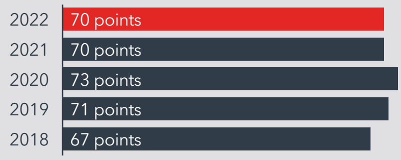
(ii) an increase in violence and aggression across our custodial estate;

(iii) increased road and related accidents as our driver examination services in Canada clear the backlog of Covid-delayed driving examinations, and;

(iv) a broader return to normal working patterns that raised incident probability, including more traffic movements, increased travel and less remote working.

Our LTIFR threshold for 2023 is 5.14, which appreciates the ever changing size, shape and risk profile of the business.

9. Employee engagement



Definition

We use a specialist third party provider to run Viewpoint, our global employee engagement survey. The survey covers employees, excluding our joint ventures, and measures engagement in two key areas: how happy employees are working at Serco and their intention to recommend Serco to others. Our engagement score incorporates all respondents' perceptions and shows the overall average view of these two areas when we survey.

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 2022, which aligns with the global cross-sector benchmark provided by the specialist third party provider of our survey.

Performance

The 2022 Viewpoint survey was based on some 30,105 employees responding anonymously, the highest number the Group has ever received. We have sustained high levels of engagement at all levels measured in the survey and achieved an overall score of 70. This matches our 2021 result. We consider this result to be encouraging, given developments in the year, such as increases in the cost of living, recruitment challenges, geopolitical instability following the outbreak of war in Ukraine, and more. Our employee engagement has continued to trend positively over the last few years.

The Viewpoint results are cascaded throughout the organisation and detailed plans of activity put in place to focus on areas highlighted by the detailed scoring analysis and the comments raised. In addition to completing the survey questions, some 56,042 individual comments were submitted, with 58% of respondees choosing to do so. This reflects positively on the culture of openness. Looking forward, our focus is on achieving an engagement score of 72 in 2023.

Divisional Reviews

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

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

Year ended 31 December 2022 £m	Americas	UK&E	AsPac	Middle East	Corporate Costs	Total
Revenue	**1,269.8**	**2,100.2**	**954.6**	**209.4**	**–**	**4,534.0**
Change	*+13%*	*(1%)*	*+5%*	*(21%)*		*+2.5%*
Change at constant currency	*+2%*	*(2%)*	*+2%*	*(28%)*		*(1.5%)*
Organic change at constant currency	*(1%)*	*(5%)*	*+0%*	*(28%)*		*(4.4%)*
UTP	**136.6**	**72.1**	**56.9**	**16.0**	**(44.6)**	**237.0**
Margin	*10.8%*	*3.4%*	*6.0%*	*7.6%*	*(1.0%)*	*5.2%*
Change	*+16%*	*(25%)*	*+11%*	*+17%*	*(11%)*	*+3.5%*
Onerous contract provision charges & releases	0.1	0.1	–	–	–	0.2
Other one-time items	–	4.0	–	–	–	4.0
Trading Profit/(Loss)	**136.7**	**76.2**	**56.9**	**16.0**	**(44.6)**	**241.2**
Amortisation of intangibles arising on acquisition	(16.5)	(1.5)	(3.6)	–	–	(21.6)
Operating profit/(loss) before exceptionals	**120.2**	**74.7**	**53.3**	**16.0**	**(44.6)**	**219.6**

Year ended 31 December 2021 £m	Americas	UK&E	AsPac	Middle East	Corporate Costs	Total
Revenue	**1,120.0**	**2,131.6**	**908.4**	**264.6**	**–**	**4,424.6**
UTP	**117.8**	**96.0**	**51.3**	**13.7**	**(49.9)**	**228.9**
Margin	*10.5%*	*4.5%*	*5.6%*	*5.2%*	*(1.1%)*	*5.2%*
Onerous contract provision charges & releases	–	1.3	–	–	–	1.3
Other one-time items	–	2.5	0.7	–	–	3.2
Trading Profit/(Loss)	**117.8**	**99.8**	**52.0**	**13.7**	**(49.9)**	**233.4**
Amortisation of intangibles arising on acquisition	(11.7)	(0.8)	(3.5)	–	–	(16.0)
Operating profit/(loss) before exceptionals	**106.1**	**99.0**	**48.5**	**13.7**	**(49.9)**	**217.4**

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 83 to 94. 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 189 to 259. Included in note 2 to the Group's Consolidated Financial Statements are the Group's policies on recognising revenue across the various revenue streams associated with the diverse range of goods and services discussed within the Divisional Reviews. The various revenue recognition policies are applied to each individual circumstance as relevant, taking into account the nature of the Group's obligations under the contract with the customer and the method of delivering value to the customer in line with the terms of the contract.

Divisional Reviews:

Americas

Revenue

£1,270m

2021: £1,120m

Underlying Trading Profit (UTP)

£137m

2021: £118m

Group revenue

28%

Group UTP (before Corporate costs)

49%

Sectors we operate in: Defence | Citizen Services | Transport

Year ended 31 December £m	2022	2021	Growth
Revenue	**1,269.8**	**1,120.0**	**13%**
Organic change	(1%)	2%	
Acquisitions	3%	10%	
Currency	11%	(7%)	
Underlying Trading Profit	**136.6**	**117.8**	**16%**
Organic change	6%	14%	
Acquisitions	(0%)	11%	
Currency	11%	(8%)	
Margin	**10.8%**	**10.5%**	**24bps**

Revenue grew by 13% to £1,270m (2021: £1,120m), with an organic decline of 1% more than offset by an acquisition contribution of 3% and an 11% favourable translational effect of currency. The acquisition growth came from WBB, a leading provider of advisory, engineering and technical services to the US Department of Defense. This acquisition completed at the end of April 2021 and contributed an additional £32m to revenues in the year at constant currency. The two main sectors for our Americas business are Defence and Citizen Services. Excluding WBB, our Defence business saw a 4% decline in revenue because of reduced volumes on the CANES Navy fleet IT modernisation programme and the dampening effect on growth from the delays in the award of new contracts seen through 2021 and early 2022. Citizen Services saw modest growth supported by slightly higher demand for our case management services and recovery in driver examination activities, which had been negatively impacted by Covid-19.

Underlying Trading Profit increased by 16% to £137m (2021: £118m). Excluding the favourable currency movement of £13m, UTP growth at constant currency was 5%. Margins increased from 10.5% to 10.8%, due primarily to better profitability in Defence, despite lower revenues.

Order intake was strong at £2.0bn, nearly half of the total for the Group and a book-to-bill ratio of around 1.6x. Of this, new business wins were around £950m, more than double the level in 2021. Wins included important programmes such as the Ship Acquisition Programme/Project Management (SHAPM) contract from the US Navy, under which we will deliver design, acquisition and programme management to the US Navy's submarine build and sustainment programmes; we expect this contract to be worth £280m over five years.

We also won a £130m five-year contract to deliver full acquisition lifecycle support for the F-35 Joint Strike Fighter program and a £60m, 2.5-year contract from the Defense Advanced Research Projects Agency (DARPA) for detail design, prototype construction and demonstration of a large and highly sophisticated unmanned ship as part of the No Manning Required Ship (NOMARS) programme. In Canada we were selected by the Government of Ontario to support part of their Employment Services Transformation program, which will help unemployed people back into work. We estimate this contract will be worth around £110m over five years. It was an active period for rebids and extensions, and we were pleased to achieve a win rate of 90% on these, the top end of our usual 80-90% range. This included the rebid of our US Navy SEA21 contract, which is expected to be worth around £330m over five years and will see us provide technical services related to international fleet support, surface ship modernisation, surface ship in-service readiness, surface training systems and inactive ships.

Order intake was particularly strong in our Maritime Engineering, Technology and Sustainment (METS) business unit, which is predominantly composed of the NSBU business we acquired in 2019. Book-to-bill in the unit was more than 400%, with high win rates in both rebids and new work. After a period of slower growth as the NSBU business was integrated, the combination of Serco and NSBU skills is proving powerful and demonstrating how acquisitions can enhance our growth potential.

In February 2023, we were awarded a contract by the US Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS) to continue to support eligibility determinations for citizens purchasing health insurance through the Federal Health Insurance Exchanges. The 4 year and 7-month contract has a one-year base period and four option periods, and is due to start on 1 July 2023. The estimated total value to Serco, subject to workload volumes, is approximately $690 million if all option periods are exercised.

The pipeline of major new bid opportunities due for decision within the next 24 months in the Americas increased from £2.2bn at the end of 2021 to £2.5bn at the end of 2022. It is pleasing to see the pipeline replenish so well given 2022 was a strong year for wins. North America represents approximately 30% of the total Group pipeline. Defence makes up the vast majority of the Americas pipeline, with a broad spread of types of work, while Transport represents the remainder.

Divisional Reviews:

UK & Europe

Revenue
£2,100m
2021: £2,132m

Underlying Trading Profit (UTP)
£72.1m
2021: £96m

Group revenue
46%

Group UTP (before Corporate costs)
26%

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

Year ended 31 December £m	2022	2021	Growth
Revenue	**2,100.2**	**2,131.6**	**(1%)**
Organic change	(5%)	20%	
Acquisitions	3%	0%	
Currency	0%	0%	
Underlying Trading Profit	**72.1**	**96.0**	**(25%)**
Organic change	(27%)	68%	
Acquisitions	2%	1%	
Currency	(0%)	(1%)	
Margin	**3.4%**	**4.5%**	**(107bps)**

Revenue declined by 1% to £2,100m (2021: £2,132m), with a 5% organic contraction being partially offset by a 3% contribution from the acquisitions we made in Europe during the year. The lower revenue was due to our Covid-19 services coming to an end part way through the year. In total this was a drag on revenue of around £480m, or 22%, with the net reduction being significantly less as we saw growth in other Citizen Services work, Justice & Immigration, Transport and Defence. We experienced particularly strong demand for immigration services and, from a revenue perspective, our contract to provide accommodation for asylum seekers is now the largest in the Group.

Underlying Trading Profit decreased by 25% to £72m (2021: £96m), representing a margin of 3.4% (2021: 4.5%). The step down in profit was due to lower levels of Covid-19 work and the full year impact of the end of our Atomic Weapons Establishment contract in June 2021, which together were a drag of around £65m, or two-thirds of prior year profit, as well as broader market related challenges such as higher utility costs in our asylum seeker accommodation and driver shortages impacting our prisoner escorting work. Much of the profit reduction from these factors was offset by the growth described above in other Citizen Services work, Justice & Immigration, Transport and Defence. The margin reduced by around 107bp compared to 2021 as a result of the lower Covid work volumes, although it was around 20bp higher in 2022 than in 2020. Overall, we consider this was a good outcome in a year with such significant headwinds.

Underlying Trading Profit includes the profit contribution of joint ventures and associates, from which interest and tax have already been deducted. If the proportional share of revenue from joint ventures and associates was included and the share of interest and tax cost was excluded, the overall divisional margin would have been 3.2% (2021: 4.2%). The joint venture and associate profit contribution increased to £12m (2021: £9m), as the ramp up of our new VIVO work and improved performance on Merseyrail more than offset the impact from the cessation of our Atomic Weapons Establishment contract at the end of June 2021.

Order intake was around £1.9bn, a book-to-bill ratio of 0.9x and around 45% of the total intake for the Group. New wins were approximately 65% of the order intake. Agreements signed included a contract with the UK Ministry of Justice to run HMP Fosse Way, a new prison in the UK. The new contract has an estimated value of more than £400m over the initial ten-year term. Also in the Justice & Immigration sector, significant increases in the numbers of service-users led to us securing additional immigration work that is expected to be worth an estimated £500m over two years. VIVO Defence Services, our joint venture with Equans, continued its success of 2021, being awarded four of the five contracts being tendered to deliver asset and facilities management services to the Defence Infrastructure Organisation (DIO) at the UK military establishments that host US Visiting Forces. We estimate the work will have a value of around £60m over the initial three-year period. We also successfully rebid our agreement to provide facilities management services at Norfolk and Norwich University Hospital, with an estimated value of £130m over five years.

The pipeline of new opportunities in the UK & Europe remains healthy at £3.7bn (2021: £4.2bn), with significant new opportunities across Defence, Justice & Immigration, Citizen Services and Health.

Asia Pacific

Revenue
£955m
2021: £908m

Underlying Trading Profit (UTP)
£57m
2021: £51m

Group revenue
21%

Group UTP (before Corporate costs)
20%

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

Year ended 31 December £m	2022	2021	Growth
Revenue	**954.6**	**908.4**	**5%**
Organic change	0%	8%	
Acquisitions	2%	15%	
Currency	3%	3%	
Underlying Trading Profit	**56.9**	**51.3**	**11%**
Organic change	13%	34%	
Acquisitions	(6%)	20%	
Currency	4%	3%	
Margin	**6.0%**	**5.6%**	**31bps**

Revenue increased by 5% to £955m (2021: £908m). The business was stable organically, while acquisitions added 2% and favourable currency moves a further 3%. Organically, increased demand for our immigration services was offset by a reduction in Citizen Services, Health, as some services at Fiona Stanley Hospital were taken back in-house in the second half of 2021, and Defence.

Underlying Trading Profit increased by 11% to £57m (2021: £51m), representing a margin of 6.0% (2021: 5.6%). On a constant currency basis, UTP increased by 7%. The biggest driver of the increase was our immigration services work. Our Justice operations also delivered improved profit, while Defence and Citizen Services saw lower profitability in the year, with labour market disruption making it difficult to recruit enough people to meet customer headcount targets.

Despite an active period of bidding in the year, order intake was just £0.3bn, 6% of the Group total, as we were unsuccessful in bids to run driver licensing and vehicle registration at the transport department in Victoria, and facilities management at Frankston Hospital. We did however have a success rate approaching 100% on retaining existing work, including our contract to provide contact centre services to the Australian Tax Office.

Our pipeline for new business reduced from £2.5bn to £1.4bn in the year, due to the lost bids mentioned above. Defence makes up the bulk of the pipeline with opportunities also in the Justice & Immigration and Citizen Services sectors.

Divisional Reviews:

Middle East

Revenue
£209m
2021: £265m

Underlying Trading Profit (UTP)
£16m
2021: £14m

Group revenue
5%

Group UTP (before Corporate costs)
6%

Sectors we operate in: Health & other FM | Defence | Citizen Services | Transport

Year ended 31 December £m	2022	2021	Growth
Revenue	**209.4**	**264.6**	**(21%)**
Organic change	(28%)	(13%)	
Acquisitions	0%	0%	
Currency	8%	(5%)	
Underlying Trading Profit	**16.0**	**13.7**	**17%**
Organic change	8%	1%	
Acquisitions	0%	0%	
Currency	9%	(2%)	
Margin	**7.6%**	**5.2%**	**246bps**

Revenue fell by 21% to £209m (2021: £265m). An organic reduction of 28% was modestly offset by favourable currency moves adding 8% to revenues. The exit in September 2021 from our contracts to operate the Dubai Metro and Tram reduced revenue for the division by around £90m, outweighing growth in other parts of the Transport sector including Dubai Airport and air traffic control services in the region.

Despite the sharp revenue contraction, Underlying Trading Profit increased to £16m (2021: £14m). The low margin nature of the Dubai Metro contract meant the impact on UTP of the contract ending was significantly less than on revenue. The favourable profit outcome was driven by a strong performance in the Transport sector as well as good cost control in the areas where we experienced subdued demand. Commercial discussions related to a debtor in the region are progressing positively. Margins increased from 5.2% to 7.6% as a result of the changed mix of work and good cost control.

Order intake was around £0.1bn, or 3% of the total for the Group, of which approximately 30% was new business. New business included a £10m, five-year contract to provide a facilities management managing agent service to Riyadh International Airport. We successfully rebid our contract to provide air traffic control services to Dubai Air Navigation Services (dans), the organisation responsible for Air Traffic Management at airports in Dubai and the Northern Emirates.

Our pipeline of major new bid opportunities in the Middle East includes significant opportunities in Citizen Services and potential work in the Transport and Defence sectors.

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 reduced by £5.3m to £44.6m (2021: £49.9m). The lower level resulted primarily from the contribution made to the Serco People Fund in 2021 not repeating.

ESG

With our Values as our foundation, our purpose remains the same, to be a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference for our fellow citizens. Delivery of public services places a responsibility on us to generate positive human outcomes. It also places us at the heart of the communities we serve, each benefiting through our investment in local jobs and local businesses, and through fundraising and volunteering efforts. We deliver this through our people and by unlocking productivity, growth and better services with a workforce that is cared for, safe, inclusive and whose differences are celebrated. We have strengthened our environment strategy which includes partnering with governments in their journey towards net zero, broader environmental protection and efficient use of resources, including procuring sustainably. As we evolve our approach to ESG we have refreshed our ESG framework. To bring this to life we have pulled out five themes that emphasise our focus, encapsulate our approach and reflect our understanding of the interests of our stakeholders."

Mark Irwin
Chief Executive Officer

Our core ESG themes

1. **Public services for public impact** – The positive human outcomes that are generated by the unique way in which Serco delivers services – this might be reducing costs and improving outcomes to help maintain national security; safeguarding society and supporting vulnerable people in their journey through justice or immigration services; providing safe, sustainable and smart transport solutions; improving patient outcomes through safe, caring and efficient healthcare support services; making properties and operations more efficient; and through our Citizen Services contracts through which we build greater wellbeing, resilience and sustainability in society.

   ESG framework elements: Respecting human rights; Public and community impact.

2. **At the heart of communities** – Serco is a global company operating at the heart of the communities we serve. Each of these communities has a unique character, history and culture. Serco benefits these communities through investment in local jobs and local businesses, and through fundraising and volunteering efforts. Serco has a proud history of fundraising and donations to help address the most pressing issues in these communities. In many communities, especially those in isolated locations, Serco is the economic lifeblood through partnerships with local businesses and the provision of good jobs.

   ESG framework elements: Public and community impact; Sustainable procurement and third party relationships; Efficient use of natural resources.

3. **Colleagues as advocates** – Serco is only as good as its people. Contented colleagues, with agency to speak up and have their voices heard, will ultimately deliver more positive impact for the benefit of our customers and citizens. Our people are critical to the work we do, and we are committed to ensuring our operations are safe and that people get home safely. We need to ensure our colleagues are healthy and we look out for their wellbeing. We seek a diverse workforce as a diversity of voices and backgrounds sparks a creativity that leads to healthier colleagues and ultimately better public services.

   ESG framework elements: Our people, diverse, engaged, healthy; Safe operations.

4. **Partnering for net zero** – As a leading provider of public services, Serco plays – and will continue to play – a key role in partnering with governments to help them achieve net zero. But we are much more than a partner to governments in the journey to net zero. We partner with our supply chain to ensure that high environmental standards are a prerequisite for any partnership, and then work with supply chain partners to help them achieve their environmental goals. We strive to ensure our operations prevent pollution, protect, value and enhance biodiversity and the natural world which sustains us and are committed to driving sustainable procurement improvements and the implementation of operational efficiencies to minimise resource use, avoid waste and help the transition to a circular economy.

   ESG framework elements: Sustainable procurement and third party relationships; Efficient use of resources; Net zero carbon and climate; Environmental protection.

5. **Responsible governance** – Responsible governance is the strong foundation which allows Serco to deliver our approach to ESG. It is about identifying the most salient risks, whether those relate to human rights, environment and economic risk, cyber and information security risk, contract risk such as misreporting or fraud, or whether we are paying our people correctly and addressing these through robust assurance, polices, procedures and business models. We operate within a comprehensive corporate governance framework and approach, with clearly defined responsibilities and accountabilities and maintain internal control systems supported by internal compliance and assurance controls and risk management processes.

   ESG framework elements: Data privacy and information security; Managed risk and effective controls; Total shareholder returns and engagement.

As a provider of complex public services in more than 20 countries across the world, we are in the position of being able to support citizens in need, to help defend freedoms and to deliver fairness within society.

We often operate in the heart of the communities we serve, recognising their unique character and culture. Serco benefits these communities through investment in local jobs and local business, and through fundraising and volunteering efforts.

We also create value for shareholders by delivering competitive returns on their capital. For this to be sustainable and for us to grow we need to operate and behave with integrity, and in a way that is responsible and consistent with the broader interests of society. This means empowering our people through a workforce that is well cared for, safe, inclusive, and whose differences we celebrate. As a provider of public services for governments, we are expected to operate and behave in a way that is consistent with their public policy objectives and that contributes to their ESG commitments. This means working across a range of activities in areas such as immigration, justice, defence, health, and citizen services. Often our role is on the front line, working on behalf of governments to deliver their policies in the most effective and efficient manner and in the interests of both taxpayers and service users.

In other words, our opportunity to win good business, deliver service commitments, enhance the communities we work in, be a place people are proud to work and, ultimately, be profitable and sustainable and generate long-term value, depends on how we:

- live our Values and behave with integrity;
- empower our people, recruiting, developing and retaining a diverse, engaged, high-performing and healthy workforce, where we respect human rights and offer a safe working environment for colleagues and those who use our services;
- build sustainable supply chains, partnerships and relationships with the local communities we sit at the heart of;
- maintain robust risk management processes managed by effective controls which are assured through compliance assurance and audit, including the management of data privacy and information security;
- provide transparent and proactive engagement with our shareholders;
- commit to net zero Scope 1, 2 and 3 by 2050, and help address climate and wider environmental emergencies while limiting our own environmental impact; and
- deliver sustainable public services that transform outcomes, make a positive difference for our fellow citizens and build our position as a valued and trusted partner of governments.

We continue to be committed to our ESG journey, embedding it as a key pillar in our business strategy. We recognise that there is more we can do to formalise and enhance ESG measures and reporting globally to help drive greater transparency. We want to accelerate the difference made by the Serco Foundation and Serco People Fund and lead our markets in regional specific initiatives to address local needs, for example, the delivery of the UK Government social value agenda, and the employment of individuals born in the Middle East. And we are committed to hitting our environmental targets. In recognising the strategic relevance of this journey, we continue to maintain an ESG scorecard. This is used to monitor progress by Divisions, the Executive Committee and Corporate Responsibility Committee. ESG scorecards are also incorporated into our variable remuneration (see our Remuneration Report on pages 142 to 169 for more information).

We are proud of the strength and depth of our approach to ESG that we have built over recent years. The following sections outline this progress regarding social, environmental and governance activities. We believe that our focus on these areas has served Serco and its stakeholders well. However, we also understand that we cannot be complacent and are realistic that in any company as large and diverse as ours, someone, somewhere, is likely to be doing something wrong, whether intentional or not. We therefore maintain effective governance, remain vigilant and strive for continuous improvement.

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

- **Defence.** Reducing costs and improving outcomes for modern defence organisations, and thus helping to maintain national security in a way that is safe and sustainable.
- **Justice and Immigration.** Safeguarding society and supporting often vulnerable people in their journeys through justice and immigration systems. Our prison management approach helps ex-offenders reintegrate into society and reduce reoffending. In immigration, we form partnerships with voluntary organisations to deliver housing and welfare support and enable successful integration of migrants into society.
- **Transport.** Safety, satisfaction and smart, sustainable solutions – putting customers and communities at the heart of modern transport and mobility.
- **Health and other Facilities Management.** Helping to create a healthier world – improving patient outcomes through safe, caring and efficient healthcare and healthcare support services and in making properties and operations we look after more efficient.
- **Citizen Services.** Building greater wellbeing, resilience and sustainability into society – serving the everyday needs of citizens and communities. In the US, we are a key part of efforts to provide healthcare insurance to low-income Americans. In our UK Leisure business, we provide sport and leisure facilities to improve the health of local citizens.

ESG continued

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

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

We contribute to the UN SDGs:

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

More specifically our ESG agenda contributes to the following UN Sustainable Development Goals:

Our contribution

SDG 3 – Good health and wellbeing

Ensure healthy lives and promote wellbeing for all at all ages

From the operational management of hospitals to the optimisation of patient flow, we are committed to delivering better healthcare and improving patient outcomes. Our experience reaches across acute, community, primary and private healthcare, increasingly with voluntary and social care partners. We facilitate healthcare for people who use the immigration and prison services we manage. We also recognise that the safety, health and wellbeing of our people is vital to the success of our business and that of our colleagues. We are committed to positively influencing their wellbeing and creating safe working environments where they have good physical and mental health and the opportunity to thrive.

SDG 4 – Quality education

Through access to basic skills, education or vocational programmes and training, along with recreational or cultural activities and exercise

Across our justice and immigration business we provide educational and vocational training to help those in our facilities have better opportunities when they leave. We work in partnership with agencies, specialists and voluntary organisations to deliver successful quality education. We create employment opportunities across our organisation through apprentice, graduate, career and management development schemes to help improve capability and education.

SDG 8 – Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

We provide public services, many of which support economic growth. This includes supporting government employment, skills, training and business support programmes, as well as reducing reoffending. We contribute to economic productivity by investing in people, skills and innovation throughout the business life cycle of the contracts we operate, developing a diverse, high-performing and healthy workforce, where we respect human rights and offer a physically and psychologically safe working environment for colleagues and those who use our services.

SDG 9 – Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

We combine people, processes and technology in order to deliver public services. Providing government services to citizens, funded by taxpayers, is different to private sector delivery. Serco has developed deep expertise in this regard, transforming how public services are delivered through a public service ethos, transferable global experience, full service integration, an ability to test and innovate delivering citizen-centred, outcome-focused service delivery. In addition to working with our customers we also contribute to the industries and markets we work in through our involvement in trade and professional associations.

SDG 10 – Reduced inequalities

Reduce inequality within and among countries

We support governments in their tackling of illegal migration, protecting borders while sensitively managing those going through the immigration process. We recognise that our business thrives because of our diverse and talented workforce. We are committed to listening to our colleagues and creating work environments where everyone can belong.

SDG 11 – Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient and sustainable

From contact centres and complex case management with the administration of flagship employment and health programmes to the operation of local waste management and leisure services, and utilisation of green energy in some of our facilities with the largest footprint, we are committed to delivering better government services to citizens. We build confidence in the transport network. Whether heavy rail, light rail, ferries, intelligent transport systems, cycle hire schemes, air navigation services, or more, we are committed to delivering the best performing transport systems. We also provide command and control, data analytics, and surveillance services to law enforcement agencies. From the operational management of hospitals to the optimisation of patient flow, we are also committed to delivering better healthcare and improving patient outcomes.

SDG 13 – Climate action

Take urgent action to combat climate change and its impacts

We are committed to addressing the environmental and climate emergencies and supporting the net zero carbon ambitions of our clients and wider society. We adopt sustainable business practices to reduce the environmental impacts of the services we deliver, the products and services we buy and the ways in which we operate.

We provide a complete waste and recycling service on behalf of local authorities for a growing population. We consult with residents to understand the environmental improvements that matter most, and design services that meet their requirements. Our impact and opportunity to make a positive difference from an environmental perspective varies in each market and is dependent on the nature of services we deliver and the level of operational and financial control we hold at any given contract. Where we have direct control of environmental impacts, activities are managed locally. We monitor our performance through CDP and improved our score in 2022 from a B to a A- rating.

SDG 16 – Peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

We provide essential services across the justice system, from the secure and safe operation of prisons and escorting services, to managing the reintegration of ex-offenders into society.

Our longstanding experience with armed forces around the world is broad, covering military base operations, vessel modernisation and operations, aircraft maintenance, military training and support services, logistics, and engineering and asset services, among other services.

Our influence

Our programmes influence these Sustainable Development Goals:

Given these UN Sustainable Development Goals are reflected across our ESG agenda, our progress against these is outlined in the update below and in the full ESG report available on www.serco.com/esg. This includes the support we provide to our government customers through the delivery of public services, some of which can be challenging.

Here we summarise our position, approach and progress in delivering our ESG commitments. There are several sources of additional information that build on the summary provided which are available at www.serco.com/esg. These include:

ESG resources quick reference guide
An index of all of ESG reports and resources available online, including public third-party reports on Serco operations and an overview of ESG queries received from investors and analysts.

www.serco.com/esg/reference

The Serco ESG Report
Our full ESG Report – Public services for public impact – providing greater detail on our achievements and performance, including case study examples and additional performance data.

www.serco.com/esg

ESG Data book 2022
Full suite of publicly available ESG data points with notes and commentary. The Data book combines existing ESG reporting requirements with relevant GRI reporting requirements. The information is separated into Environment, Social and Governance areas.

www.serco.com/esg/reporting

Global Reporting Initiative (GRI) and Sustainable Finance Disclosure Regulation (SFDR) Content Indexes
We publish GRI and SFDR Content Indexes to enhance our ESG reporting and transparency and help stakeholders navigate our disclosures more quickly and easily.

www.serco.com/esg/reporting

Inside ESG at Serco
An online guide to how we manage and govern ESG at Serco and our ESG priorities.

www.serco.com/esg/inside-esg

ESG in action
A selection of interviews and examples from around the world of Serco, showcasing how our people are living our Values and bringing our ESG commitments to life.

www.serco.com/esg/case-studies

The Serco People Report
Interviews and stories about employees from every sector and region, exploring different aspects of the colleague experience and how Serco people make a difference every day.

www.serco.com/about/people-report

Environmental basis of reporting supplement
A guide to the scope of the environmental indicators in our ESG Data Book, setting out the reporting approach and criteria for the environmental elements in our non-financial reporting.

www.serco.com/esg/environment

Social and governance basis of reporting supplement
A guide to the scope of the social and governance indicators in our ESG Data Book, setting out the reporting approach and criteria to non-financial reporting.

www.serco.com/esg/reporting

Modern slavery and human trafficking statement
A guide to our commitment and approach to preventing modern slavery in our business and supply chain.

www.serco.com/esg/modern-slavery

Human Rights Supplement
An overview of how we manage and mitigate human rights impacts that we may face through the services we provide.

https://www.serco.com/media/9318/serco-human-rights-supplement.pdf

Anti-Bribery and Corruption Supplement
An overview of the adequate procedures we have in place to manage the risk of bribery and corruption.

https://www.serco.com/media/5769/anti-bribery-and-corruption-supplement.pdf

mycode
Serco's code of conduct.

https://www.serco.com/mycode

Public need and public opinion

Our customers – governments – are entrusted by their citizens to maintain law and order, and protect their nations from external threats. This means having strong defence capabilities, justice systems focused on prisoner rehabilitation and community service, immigration policies to manage the challenges of increasing immigration and the delivery of sustainable cities and communities.

These activities are often subject to scrutiny by opposition parties, campaigning organisations and the press. You will frequently read in the press stories of government incompetence and maladministration, and of the allegedly cruel and inhumane consequences of their decisions. Some of this criticism will be fair, objective and balanced; an awful lot will be partial, biased, subjective and unfair. That is a fact of life of being a government in most free countries.

As a supplier of government services, we are engaged by our customers to help them do some of these hard-edged things. Ensuring the right culture, transparency and controls are embedded at every level of the organisation is key. We therefore have well-established governance and due diligence processes covering the business life cycle of contracts to determine with whom we are prepared to do business, how we deliver the contract and how we manage risks. This considers many factors, including social and environmental impact. Throughout this life cycle, we embed robust risk management to monitor and assess risk and opportunity. The Serco Business Lifecycle constitutes several stages which follow the maturity of any business opportunity, controlled through a series of mandatory governance gates requiring formal assessment and approval by senior management. Areas of focus include material legal, ethical and human rights risks; health, safety and environmental risks; and other salient adverse impact risks from an ESG perspective. Further information is available at www.serco.com/esg/inside-esg.

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

Quite rightly, we too are sometimes subject to scrutiny by opposition parties, the press and campaigning organisations. In many cases, this scrutiny is all the fiercer because the idea of private companies delivering government services is in and of itself anathema to some people. Therefore, we face a level of scrutiny around our services which is greater than would be the case for companies doing business with each other.

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 accept that we will often be unfairly criticised in public. For those who analyse our ESG performance it is important to understand that while public criticism and scrutiny is an inevitable part of our business it will not always be fair, objective and balanced. This is part of serving governments even when they do hard-edged and difficult things. Some ESG analysts take a binary view: for them, any public criticism of a company involved in the delivery of hard-edged government policy is an automatic black mark. It's in the press, it must be right, no? Well, no, actually.

We do not shy away from addressing questions and concerns on our work, whether we are responding to challenges levelled at us in the media or requests to better understand our approach from investors and analysts. Our door is open to balanced, fair and constructive discussion about what we do – such dialogue is of great value to us, and always welcome.

To help inform, we focus on transparency, publishing more information on our website, including third party reports on some of our more challenging operations, and comments received through Viewpoint, our annual engagement survey. Below we share two examples of work for which we have received recent attention.

Serco Immigration: Supporting vulnerable people through systems designed to manage complex social challenges

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

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

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

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

We are not involved in the development of immigration policy and are not involved in adjudication of immigration and asylum claims.

Serco Defence: Delivering critical defence support services for peacekeeping nations around the world

The maintenance of mission-ready peacekeeping capabilities is another sensitive area of government policy and public debate, subject to strong views and critical attention. We feel this is compatible with our commitment to ESG as you cannot have a focus on ESG without strong security underpinning it. This has been shown with the ongoing conflict in Ukraine which has heightened the ethical value of the often criticised defence industry.

We are proud to offer a wide range of capabilities that help our defence customers manage diverse technical, social, economic and environmental challenges – from running marine operations and base management to the modernisation of ships and maintenance of aircraft; from the analysis of cyber activity and the management of satellite systems to the delivery of military training and leadership programmes; and from armed forces health and housing services to programmes helping ex-military service members and their families transition into civilian employment.

In the UK, we provide marine services to the Royal Navy, including towage, pilot transfer and passenger transfer. Such support may be required for any naval vessel. In the US, we provide a wide range of support services for the US naval fleet, and administrative and advisory services across a broad spectrum of Department of Defense programmes. While our defence operations in these regions may have some indirect association with nuclear deterrents, we do not manufacture, install or maintain any nuclear weapons, and we hold no contracts that require the delivery of nuclear weapons, weapons systems, or weapons systems platforms.

From 2000 to 2021, Serco was involved in the management, day-to-day operations and maintenance of the UK Atomic Weapons Establishment (AWE), which itself maintains the UK's nuclear warhead arsenal. As of 1 July 2021, AWE plc became an NDPB (non-departmental public body) wholly-owned by the MOD. Neither AWE Management Ltd (AWE ML) nor its shareholders, including Serco, has any ownership interest in AWE plc.

In Australia, Serco has supported the Australian Defence Force for more than 20 years, with vessel design and operations, base services for operations overseas, logistics and operational support, and training and professional development. These services contribute to regional peacekeeping missions and critical disaster response activities in the Pacific which are occurring with increased frequency.

Our work across the Defence industry has led to partnerships with organisations such as Soldier On, a not-for-profit organisation that provides fully integrated support services for members of the Australian Defence Force and their families. Serco has a dedicated employment programme to support active and former veterans to have fulfilling careers with us and we employ many veterans.

We understand that some may question our involvement in the defence sector, but we believe it to be appropriate. Delivering vital defence services for peacekeeping nations is a proud part of our heritage. Our involvement dates to 1964 and our very first contract: to help maintain the ballistic missile early warning system of the UK and US Government at RAF (Royal Air Force) Fylingdales in the UK, which we still do today.

Today, we are trusted to deliver critical support services and operate sensitive facilities around the world, helping to maintain both national and international security in a way that is safe and sustainable, reducing costs and improving outcomes for modern defence organisations.

Embedding ESG

Staying focused on what matters

ESG is an important element of our ecosystem. We have recognised our corporate responsibilities for many years, publishing our first report in 2003. As our government customers face increasing challenges and need to address mounting pressure to deliver social value and environmental stewardship we have evolved our thinking as a trusted provided of public services. ESG is now a defined element within our Group business strategy; it sits across several of our principal risks, is reflected in functional strategies, be that people, safety, environment, community etc., and has appropriate oversight through an ESG oversight group and Board oversight through the Corporate Responsibility Committee.

In shaping our approach to ESG we continue to seek an understanding of the interests of both internal and external stakeholders on the ESG elements relevant to our business. This helps inform how we develop our ESG strategy and where we place our focus. As a provider of public services we provide people with skills and expertise, supported by systems and processes to deliver public services that transform outcomes and make a positive difference for our fellow citizens. We believe that this means we should place our focus on the social elements followed by governance and then the environment. This has been reflected in historical materiality exercises.

Given the rapid and intensive evolution of the public service and ESG landscapes in the last three years, we felt that the time was right to re-engage with our key stakeholder groups on the ESG risks, issues and opportunities that Serco should prioritise going forward. So in 2022 we completed an engagement and review process to refresh our materiality assessment to better align our ESG framework and programme to those topics that are important to our stakeholders.

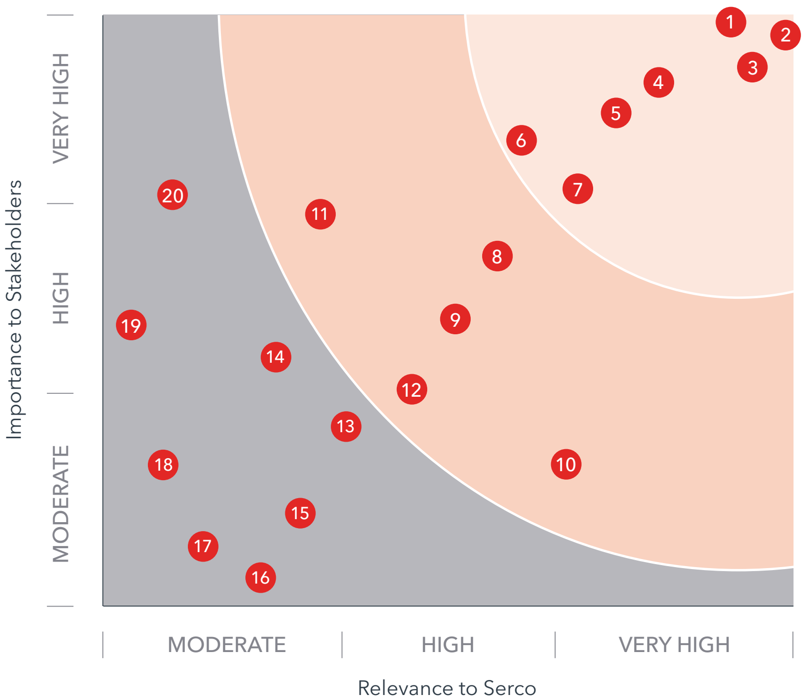
We took a proactive approach with our customers, investors, suppliers and partners by inviting a selection of these stakeholders to complete a survey seeking their views on the importance of different topics. We similarly surveyed internal stakeholder communities including our diversity networks, Serco Goes Green network and early career programme cohorts, alongside senior business and functional management.

To enable us to reflect a broad set of external views we engaged a third party research partner to conduct detailed research into the materiality of these topics across our peers and competitors, regulators and policy-makers, and public opinion in the media.

Results indicate that all stakeholders inside and outside of Serco are broadly aligned in what they believe are the most critical elements underpinning the sustainable delivery of public services: workforce, culture and governance. All the elements on the matrix (Diagram 1) are important to our overall ESG approach. The assessment has enabled us to recognise the level of importance different stakeholder groups place on each element, ranking these on a priority scale in comparison with each other. We recognise the need to continue to improve our approach to those elements in the upper right quadrant and will work to raise the importance and our impact from those in the bottom left. It serves to help us consider how to improve the visibility of these activities so that, over time, they will be viewed higher on the materiality assessment.

Just because an element is lower on the materiality assessment does not mean that we do not take it seriously. For example, while environmental protection and carbon and climate are to the left we are committed to a net zero transition and our environmental strategy has been a key focus for the year, leading to an increased score through CDP from B in 2021 to A- in 2022. This process has helped focus our plans; however, we continue to progress across all elements in our framework. The results were reviewed and validated by the Group Executive Committee and Corporate Responsibility Committee and a final Group analysis was generated – see our full updated materiality assessment below (Diagram 1).

Diagram 1 – ESG materiality assessment



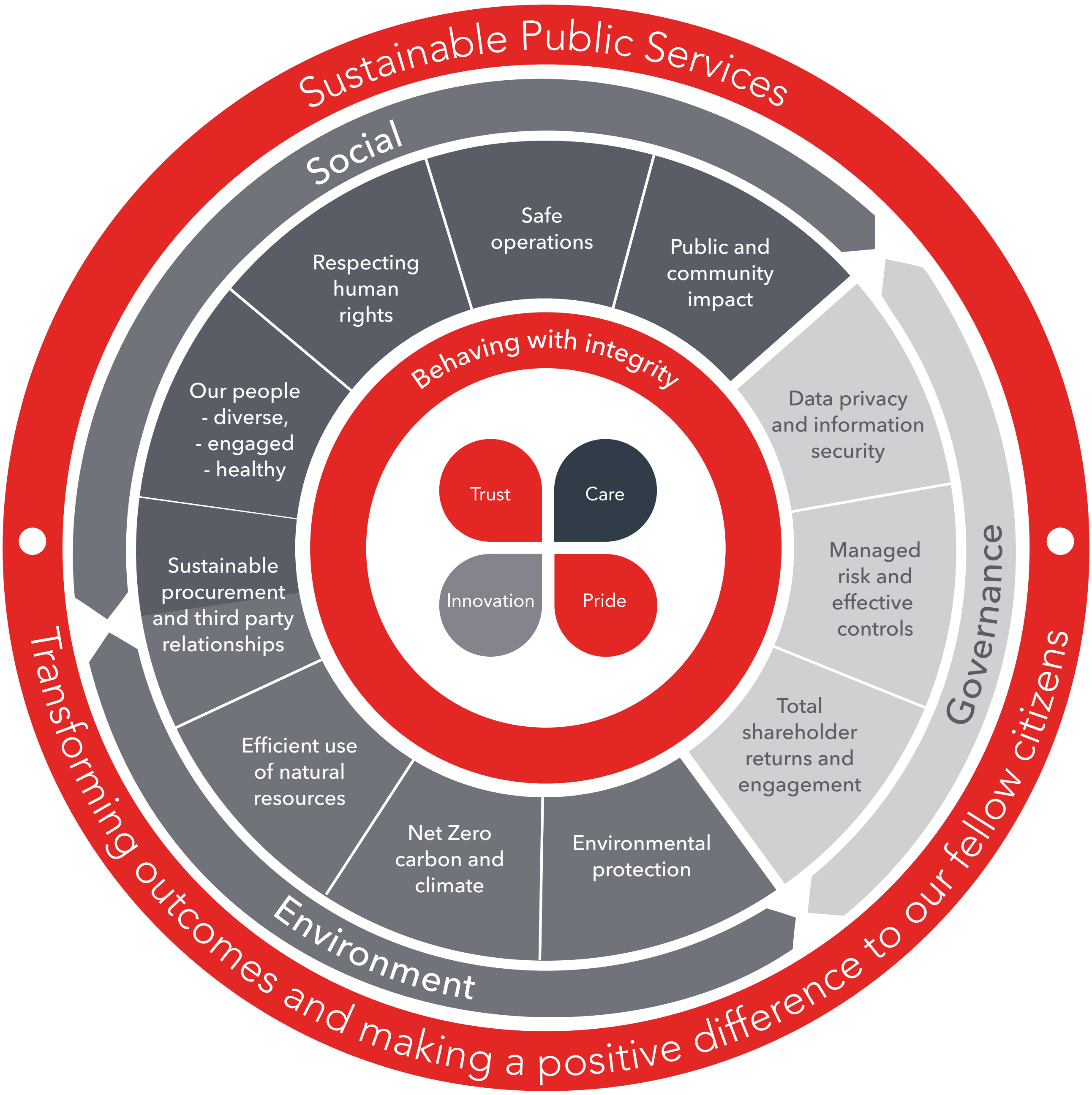
1 Data privacy and information security
2 Behaving with integrity
3 Safe operations
4 Respecting human rights
5 Diverse workforce and inclusive workplace
6 Talent management and engagement
7 Building sustainable third-party relationships
8 Effective governance and managed risk
9 Healthy, fit and thriving colleagues
10 Fair competition and reasonable practice
11 Innovation and technology
12 Service user needs and wellbeing
13 Service outcomes and social impact
14 Shareholder returns and engagement
15 Labour rights and industrial relations
16 Community engagement and investment
17 Environmental protection
18 Resource efficiency
19 External trends, risks and events
20 Carbon and climate

ESG framework

ESG has always been core to what Serco does, and we have developed our thinking through its articulation and management as part of our ongoing performance. Given our evolving thinking and the feedback from our stakeholders we have completed a refresh of our ESG framework which has been through several iterations from an initial Corporate Responsibility framework back in 2003. Our objective behind this framework refresh was to reflect stakeholder views, simplify it and create better alignment with business operations and Group principal risks. The outcome is our updated ESG framework as illustrated in Diagram 2.

The following update on progress and next steps is structured around this revised framework.

Diagram 2 – ESG framework



Our refreshed ESG framework remains aligned with our corporate purpose. Each ESG element continues to reflect the key pillars in the Group strategy but now better reflects specific subject matter area strategies, for example, the environmental elements now match the three pillars in our environment strategy. We have specifically called out sustainable procurement along with third party relationships, reflecting the commitments we made in 2021 in our sustainability charter. We have merged the people elements under a single 'Our people' element reflecting the Group's people strategy. Similarly, we have combined safe operations with duty of care reflecting our safety strategy which covers both the safety of colleagues and those who use our services.

Recognising the importance of respecting human rights and the increasing focus on modern slavery we have recognised human rights as a specific element. We have included data privacy and information security reflecting its importance to stakeholders and the current assessed risk.

This simpler framework, clearly aligned to ESG, also aligns more closely with how we run the business, existing strategies, principal risks, materiality findings and Company policy. There is clear executive sponsorship and subject matter expertise in place as well as robust oversight. Further information is available at www.serco.com/esg/inside-esg.

Delivering our ESG commitments

We recognise that ESG initiatives are only ever truly effective when they are embedded into an organisation's strategic outlook. We believe the revised framework reflects a commitment to powering public good through developing and delivering public services that advance the lives of citizens and the communities we serve and will help us be more effective in driving ESG engagement across the organisation.

ESG is a complex area and while the ESG Framework encapsulates all that we do, to bring this to life we have pulled out five themes (see page 36) that really emphasise our focus and where we believe there is an opportunity to differentiate ourselves. These five themes encapsulate how we approach ESG and are designed to resonate with key stakeholders:

- public services for public impact;
- at the heart of communities;
- colleagues as advocates;
- partnering for net zero; and
- responsible governance.

These are the themes which articulate Serco's unique approach to ESG and by which we want to be known. They support how we embed our ESG framework in the activities colleagues deliver every day and leverage the impact they have in those areas of ESG that are important to us.

With a robust framework covering all aspects of ESG, supported by key themes to inspire and focus on priority areas for frontline colleagues, we have the basis for effective management and delivery of our ESG commitments. This is supported with clear sponsorship across Serco's executive committees of the updated ESG framework and subject matter expertise, which will continue to provide robust oversight over our global operations.

Social

We deliver public services that place us at the heart of the communities we serve, employing local people, using local businesses and supporting fundraising and volunteering efforts. As such, it is important that we employ great people who are engaged, reflect the communities they serve, are healthy and have opportunities to develop in their chosen field; that we respect and protect the dignity and human rights of our colleagues and everyone we deal with; that our operations are safe; and that we deliver services that reflect our customers' business needs, have a positive impact on the public we serve and support, strengthen and contribute to the social and economic wellbeing of those communities in which we work.

Elements – Social

Our people
diverse, engaged, healthy

Our ambition

To have great people who are engaged, reflect the communities they serve, are healthy and have opportunities to develop in their chosen field.

Our milestones

Engagement

- By end 2023 to have colleague engagement greater than 72.

Wellbeing

- By end 2023 to have trained all people managers in mental health awareness.
- By 2026 to have trained 1,000 wellbeing allies.
- Have Divisional wellbeing strategies in place by end 2022.
- By end 2022 gain Group accreditation to ISO 45003 – Psychological health and safety at work.

Diversity

- Deliver a gender pay gap of less than 10% by 2023.
- By end 2023 have 35% female representation among global leadership team.
- Year-on-year 10% increase in Colleague Communities to support inclusion.
- Achieve gender balance on leadership and management programmes.

Careers and internal mobility

- Achieve 65% internal leadership promotion by end 2023.
- Promote internal mobility and encourage our colleagues to find new opportunities to develop their careers and capabilities within SercoAchieve.

How we have performed against our milestones

Engagement

- 2022 engagement score remained at 70 although there was a 4 point increase in response rate to 72%. This trend and score is aligned to other organisational trends globally, and is viewed as positive given the current environment.

Wellbeing

- 7,704 colleagues (including people managers) trained in mental health awareness, of which 1,338 were trained during 2022.
- 102 wellbeing allies trained to date.
- Divisional wellbeing strategies, aligned to Group approach, in place.
- Gained Group accreditation to ISO 45003.

Diversity

- 2022 gender pay gap 8.11%.
- 34.5% women in global leadership in 2022.
- Colleague community at 5512, a 7.9% increase on 2021.
- 133 leaders/managers participated in our Oxford Saïd Business School Programmes with approximately 40% of these being female colleagues.

Careers and internal mobility

- 57% internal leadership promotions.
- 44% of those on the Oxford Advanced Leadership Programme were female.

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

Engagement

- Offered MyShareSave, a three-year savings-related share plan, to UK colleagues, of which 8.4% enrolled.
- Implemented automated onboarding and exit questionnaires.
- Distributed £9m in one-off payments to all colleagues outside management grades, recognising the pressure colleagues are under.

Wellbeing

- Our wellbeing engagement score remains one of the highest scoring areas at 76.
- New EAP provision in place across AsPac.
- Achieved CCLA Corporate Mental Health Benchmark Tier 1, top 3 out of 100, Mind Workplace Wellbeing index (UK – Silver award).
- Around 80% of AsPac people managers are now trained in an enhanced mental health approach, roll-out for other Divisions being scoped for 2023.
- Continued roll-out of wellbeing content – webinars, bitesize videos, newsletters, ally promotions and awareness activities – to all areas of the business.
- Developed peer support networks around key topics e.g. parents and carers.

Diversity

- Completed first global diversity survey with 11,537 responses which indicated that Serco is a largely inclusive and welcoming workplace.
- Serco Veterans, Reservists and Families network and community established as a Global Advocacy Group.
- In America, Serco has earned the designation VETS Indexes 5 Star Employer, as part of the 2022 VETS Indexes Employer Awards for a second year in a row.
- Serco Australia continues its work with Soldier On as a Platinum Pledge partner and proudly employs 550 veterans and 180 reservists.
- In the Middle East we launched our KSA internship Fursati Programme in KSA and had the highest number of UAE Fursati students to date across different contracts in UAE. We also have a significant increase in nationals across multiple contracts in UAE and KSA.
- Increased ranking to be in top 50 FTSE Women Leaders.
- AsPac named a finalist in Prime Minister's Veterans' Employer Awards.
- Serco Europe Recruitment team secured a Women in Tech Excellence Award.

Careers and internal mobility

- Launched Women in Leadership programme with Oxford Saïd Business School.
- As a global business with a diverse range of colleagues we had around 800 participating in formal development programmes in 2022.
- In terms of early career programmes, we refreshed our strategy and had in 2022 over 575 new graduates, interns and apprentices. We went to market in advertising programmes focused on social purpose and contract management and increased our number of applications across all Divisions. An example of this is that we received over 1,400 applicants for our UK graduate programme in 2022. We have a robust internship programme within the Americas offering over 47 places for early career talent. In addition, we have 55 graduates across all Divisions and 507 apprentices.

Our roadmap 2023

Engagement

- Deliver division and contract action plans developed from 2022 engagement survey.
- Engage with colleagues more regularly throughout the employee life cycle e.g. development and progression in addition to joining and leaving.
- In 2023 launch share plans in Australia, Canada, US and Middle East.

Wellbeing

- Review procured service wellbeing provision to ensure equitable and accessible offer.
- Equip people managers with the capabilities to have better quality, supportive conversations with their teams.
- Focus on psychosocial risk management.

Diversity

- Continue to expand colleague networks and resource groups to support underrepresented voices (10% membership increase year on year).
- Increase representation of females and ethnic minorities in management and leadership positions (threshold 35% female global leaders in 2023).
- Evolve data intelligence to intersectionality and inclusion (perceptions and lived experience).
- Build greater People Manager capability in creating and leading inclusive teams.

Careers and internal mobility

- Future Leaders Programme added to our Serco Oxford Saïd programme with a clear focus on developing participants careers within Serco.
- Develop Custom Design Online Women in Leadership Programme with a clear focus on developing women in leadership and contract management careers within Serco.
- Continue to embed our early careers approach with a range of programmes across all Divisions. Our focus in 2023 will be developing international rotation for our 2024 graduate programme. This will continue to build our internationally mobile talent.

Elements – Social

Respecting human rights

Our ambition

Protect the human rights of all those we employ and others who use the services we provide.

Our milestones

- By end 2022 update guidance on human rights impact assessment.
- By end 2022 complete retrospective high risk supplier modern slavery due diligence.
- By Q1 2023 Serco aims to develop a sponsored partnership with the charity Slave-Free Alliance, part of Hope for Justice.

How we have performed against our milestones

- New guidance published.
- Due diligence exercise completed.
- Arrangement with Slave-Free Alliance in place.

Safe operations

Our ambition

Zero Harm through vigilance and initiatives that result in improvements in safety-related metrics, proportionate to the size, shape and risk profile of the business.

Our milestones

- By end 2022 to have completed global safety climate survey.
- By end 2022 North America to achieve below 1.0 Experience Modification Rating.
- 2022 threshold reductions:
  - 4.64 Lost Time Incident Frequency Rate (LTIFR).
  - 0.32 Major Incident Frequency Rate (MIFR).
  - 18.13 Lost Time Incident Severity Rate (LTISR).
  - 6.16 Physical Assault Frequency Rate (PAFR).
  - 0.57 Serious Physical Assault Frequency Rate (SPAFR).

How we have performed against our milestones

- Completed safety culture survey as culmination of a five-year programme. Top 30% against benchmark companies (better than benchmark in all areas).
- Reduced Experience Modification Rating (based on three-year accident/injury loss history) to below 1.0 in North America for the first time since 2008.

2022 performance against:

- LTIFR 5.72
- MIFR 0.44
- LTISR 22.8
- PAFR 6.06
- SPAFR 0.58

Reductions in major injuries, lost time incidents, lost days and assaults were seen across several areas in the business; however, performance has been mixed compared with 2021. Several exceptional and unpredictable events as well as third-party related incidents have been seen in other parts of the business which has driven a worsening in core KPI performance when compared to 2021. As a result, we didn't achieve our 2022 LTIFR threshold of 4.61 (actual 5.72). Despite great efforts, we did not achieve set thresholds for our other safety metrics in 2022, with the exception of our physical assault frequency rate, which not only achieved the threshold, but also delivered an 3% improvement on 2021 performance.

Key

Completed | On plan | Progressing but behind plan

Other achievements

- Tested refreshed due diligence process for human rights for mergers and acquisitions with the acquisition of ORS.
- Upgraded screening platform for third parties which includes more robust human rights checks.
- Achieved 92% in the UK Cabinet Office's annual Modern Slavery assessment, up from 84% in 2021.
- Investigated two Speak Up cases related to modern slavery, both unsubstantiated but both vigorously investigated.
- Continued to drive communications, training and discussion across Divisions on human rights.
- Became founding members of the UK Service and Infrastructure Project Providers Modern Slavery Council along with UK Cabinet Office and other strategic service providers to Government.
- In the Middle East we continued to monitor human rights and modern slavery through supplier assurance and audit activities, including over 50 supplier accommodation inspections, along with continuing education of local suppliers regarding modern slavery in relation to labour conditions.
- AsPac has continued to deliver modern slavery training including, with the Executive Leadership Team and Ethics Champions.
- Serco continues to deliver Return and Reintegration Assistance Program (RRAP) contract operations on behalf of the Australian Department of Home Affairs (Department) which includes supporting victims of modern slavery.

Our roadmap 2023

- Leverage relationships with Slave-Free Alliance.
- Follow up on selected suppliers following due diligence responses to understand their management of modern slavery in their supply chain and take any corrective actions.
- Consider how human rights and modern slavery due diligence is monitored for those suppliers not classified as high risk.
- Modern Slavery Oversight Group to continue to meet monthly.
- Look at how our Values and Integrity network can leverage their role in raising awareness on human rights and our modern slavery programmes.

- Initiated LTI reduction project, pulling in findings from Safety Culture Survey, Viewpoint, MIND survey, performance and the trends and interviews with key stakeholders. Identification of the 20% of areas where 80% of the incidents occur.
- Zero Harm Week 2022 focused on ownership/accountability/behaviours.
- Our safety video competition had a positive response with over 100 videos received, including from clients and service providers.
- Safety Observation reporting has seen improvements with 43% increase in reports over 2021.
- Strengthened third party onboarding, management and control of contractor systems including UK roll-out of SafeContractor tool and the ongoing success of the Middle East Contractor Forums.
- Received UK Royal Society for the Prevention of Accidents Awards for Serco Defence National Defence Sector Award for the first time and the 27th consecutive Gold Award and third consecutive Patrons Award for SSPAR RAF Fylingdales. The Patrons Awards is presented to those organisations who have achieved a minimum of 25 consecutive Gold Awards which reflect high standards of safety management.

- Harm/injury reduction plans as part of divisional safety strategies.
- Focus on initiatives to reduce instances and outcomes of workplace violence and aggression.
- Continuing HSE training improvements focusing on supervisory levels.
- Strengthen collaborative activities managing and working with contractors.
- Implement a new approach to global lessons learned/shared.
- North America to maintain Experience Modification Rating under 1.0.
- 2023 safety thresholds:
  - LTIFR 5.14
  - MIFR 0.41
  - LTISR 22.06
  - PAFR 5.41
  - SPAFR 0.55

Elements – Social

Public and community impact

Our ambition

Make a positive impact on the public we serve and those communities we work in.

Our milestones

- By end 2023 have agreed and reported against a set of metrics that define our public impact.
- By end 2023 have agreed and reported against a set of community impact metrics reflecting our work in the communities we serve.
- By end 2022 roll out the Serco People fund in Australia and UAE.

How we have performed against our milestones

- Potential public impact metrics identified with processes being developed to capture data.
- Community impact metrics identified. Data capture and reporting methodology under review.
- Serco People fund established in Australia and UAE

Environment

We recognise that environmental sustainability is a critical factor in the wellbeing of society, and are therefore committed to doing what we can to address the environmental and climate emergencies and support the net zero ambitions of our clients and wider society. We support and contribute to customer objectives, helping them meet climate and environmental challenges by reducing our emissions and decarbonising our services in line with global climate science and net zero ambitions. We also deliver sustainable procurement improvements and implement operational efficiencies to avoid and minimise resource use, supporting the transition to a circular economy. We strive to ensure our operations prevent pollution and protect, value and enhance biodiversity and the natural world which sustains us.

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

Elements – Environment

Efficient use of natural resources

Our ambition

Increase collaboration and deliver resource efficiency initiatives with our value chain to avoid and reduce resource use, increase reuse, recycling and recovery, avoid landfill and contribute to a more circular economy.

Our milestones

- By end 2022 to have appointed a sustainability ratings provider to help assess and manage environmental performance of supply chain.
- By end 2022 increase the number of resource efficiency initiatives.
- Expand depth and breadth of GRI environmental reporting to help measure contribution to resource efficiency.

How we have performed against our milestones

- Ecovadis engaged as sustainability ratings provider to support assessment of supply chain.
- Hazardous IT waste streams now externally reported.
- Resource efficiency initiatives in place across sectors and geographies.
- ESG rating agency questionnaires have shown improvements in environmental scores since 2021.

Key

● Completed ● On plan ● Progressing but behind plan

Other achievements

- The Serco People fund received 632 applications and supported 253 colleagues and their families through £203.5k financial grants.
- The Serco Foundation donated over £220k in 2022 to over 15 charities.
- The Serco Foundation supported through matched funding with Serco colleagues humanitarian efforts in Ukraine with £146k.
- The Serco Foundation revised processes to better prioritise applications from Serco colleagues.
- The Serco Institute published research on micromobility and its environmental and community impact which was used by UK ministers to inform a new regulatory approach for the sector. It also published research in multiple new geographies and languages – for example, in France and Saudi Arabia.
- The Serco Institute User Experience research was hosted on the UAE Government Experience Portal and covered in multiple media outlets.
- UK are onboarding a social value portal to standardise social value measurement and reporting in line with UK Government social value commitments.

Our roadmap 2023

- Launch the Serco People fund in America.
- Capture public and community impact in line with agreed metrics.
- To strengthen relationships with Serco colleagues, the Serco Foundation to recruit two internal trustees.
- The Serco Institute to create citizen-led policy solutions to pressing public service issues, moving the debate on to a broader range of subject areas and partnering with innovative thinkers to co-design policy solutions to public services.

Other achievements

- Increased collaborative action with key suppliers to reduce waste and increase reuse and recycling.
- Our green ambassador network has over 120 initiatives ongoing focusing on carbon and climate, efficient use of natural resources as well as net zero carbon and climate and environmental protection.
- Our prison operations within both the UK and Australia deliver various recycling and reuse programmes as part of our industries activity, including the collection of unused and redundant Serco uniforms from other contracts for redeployment, reuse and recycling.
- Northlink Ferries, UK, has significantly reduced the use of single-use plastics.
- Serco Middle East held a one-month challenge for recycling plastic and e-waste at staff accommodation and support office sites with partner Ecyclex.
- We have implemented water saving measures at our Auckland South Correctional Facility following a significant drought in 2021, leading to 18% water savings in 2022.
- Implemented water saving measures at client sites in the Middle East, including smart solar controlled irrigation systems and reuse of fountain water at Universities.
- Palm Monorail in the Middle East recycled 320 train tyres in 2022 as part of our commitment to recycling.
- The Australian immigration contract, Christmas Island, introduced a waste oil incinerator to generate energy and reduce waste to landfill.
- Health contracts, UK, were involved in various projects to address waste, including catering single-use plastics replaced with vegware, where possible, introduction of washable skull caps for retail catering staff instead of disposable hats, and new plant-based fully recyclable milk cartons replacing plastic milk bottles.

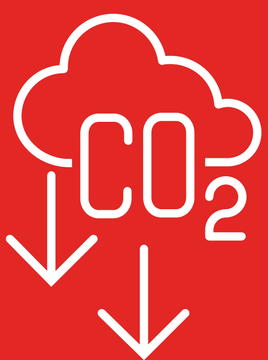
Our roadmap 2023

- Engage key suppliers using Ecovadis on environmental performance.
- Collaborate with key suppliers identified via Ecovadis to capture and report improvements delivered via our propositions.
- Prepare for evolving reporting requirements.
- Complete fleet transition assessment.
- Grow partnerships with environmental partners to support ecosystem restoration and biodiversity benefits.
- Pursue investment opportunities in nature-based solutions taking into account emerging guidance on voluntary carbon market.

ESG continued

Elements – Environment

Net zero carbon and climate



Our ambition

Achieve net zero Scope 1, 2 and 3 by 2050 and mature our reporting on climate risks and opportunities.

Our milestones

- At least maintain CDP score at B.
- Previously reported milestones are being recalculated having committed through the Science Based Targets Initiative process to play our part in achieving net zero by 2050. These targets are being independently validated in 2023.
- By end 2022 to report climate risks and opportunities from a financial perspective and report as part of TCFD reporting.
- By end 2022 update our climate transition plan.

How we have performed against our milestones

- Improved CDP score to A- ●
- Financial control boundary approach now selected, customer-owned assets where Serco is not responsible for making procurement decisions on asset upgrade/replacement removed from Scope 1 & 2 targets and moved to Scope 3 reporting. ●
- 2022 performance and new baseline:
  - Scope 1 – 31,894 tCO_2e
  - Scope 2 – 6,868 tCO_2e (market based)
  - Scope 3 – 968,126 tCO_2e (market based)
  - All scopes – 1,006,888 tCO_2e (market based)

  In 2022 we have continued to focus on avoiding and reducing energy use through operational efficiencies supported by no, low and capital cost energy management initiatives. We have also increased our renewable sourced electricity contract coverage and supported the feasibility and installation of on-site renewable generation at customer sites. We also continue to transition to less polluting and carbon intensive fuels and vehicles and increase the infrastructure needed for electric vehicle charging for colleagues, customers and service users. We have enforced our measurement of supply chain emissions, the largest proportion of emissions across our value chain, and have engaged providers to support further precision in future. We have formally committed to Net Zero through the Science Based Targets Initiative and have submitted refreshed net zero targets for validation in 2023. Our net zero transition planning also continues to mature in line with emerging guidance.

- Reviewed global climate risks and opportunities, reporting three substantive risks and one opportunity, applying future climate scenarios and disclosing a range of potential £ impacts. ●
- Updated and published our initial climate transition planning in line with draft UK government guidance – available on www.serco.com/esg. ●

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

- Our green ambassador network has grown to over 260 ambassadors globally.
- Maintained TCFD Oversight Group to ensure focus and oversight.
- TCFD:
  - Increased our understanding of climate risks and their financial impact using globally recognised models and scenarios, taking into account updated industry guidance and insights.
  - Provided more granular information about the effect of climate change on different business sectors and geographies and balanced our disclosure of risks with inclusion of significant opportunities.
  - Engaged our insurance partners to further understand the effects of how different global warming scenarios may affect the valuation of assets and liabilities.
- Strengthened our understanding of supply chain environmental impacts and associated carbon emissions. Proportion of Scope 3 supply chain emissions now sourced from 23% of overall supply chain spend, directly from supplier disclosures.
- Our North America real estate sustainability strategy initiated and supported by JLL Real Estate Services. Outputs include a green leasing organisational standard, initiatives for priority sites and a strategic action plan across our estate.
- The Facilities Management business in the Middle East are driving energy efficiency and decarbonising operations. One initiative at Khadamat University, in relation to a LED retrofit lighting project, delivered 1,939 tCO_2e savings in 2022.
- The London Cycle Hire Scheme contract supported the reduction of circa 59k tCO_2e in 2022.
- A feasibility study was completed to consider options for renewable energy generation across our leased premises in Australia.
- The Serco team at the European Space Agency supported earth observation and monitoring of natural disasters exacerbated by global warming including vital flood monitoring.

Our roadmap 2023

- Mature our reporting on climate risks and opportunities.
- Externally validate, through the Science Based Targets Initiative and process our near and long-term targets, currently anticipated to be:
  - A 34% reduction of Scope 1 and 2 emissions by 2030 against a 2022 baseline.
  - Scope 3 – A proportion of our suppliers by spend to set science-based targets by 2028.
  - Net zero by 2050 across Scope 1, 2 and 3 emissions.
- Update our net zero transition plan to meet UK government guidance and increase detail on property and fleet targets up to 2030.
- Global property working group to be established to support net zero planning and initiatives.
- Prepare evolving reporting requirements which will highlight our global services which support sustainability, including climate mitigation and adaption.
- Mature our green ambassador network and outputs.

Elements – Environment

Environmental protection

Our ambition

Deliver services and initiatives which address wider environmental emergencies such as air pollution, water pollution, biodiversity, and habitat loss.

Our milestones

- By end 2022 make a step change in our transition to low emission Company cars.
- By end 2023 make a step change in our transition planning to lower emission fleet vehicles.
- By end 2022 support projects to protect and restore nature, supporting UN decade of ecosystem restoration.
- By end 2023 establish new investment partnerships in support of our net zero carbon and environmental protection.
- By mid 2023 to have updated and enhanced environmental elements in our management framework.
- By end 2022 categorise contracts and services which support environmental sustainability using EU green taxonomy.
- By end 2022 increase training, awareness and resources on environment to build organisational green skills and competence.

How we have performed against our milestones

- Low emission vehicles in our UK company car scheme now make up a significant proportion of the scheme, electric vehicles now account for 18% of the fleet, petrol/plug-in electric hybrid 20% and hybrid 28%.
- Engaged various environmental partners on ecosystem restoration and biodiversity enhancement activities.
- Landowners engaged on peatland code projects in the UK which would deliver ecosystem restoration and carbon benefits; however, investment not yet made.
- Environment and Climate policy statement updated along with Basis of Environmental reporting.
- Increased number of environmental training courses available.
- Increased capability and competence on environment across organisation.

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

- 30% of global revenue covered by ISO 14001, up from 24% in 2021.
- Installed EV charge points across a range of UK sites for staff and service users.
- Introduced Serco Europe Goes Green Challenge and planted and assisted natural regeneration of 12,000 trees in Zambia, Africa with our partner WeForest.
- Established partnership with One Tree Planted in Australia. We aim to plant 200 trees by the end 2023.
- Range of initiatives undertaken on client sites to support habitat and green space creation to allow nature to thrive along with volunteering activities such as clean up events and tree planting.
- Trees felled in storms at International Fire Training Centre, UK were moved to wildlife areas to create insect homes to support biodiversity.
- Melbourne Parks and Gardens, Australia, invested £140k in new solar-powered electric ride-on mowers, reducing carbon emissions and cutting noise pollution by 50%, the new equipment will deliver savings of more than £25k per year in reduced fuel and maintenance costs.
- Contracts which support environmental sustainability and also have potential to be green taxonomy aligned identified as environmental services, cycle hire and low-carbon transport rail contracts.
- Our green ambassador network has completed 183 initiatives since it launched in 2019.

Our roadmap 2023

- Fleet transition planning by lease end date, contract requirements, vehicle type and geography.
- Grow partnerships with environmental partners to support ecosystem restoration and biodiversity benefits.
- Pursue investment opportunities in nature-based solutions, taking into account emerging guidance on voluntary carbon market.
- Prepare for Taskforce on Nature-related Financial Disclosure (TNFD) reporting.
- Prepare for UK version of EU green taxonomy reporting requirements which will highlight our global services which support sustainability, including pollution prevention.
- Increased capability and competence to deliver environmental sustainability focused services across organisation.
- Mature our green ambassador network and outputs.

Elements – Environment

Sustainable procurement and third party relationships

Our ambition

We generate benefits to Serco, society and the economy, and minimise environmental impact through sustainable procurement.

Our milestones

- By end 2022 to have appointed sustainability ratings provider and identify initial supplier targets.
- By end 2023 to have our most material preferred suppliers rated 200 material suppliers.
- By end 2023 to have agreed wider sustainability evaluation factors as part of our sourcing governance processes and developed sustainability clauses and KPI metrics for incorporation into our standard supplier contracts.
- By end 2023 to have identified categories (at Level 3) which are highest carbon emitting and the related suppliers, with a view to targeting these suppliers to be rated in 2023/24.
- By end 2023 to have undertaken a market analysis of emerging Scope 3 reporting solutions, with a resultant business case and implementation of a Scope 3 reporting solution anticipated by 2028.
- By mid 2023 to have a Supplier Diversity strategy across three of our regions.

How we have performed against our milestones

- EcoVadis appointed as our chosen sustainable ratings provider.
- Business critical highest spend suppliers, aligned to our Preferred Supplier List, have been identified and are being rated.
- Work commenced on identifying wider sustainability evaluation factors, sustainability clauses and KPI metrics.
- Supplier diversity strategy drafted and under review.

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

- We have integrated EcoVadis into our sourcing governance processes.
- We have undertaken human rights and modern slavery due diligence on those tier 1 suppliers deemed at highest risk of modern slavery.
- We have refreshed our onboarding questions, particularly related to business ethics and modern slavery, for those suppliers already rated with EcoVadis.

Our roadmap 2023

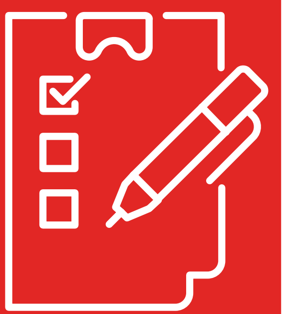
- Reach our target of having our most material preferred suppliers rated on EcoVadis by end 2023 with corrective actions assigned to those suppliers with red or amber ratings.
- Undertake a sustainable procurement maturity assessment to inform our vision and medium-term goals and create focus on a handful of KPI metrics to track progress.
- Undertake a market analysis of Scope 3 reporting solution providers with agreed recommendations on a business case.
- Further develop key supplier diversity in line with our local and diverse supplier strategy and be able to better track and report our spend with diverse suppliers in line with our strategy.

Governance

Effective governance is an essential part of our public service ethos and the trust our customers have in us to operate with integrity and in line with our Values. We seek to protect shareholder interests by managing our business in a way that is consistent with the broader interests of society. We operate within a comprehensive corporate governance framework and approach, with clearly defined responsibilities and accountabilities and maintain internal control systems supported by internal compliance and assurance controls and risk management processes. We are committed to collecting, storing, protecting and handling data with care and ensuring we protect the confidentiality, accuracy and availability of information. We are committed to transparency, maintaining open, meaningful dialogue with all stakeholders while creating long-term, sustainable value that protects the interests of our owners alongside those of our colleagues, customers and the communities in which we operate.

Elements – Governance

Managed risks and effective controls



Our ambition

Safeguard stakeholder interests, including shareholder investments, customers, colleagues, our assets and reputation while supporting strategic and business opportunities.

Our milestones

- By July 2022 achieve a discontinuance of Serco's Deferred Prosecution Agreement.
- By end 2023 implement Governance Risk and Compliance (GRC) tool on controls and assurance functionality.
- By mid 2023 complete review of global insurance broker.
- By end of 2023 to have refreshed, consistent risk appetite definitions.
- By June 2022 publish refreshed Code of Conduct.
- By mid 2023 publish fully revised Serco Management System.
- Speak Up case rate per 100 employees at Navex global benchmark 1.3.
- By end 2023 implement a revised approach to Assurance provision.
- By end 2023 improve visibility of the status of Divisional business impact assessments and continuity plans.

How we have performed against our milestones

- Deferred Prosecution Agreement discontinued.
- Continued focus on development of our Enterprise Risk Management (ERM) maturity.
- Procurement and detailed design of first GRC tool completed.
- RFP stage for global insurance broker completed.
- Refreshed principal risks and annual review of emerging risks.
- mycode launched with related communications and training.
- Revised Serco Management System policies agreed, related procedures, communications and training being developed to plan.
- Speak up case rate 1.18, up 4% on 2021 but below Navex Benchmark 1.3. Investigations led to 442 individual actions, 70% of which were HR related. Disciplinary action in 58 substantiated cases and terminations in 23 substantiated cases.
- Draft assurance framework under review with pilot in UK&E.
- Created a centrally visible dashboard that standardises business continuity reporting, detailing latest updates and testing status.

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

- Implementation of improved consistency of ERM Divisional Structures supported through common mandated objectives.
- Maintained strong ERM talent through balance of external recruitment and internal promotion in challenging labour market.
- Compliance framework review completed on Speak Up, conflicts of interest, gifts and hospitality processes.
- Continued to deliver a programme of work to improve the financial controls framework to support the expectations from BEIS or the Financial Reporting Council.
- Improved insurance programme.
- Launched refreshed mycode training as part of Serco Essentials.

Our roadmap 2023

- Development and implementation of revised approach to assurance in preparation for changes that are anticipated under BEIS White Paper.
- Full implementation of refreshed Serco Management System.
- Complete review of Speak Up case management provision.
- Revised Crisis Management approach and associated training and testing.
- Development and implementation of refreshed ERM training.
- Embed dashboard and use to identify and address areas where reporting or testing of plans need improvement.
- Complete a Group-led crisis management exercise.

Elements – Governance	Our ambition	Our milestones	How we have performed against our milestones
Total shareholder returns and engagement	Create long-term, sustainable shareholder value.	Over the medium term we aim to: – grow our revenue faster than our overall market; – grow profits faster than revenue as margins increase; and – deliver strong conversion of profit into cash.	Exceeded expectations: – expected revenue of £4.2bn–£4.3bn, achieved £4.5bn; – expected underlying Trading Profit of £195m, achieved £237m; and – expected free cash flow of £100m, achieved £159m.
Data privacy and information security	Protect the organisation and data subjects against attack resulting in loss of service or a data breach (including personal or customer data).	– By end 2023 establish consistent reporting of information security, cyber and data protection performance across the Group. – By Q1 2023 refresh mandated data protection and information security training. – By end 2022 establish a consistent framework for sharing information and knowledge through the Global Data Protection Governance group. – By end 2022 complete four unannounced global phishing awareness tests.	– Embedding data protection in broader Group risk – 'Information Security Breach'. Established data protection framework and aligned on key metrics to measure its success. – Refreshed data protection and information security training through Serco Essentials, launching 2023. – Global Data Protection Governance group met quarterly through 2022 to share best practise and knowledge. – Completed four unannounced global phishing exercises.

Key

- Completed
- On plan
- Progressing but behind plan

Other achievements

Since 2017:

- grown revenue by more than 50%;
- Underlying Trading Profit has more than trebled; and
- free cash flow has gone from negative to generating nearly £600m in the subsequent five years.

- Order intake, which is an indicator of the business's ability to grow, has been £24.6bn, a book-to-bill rate of more than 112% and our order book has increased by 38% from £10.7bn to £14.8bn.

Our roadmap 2023

Our outlook for 2023 anticipates:

- revenue will increase slightly to at least £4.6bn;
- Underlying Trading Profit will be similar to 2022 at around £235m; and
- cash generation will again be good with cash conversion of at least 80%.

We expect some known headwinds to be compensated for by increased contribution from newer contracts ramping up and improvement across the existing portfolio. The pipeline of new business opportunities is strong.

- Implemented an accountability matrix, using OneTrust tool, based on UK Information Commissioner's Office requirements which has been reviewed monthly with UK and Middle East data protection champions.
- Engaged key UK government customers to better understand our role in managing their data.
- Conducted a mock data breach with 120 data protection champions in UK&E and Middle East.
- In the Middle East we have appointed 43 data protection champions, all of whom have been onboarded and trained.
- Became members of the International Association of Privacy Professionals (IAPP).
- Improved internal collation and sharing of information with employees, leaders and data protection champions in UK&E, Middle East and Global DPOs.
- In the UK, renewed accreditation against National Cyber Security Centre's Cyber Essentials Plus scheme and maintained ISO 27001 after a successful surveillance visit.
- Have continued to monitor evolving regulatory requirements e.g. potential Australian law alignment to UK GDPR.

- Complete alignment of data protection in Information Security Breach group risk including defined controls and reporting.
- Monitor and reflect expected changes in data protection laws.
- Further embed our data protection programme ensuring consistent adoption and reporting across Divisions.
- Focus on 'going back to basics', 2023 awareness theme, simplifying data protection.
- Monitor risk appetite under increasing external threats and evolving external environment.
- Investing in our ability to further prevent, detect, investigate, and respond to advanced threats against a background of rising sophistication of modern cyber-attacks.

ESG governance, oversight and non-financial information

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

For more information, see our Corporate Governance Report (pages 111 to 176), including our Corporate Responsibility Committee Report (pages 139 to 141).

ESG is recognised as an area of focus in our strategy, ensuring it receives appropriate oversight from the Executive Committee, and is therefore embedded within Divisional strategies under the oversight of Divisional senior management teams.

The elements that make up our ESG framework are firmly embedded in how we manage our business which is driven through the Serco Management System (SMS), our framework of Policy Statements and supporting Operating Procedures. This has been subject to a full review during 2022. The SMS suite of 14 policies includes statements summarising our policy commitments on business conduct and ethics, human rights and our people, details on which are provided below.

For more information, see our Group Policy Statements and Inside ESG at Serco, available at www.serco.com and also note the non-financial information referenced below which addresses disclosures required under sections 414CA and 414CB of the UK Companies Act 2006.

Non-financial information	Principal locations in this Annual Report	Page
Environmental matters	ESG	
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Colleagues Social matters	ESG	
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Human rights Anti-corruption and anti-bribery	ESG	
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Our commitment to business conduct and ethics including anti-bribery and anti-corruption

Our commitment to business conduct and ethics is defined within our Group Business Conduct and Ethics Policy Statement, related operating procedures, and relevant sections of mycode (mycode.serco.com), Serco's Code of Conduct. These reflect our values of Trust, Care, Innovation and Pride; provide direction on compliance with relevant laws and regulatory requirements where we work; and are sensitive to local customs, traditions and cultures.

Our anti-bribery and corruption policies comply with the principles of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, United Nations Convention against Corruption and The United Nations Declaration Against Corruption and Bribery in International Commercial Transactions. As a global business, Serco seeks to ensure that its business, including partners and suppliers, and colleagues comply with local laws and regulations applicable in the countries in which it operates, such as the UK Bribery Act, US Foreign Corrupt Practices Act and French Loi Sapin (II). For further information refer to our Anti-Bribery and Corruption supplement available on www.serco.com.

Our policy is to: operate within defined ethics and compliance policy standards, strategy, objectives and thresholds based on an assessment of business integrity and regulatory risks for existing business operations, new markets, geographies, acquisitions, bids and rebid opportunities and third parties; compete fairly and openly; report information that is accurate, consistent, and timely while avoiding misleading, false, or exaggerated claims; commit to zero tolerance of any form of bribery or corrupt practices; be aware of and manage personal or organisational conflicts of interest; not engage in fraud, misrepresentation, money laundering or tax evasion; comply with all legitimate restrictions on exports/imports, trade sanctions and boycotts and be impartial about party politics. We encourage openness and honesty and provide independent, confidential and anonymous ways of sharing concerns of wrongdoing without retaliation.

Our commitment to respecting human rights

Our commitment to human rights is defined within our Group Human Rights Policy Statement, related operating procedures, and relevant sections of mycode (mycode.serco.com). This reflects our commitment to respect and protect the dignity and human rights of our colleagues and everyone we deal with in our work. This includes those in our care, who use our services or work for our business partners or suppliers. To support this commitment, we use international human rights standards such as the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights to guide decision-making, constructive engagement and the assessment and management of adverse human rights impacts.

Our policy is to operate within defined policy standards while recognising potential adverse human rights impacts related to our work to prevent or mitigate us causing or contributing to such impacts. We strive to ensure recruitment to Serco is fair and free and all colleagues have an employment contract, recruitment agreement or similar work document in a language they understand; any housing provided is within defined standards that consider both host country and international housing and safety standards; we do not use, and strive not to be complicit in, forced or compulsory labour nor engage in human trafficking or subject individuals to involuntary servitude, debt bondage or slavery. We respect the rights of children and young workers and protect them from any work that deprives them of their childhood, their potential, dignity and development. We seek not to cause or contribute to torture and other cruel, inhumane or degrading treatment or punishment and we take all reasonable steps to avoid the use of force in relation to those who are in facilities we manage or benefit from services we provide, and if used it is proportionate to the threat, appropriate to the situation and limited to what is strictly necessary.

We consider the risks of adverse human rights impacts and the risk of modern slavery in our due diligence processes when considering new business opportunities, partners and suppliers. We have training and guidance for colleagues to understand how to consider human rights impact across the different markets we operate in and the potential red flags to look out for regarding modern slavery. We endeavour to remedy or cooperate in the remediation of any substantiated adverse human rights impacts and have procedures for modern slavery response and remediation.

For further information refer to our Human Rights Supplement and Modern Slavery and Human Trafficking Statement available on www.serco.com.

Our commitment to our people

Our commitment to our people is defined within our Group People Policy Statement, related operating procedures and relevant sections of mycode (mycode.serco.com). It recognises that our success reflects our people, so being a great business depends on us having great people. Great people flourish when they are engaged, inspired and motivated to give their best. To encourage this we work within a set of core values that shape our behaviours and develop our culture, shaping it into one which creates a place where we are all proud to work. This culture is built on positive engagement through conversations and consultations achieved through Colleague ConneXions. As a Group we are certificated to ISO 45003, structuring how we support the mental health and wellbeing of colleagues to ensure they feel psychologically safe, and we monitor engagement through regular Viewpoint engagement surveys. Our wellbeing engagement score remains one of the highest scoring areas at 76. Our policy is to operate within defined standards and procedures that are fit for purpose, meet legal and regulatory requirements, and enable us to protect our people, our business and our ongoing resource requirements. We are committed to ensuring we have the capabilities, skills and resources to meet current and future requirements and that we identify and develop the skills and capabilities of colleagues. We regularly review colleague experience and develop action plans to improve engagement. We strive to build a diverse workforce and inclusive workplace that promotes and supports the health and wellbeing of our people. We adhere to local legislation when working with colleague representative bodies and unions who, where appropriate, will be recognised through local agreements. Where collective bargaining is in place we consult in a timely manner. Matters requiring disciplinary action are investigated and dealt with fairly, giving colleagues the opportunity to respond before taking formal action and colleagues have access to a procedure to help deal with grievances.

We are committed to rewarding our colleagues fairly, recognising experience and performance, with consideration to such factors as market competitiveness in base salary and benefits, local legislation regarding fairness and equality, the scope and scale of roles, and individual performance and potential. Where possible and appropriate, we strive to offer compelling total reward above and beyond minimum local legislative requirements.

As with our colleagues, we are committed to fair, legal and ethical treatment of contractors and temporary workers. This requires that we engage contractor and temporary worker colleagues through Serco-approved agencies who comply with relevant local laws and regulations, successfully complete pre-selection due diligence and contractual agreements, and are subject to the Serco Supplier Code of Conduct, ongoing monitoring, and other requirements such as worker access to mechanisms by which to report potential agency misconduct, such as the Serco Speak Up system. In the UK through Serco Workforce Solutions (www.serco.com/uk/careers/temp-workforce) we manage our temporary workers, offering enhanced and more secure temporary employment opportunities, including selected standard employee benefits such as access to our employee assistance programme.

Transparency and tracking performance

While we recognise the importance of providing information and data to meet regulatory requirements, we also recognise the need for broader reporting of both our activities and performance. This is driven by several factors, the main one being for internal awareness and use by management to inform decisions and track progress against our strategy and business plans. For example, our robust safety data highlights areas for attention which resulted in deep dives done on driving and physical assaults by the Corporate Responsibility Committee.

Secondly, we track the requests for information from analysts and investors, and comments received through direct engagement with them. This has helped identify data points important to them, that we need to capture to address their concerns. This has led to expansion of the number of data points externally reported over recent years. We have commenced the sharing on our website of our responses to formal ESG queries received from investors and analysts and continued doing the same with independent and publicly available performance and regulatory reports on Serco operations, for ease of public reference.

Finally, we recognise broader stakeholder groups, our customers, partners and suppliers who are increasingly interested in our ESG performance. For example, the UK Government's reporting requirements for Social Value.

The output of our materiality assessment, which has involved all these stakeholder groups, has helped us review the data and information included in this report, our separate ESG report and website. We have also considered requirements for both GRI and SFDR reporting in formalising our final data set.

The data reported is captured through a range of systems. These are detailed in the introduction tab of the ESG Databook 2022 available on www.serco/esg/reporting. We recognise the potential risk to the accuracy and completeness of data that multiple systems can raise and are seeking where possible to consolidate through single systems. To provide assurance of the data we have this year engaged Grant Thornton to undertake limited assurance of our Social and Governance ESG KPIs. This work comprised an initial Readiness Review to gain an understanding of the state of the Company's systems, processes and controls in place that enable an assurance engagement to proceed; followed by an Assurance Engagement in accordance with International Standards on Assurance Engagements 3000 (Revised). Carbon Intelligence, part of Accenture, is used to provide independent third-party verification of our carbon dioxide equivalent emissions (CO_2e) and wider environmental metrics to a reasonable level of assurance. CO_2e emissions are in accordance with our chosen standard ISO 14064-3:2019.

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

ESG performance and data disclosure 2022

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

Additional datapoints can be found in our ESG Report 2022 and the full set of ESG data is available as a standalone Excel file, both of which are available at www.serco.com/esg.

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

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Social											
Our People – diverse, engaged, healthy											
Employee engagement: Wellbeing	Avg. score	–	64	76	76	76	0	0%			Steady
Absence due to sickness	Avg. Days per employee	5.6	6.3	6.7	6.6	7.1	0.5	8%	◊	1	Negative
Employee engagement	Avg. score	67	71	73	70	70	0	0%	◊		Steady
Employee engagement: Learning and Development	Avg. score	60	64	66	66	64	-2	-3%		2	Negative
New hires	Number	13,222	16,921	16,916	18,569	14,920	-3,649	-20%		3	New/non-indicator
Staff turnover	%	27.3	29.3	23.3	31.5	30.5	-1	-3%			Positive
Redundancies	Number	405	402	519	356	680	324	91%		4	New/non-indicator
Staff turnover – voluntary	%	19.1	19.2	15.9	20.6	23.5	2.9	14%	◊		Negative
Employees covered by collective bargaining agreements	%	–	–	58.8	59.1	46.9	-12.2	-21%		5	New/non-indicator
Employee engagement: Diversity and inclusion	Avg. score	74	79	78	79	73	-6	-8%		6	Negative
Age profile – Serco Group plc Board											
16–24	%	–	–	–	0	0	0	–			New/non-indicator
25–40	%	–	–	–	0	0	0	–			New/non-indicator
41–54	%	–	–	–	22.2	22.0	-0.2	-1%			New/non-indicator
55–64	%	–	–	–	44.4	56.0	11.6	26%			New/non-indicator
65+	%	–	–	–	22.2	22.0	-0.2	-1%			New/non-indicator
Undisclosed	%	–	–	–	11.1	0	-11.1	-100%			New/non-indicator

Board and executive sex/ gender representation	Number of Board members		Percentage of the Board		Number of senior positions on the Board (CEO, CFO, SID and Chair)		Number in executive management		Percentage of executive management	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Social continued										
Men	5	5	55.6	55.6	3	3	8	8	88.9	88.9
Women	4	4	44.4	44.4	1	1	1	1	11.1	11.1
Other categories	0	0	0.0	0.0	0	0	0	0	0.0	0.0
Not specified/Prefer not to say	0	0	0.0	0.0	0	0	0	0	0.0	0.0

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Gender diversity – Executive Committee and direct reports – % women	%	31.8	29.4	27.3	26.1	33.3	7.2	28%	◊		●
Gender diversity – Global Leadership Team – % women	%	–	–	29.1	32.2	34.5	2.3	7%	◊		●
Gender diversity – All other employee levels – % women	%	42.4	43.1	43.0	44.7	44.0	-0.7	-2%	◊	7	●
Gender diversity - All other employee levels - Men	Number	25,757	27,634	28,156	28,002	26,984	-1,018	-4%			○
Gender diversity - All other employee levels - women	Number	18,960	20,896	21,238	22,641	21,222	-1,419	-6%			○
Gender diversity - All other employee levels - Not disclosed	Number	–	–	–	–	37	–	–			○

Board and executive ethnicity representation	Number of Board members		Percentage of the Board		Number of senior positions on the Board (CEO, CFO, SID and Chair)		Number in executive management		Percentage of executive management	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
White British or other White (including minority-white groups)	8	8	88.9	88.9	4	4	7	7	77.8	77.8
Mixed/multiple ethnic groups	0	0	0	0	0	0	1	1	11.1	11.1
Asian/Asian British	1	1	11.1	11.1	0	0	0	0	0	0
Black/African/Caribbean/Black British	0	0	0	0	0	0	0	0	0	0
Other ethnic group, including Arab	0	0	0	0	0	0	0	0	0	0
Not specified/prefer not to say	0	0	0	0	0	0	1	1	11.1	11.1

Our People – notes and commentary

1. Absence due to sickness – The overall amount of absence days has actually decreased compared to 2021, however, our overall metric has increased as the headcount has decreased. Some positive identifications in the data (specifically the UK Data): Days off due to mental ill health has reduced by 3,259 days compared to 2021. Work-related stress illness has fallen by 3,404 days.
2. Employee Engagement: Learning & Development – We use the viewpoint question 'I have good opportunities to learn and grow' and while we have not reported this figure previously, since 2018 the score has risen from 60 to 64.
3. New hires – While we saw a significant decrease in new hires during 2022, this was to be expected partly due to the reduction in our Covid-19-related contracts, most notably in the UK with the closure of many testing centres, and in the call operative space in AsPac.
4. Redundancies – The increased level of redundancies in 2022 compared with 2021 is driven by redundancies relating to the exit of Covid-19-related contacts in April 2022.
5. Employees covered by collective bargaining agreements – Estimated figure based on a number of sources. The reduction in 2022 compared with prior years is not driven by any specific activity, data is taken as a snapshot at the end of the year and given the nature of our business and turnover of contracts this may often be outside our control.
6. Employee Engagement: Diversity and Inclusion – In 2022, in line with the natural evolution of our overarching D&I strategy, our approach to evaluating the progress made in the D&I space also shifted, subsequently resulting in a change of approach to our Viewpoint survey question. This shift saw a move from our evaluation being centred around 'acceptance' to feeling a sense of 'belonging'. The expectation was that the score would drop with this change due to a sense of belonging being a much more personal and meaningful phrase than 'a feeling of being accepted'.
7. Excludes ORS and Sapienza in Europe as data unavailable at time of reporting.
8. Our Board ethnicity has been reported as per our submission for the Parker Report in October 2022. From January 2023 our Board ethnicity mix is: 77.8% white / 11.1% Mixed ethnic Groups / 11.1% Asian/British Asian.

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Respecting human rights											
Prosecutions of human rights violations (inc. indigenous)	Number	0	0	0	0	0	–	–			
Percentage of high-risk suppliers assessed for modern slavery	%	–	–	–	–	11.4	–	–			
Speak Up case rate – Human rights and modern slavery	Per 100 employees	–	–	0	0	0	–	–			

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Safe operations											
Employee engagement: Safety	Avg. score	77	79	79	78	78	0	0%			
Lost Time Incident Frequency Rate	Per 1m hours worked	5.30	5.69	4.48	4.17	5.72	1.55	37%	◊		
Lost Time Incident Severity Rate	Avg. days	27.80	23.38	25.96	22.29	22.80	0.51	2%			
Major Incident Frequency Rate	Per 1m hours worked	0.50	0.39	0.41	0.36	0.44	0.08	22%			
Work-related fatalities	Number	1	0	0	0	1	1	–		1	
Fatal Incident Frequency Rate	Per 1m hours worked	0.01	0	0	0	0.01	0.01	–			
Physical Assault Frequency Rate	Per 1m hours worked	13.13	8.09	7.61	6.26	6.06	-0.20	-3%	◊		
Serious Physical Assault Frequency Rate	Per 1m hours worked	1.32	0.63	0.62	0.57	0.58	0.01	2%			
Health and Safety Prosecutions	Number	0	0	0	0	2	2	–		2	
Health and Safety Fines paid	£'000	0	0	0	0	0	–	–			
Improvement/ Enforcement notices	Number	1	2	1	2	0	-2	–			

Safe operations – notes and commentary

Through 2022 while there were some reductions in major injuries, lost time incidents, lost days and assaults across a number of areas in the business, several exceptional and unpredictable events as well as third-party related incidents have seen a worsening in KPI performance when compared to 2021. This has meant that as a Group we missed the thresholds we had set for most key KPIs. This included our LTIFR which increased from 4.17 to 5.72, missing our 2022 threshold of 4.61. To put this into context and away from metrics this meant that in 2022, 613 of our colleagues experienced a lost time incident. We do not believe this is acceptable and are committed to delivering improvement through continuing to drive proactive activities. While comparisons to the 2019 baseline are more favourable, Lost Time Incident Frequency Rate and Major Incident Frequency Rate have both seen increases. The Serious Physical Assault Frequency Rate has not achieved the intended threshold (6% reduction where 9% targeted), however the broader Physical Assault Frequency Rate has achieved the desired 25% reduction against 2019 threshold. This is considered a significant improvement given the challenges seen in parts of the business where assaults are most prominent. Minor revisions can be made to prior reported performance based on data received post publication date.

Revisions have been made to strategic H&S thresholds considering our performance in 2022 and the changes to the risk profile through contract wins and exists. The thresholds for 2023 are Lost Time Incident Frequency Rate: 5.14; Lost Time Incident Severity Rate: 22.06; Physical Assault Frequency Rate: 5.41; Serious Physical Assault Frequency Rate: 0.55. We are however, anticipating an increase in the Major Incident Frequency Rate to 0.41 due to recognised increasing risk in this area.

Notes
1. In December 2022 a member of one of our Motorist Assistance Patrol teams in North America was seriously assaulted while dealing with an abandoned vehicle left on the highway. Despite best efforts of the emergency services he died of his injuries.
2. The UK Health and Safety Executive brought prosecutions against Serco regarding two unrelated health and safety breaches that happened from 2015 to 2017 in the PECs Contract and in 2019 in an Environmental Services Contract respectively. Unfortunately, both matters resulted in a fatality. Initial hearings on sentencing for both prosecutions were held in 2022 with further hearings likely to be concluded in the first half of 2023.

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Social continued											
Public and community impact											
Serco Foundation – grants made	£	–	–	579,520	201,519	220,114	18,595	9%			
Serco People Fund – seed funding	£	–	–	–	4,000,000	–	–	–			
Serco People Fund – grants made	£	–	–	–	–	203,504	–	–			

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Governance											
Data privacy and information security											
Substantiated complaints received from data protection regulators	Number	–	–	–	3	3	0	0%		1	
Total number of significant data breaches	Number	–	–	–	2	0	-2	–	◊		

Data privacy and information security – notes and commentary

Notes

1. Substantiated complaints include: 1. Regulator investigation into detainee complaint from an Immigration Detention Centre after a detainee list was accidentally left on a coffee table and circulated among detainees. 2. Regulator investigation following a complaint from a Serco employee who believed their personal information was inappropriately shared. 3. Regulator investigation into Immigration Detention detainee involving an Officer allegedly sharing medical details when not authorised. Serco were ordered to pay $2,000 to the detainee.

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Effective controls and managed risk											
Prosecutions of corrupt behaviour	Number	0	0	0	0	0	0	0%			
Prosecutions of anti-competitive behaviour	Number	0	0	0	0	0	0	0%			
Speak Up cases											
Speak Up case rate	Per 100 employees	1.08	0.95	1.29	1.14	1.18	0.04	4%	◊	1	
Speak Up cases reported anonymously	%	35	52	62	59	61	2	3%			
Speak Up cases investigated	%	94	92	91	97	97	0	0%			
Average days taken to close Speak Up cases	Number	69	60	44	44	45	1	2%		2	
Speak Up cases closed within three months of case being raised	%	75	89	84	86	86	0	0%			
Speak Up closed case substantiation rate	%	40	37	24	22	27	5	23%		3	
Substantiated Speak Up cases with corrective action taken	%	98	98	93	98	98	0	0%			
Substantiated Speak Up cases with disciplinary action taken	%	11	42	40	34	32	-2	-6%			

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Substantiated Speak Up cases where one or more individuals were dismissed	%	6	23	12	14	13	-1	-7%			●
Annual SMS self-assessments completed	%		95.7	99.7	98.9	98.9	0	0%	◊	4	●
Annual Compliance Assurance plan delivered	%		94.3	85.2	95.0	94.3	-0.7	-1%	◊		●
Annual Audit plan delivered	%		100	94.6	100	98.0	-2.0	-2%			●

Effective controls and managed risks – notes and commentary

Notes

1. While 2022 saw a drop in overall number of cases (down 83 (11%) on 2021), partly impacted by the end of Test and Trace that had a disproportionately high number of cases, the normalised case rate is slightly (4%) up on 2021 and nearly 10% up on 2018, so the trend is positive albeit we are short of the Navex benchmark at 1.3.
2. The average time to close cases saw a slight increase by 1 day from 44 days. We take all investigations seriously and strive to close them as soon as possible while ensuring the integrity of the investigation.
3. There was an increase in substantiation rate which reflects better quality of issues being raised. During 2022 we increased awareness on the purpose of Speak Up, guiding people to HR if the matter is people related.
4. SMS self-assessment excludes North Americas METS business Unit, assessment not deployed due to technical issues.

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Total shareholder returns and engagement											
Employee engagement: Our Values	Avg. score	81	82	69	67	68	1	1%			●
Employee engagement: Business Integrity	Avg. score	73	75	75	76	74	-2	-3%			●
Share price performance	%	-3	69	-26	14	15	1	7%			●
Share price	Pence	95.6	161.9	119.5	134.6	155.4	20.8	15%			●
Underlying diluted earnings per share	Pence	5.21	6.16	8.43	12.56	13.92	1.36	11%			●
Underlying return on invested capital	%	13.6	15.4	19.1	23.7	20.6	-3.1	-13%			●
Group order book	£bn	12.0	14.1	13.5	13.7	14.8	1.1	8%			●
Sustainable procurement											
OnTime Payment	%				81.4	83.5	2.1	3%	◊	1	●
Agent payments – Total Group	£	–	–	1,275	2,223	1,666	-557	-25%	◊		○
Lobbying payments – Total Group	£	–	–	230	274	250	-24	-9%	◊		○

Sustainable procurement – notes and commentary

1 Online payment excludes any businesses acquired in late 2021 and in 2022 (FAA, ORS and Sapienza) and our Europe business, which moved onto SAP in late 2022. We have also excluded Serco leisure from our reporting as it is considered negligible and is not reported through SAP.

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Environment											
Net zero carbon and climate		Operational control				Financial control					
Carbon dioxide equivalent (Scope 1+2) market-based Scope 2 – Total Group	tCO_2e	257,086	262,996	225,456	208,639	38,762			☐	1	
Total UK	tCO_2e	188,601	189,490	156,814	161,283	25,829			☐	1	
Total Rest of world	tCO_2e	68,485	73,506	68,642	47,356	12,933			☐	1	
Carbon dioxide equivalent (Scope 1+2) location-based Scope 2 – Total Group	tCO_2e	259,814	266,894	237,759	218,018	40,438			☐	1	
Total UK	tCO_2e	191,329	193,387	169,117	170,604	27,029			☐	1	
Total Rest of world	tCO_2e	68,485	73,507	68,642	47,414	13,409			☐	1	
Combustion of fuels and operation of facilities (Scope 1) – Total Group (all fuel types)	tCO_2e	176,254	181,413	165,259	165,417	31,894			☐	1	
UK (all fuel types)	tCO_2e	170,022	175,681	156,379	159,562	25,688			☐	1	
Rest of world (all fuel types)	tCO_2e	6,233	5,732	8,881	5,855	6,206			☐	1	
Gas (Scope 1) – Total Group	tCO_2e	26,381	26,658	19,931	22,168	1,424			☐	1	
UK	tCO_2e	25,449	25,887	18,787	20,544	919			☐	1	
Rest of world	tCO_2e	932	771	1,145	1,624	505			☐	1	
Petrol (Scope 1) – Total Group	tCO_2e	4,067	3,546	4,283	3,725	4,747			☐	1	
UK	tCO_2e	612	663	487	1,645	1,310			☐	1	
Rest of world	tCO_2e	3,455	2,883	3,796	2,080	3,437			☐	1	
Diesel (Scope 1) – Total Group	tCO_2e	24,633	27,369	28,665	27,824	23,707			☐	1	
UK	tCO_2e	24,237	27,082	27,864	26,793	22,201			☐	1	
Rest of world	tCO_2e	396	287	801	1,031	1,506			☐	1	
Burning oil/ Kerosene (Scope 1) – Total Group	tCO_2e	384	1,098	834	928	346			☐	1	
UK	tCO_2e	384	1,098	834	928	346			☐	1	
Rest of world	tCO_2e	0	0	0	0	0			☐	1	
LPG/Propane (Scope 1) – Total Group	tCO_2e	1,672	2,131	2,063	435	134			☐	1	
UK	tCO_2e	221	339	213	151	134			☐	1	
Rest of world	tCO_2e	1,451	1,792	1,850	284	0			☐	1	
Gas Oil (Scope 1) – Total Group	tCO_2e	2,973	1,899	1,421	1,228	335			☐	1	
UK	tCO_2e	2,973	1,899	1,421	1,228	335			☐	1	
Rest of world	tCO_2e	0	0	0	0	0			☐	1	

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Fugitive emissions (Scope 1) – Total Group	tCO_2e	263	232	1,005	1,173	1,182			☐		
UK	tCO_2e	263	232	377	336	427			☐		
Rest of world	tCO_2e	0	0	628	837	755			☐		
Scope 2 – Grid electricity purchased/ acquired for own use (market-based) – Total Group	tCO_2e	80,832	81,583	60,197	43,222	6,868			☐	1	
UK	tCO_2e	18,580	13,809	436	1,721	140			☐	1	
Rest of world	tCO_2e	62,252	67,774	59,761	41,501	6,728			☐	1	
Scope 2 – Grid electricity purchased/ acquired for own use (location-based) – Total Group	tCO_2e	83,560	85,481	72,500	52,601	8,544			☐	1	
UK	tCO_2e	21,308	17,707	12,739	11,042	1,340			☐	1	
Rest of world	tCO_2e	62,252	67,774	59,761	41,559	7,204			☐	1	
Headcount intensity (Scope 1+2) market-based Scope 2	tCO_2e/FTE	5.74	5.78	4.53	3.21	0.68			☐	1	
Headcount intensity (Scope 1+2) location-based Scope 2	tCO_2e/FTE	5.80	5.87	4.78	3.35	0.71			☐	1	
Financial intensity (Scope 1+2) market-based Scope 2	tCO_2e/per £m revenue	90.62	80.97	58.04	47.15	8.55			☐	1	
Financial intensity (Scope 1+2) location-based Scope 2	tCO_2e/per £m revenue	91.58	82.17	61.20	49.27	8.92			☐	1	
Total scope 3 (market based)	tCO_2e	–	–	–	–	968,126			☐		○
Total scope 3 (location based)	tCO_2e	1,288,432	1,030,276	950,247	1,844,900	975,321			☐		○
Owned/leased road fleet fuel consumption	tCO_2e	144,583	149,395	139,959	139,429	28,474			☐	1	
Specialist marine fuel (Scope 3) – Total Group		115,883	118,480	107,011	107,877	111,312			☐	2	
UK	tCO_2e	115,883	118,480	106,350	107,877	111,312			☐	2	
Rest of world	tCO_2e	0	0	661	0	0			☐	2	
Scope 3 purchased goods & services and capital goods - Total Group	tCO_2e	1,258,528	981,237	867,559	1,745,238	690,417			☐	1	

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Environment continued											
Scope 3 purchased goods & services and capital goods proportion of scopes 1 - 3	%	82.9	78.7	78.5	88.9	68.6			☐	4	
CDP	Score	C	C	B	B	A-			☐	4	●
Total energy consumption scope 1 & 2 - Total Group	MWh	891,931	918,740	827,475	811,719	167,136			☐	1	
UK	MWh	772,007	792,086	693,610	709,939	115,240			☐	1	
Rest of world	MWh	119,924	126,654	133,685	101,438	51,896			☐	1	
Electricity consumption, renewable sources	%	0	0	29	32	32			☐	1	
Electricity consumption, renewable sources	MWh	0	0	43,621	41,983	6,795			☐	1	
Electricity consumption, non-renewable sources	MWh	167,375	170,493	108,553	88,593	14,723			☐	1	
Fuel consumption, renewable sources	%	0	0	0.4	0.6	4.7			☐	1	
Fuel consumption, renewable sources	MWh	0	0	3,007	3,754	6,912			☐	1	
Fuel consumption, non-renewable sources	MWh	724,556	748,247	672,314	677,387	138,705			☐	1	

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Efficient use of natural resources											
Total water consumption	Megalitres	-	-	-	861.8	894.9	33.1	4%	☐	5	●
Non-hazardous waste generated	Metric Tonnes	-	-	-	11,049	11,654	605	5%	☐		●
Hazardous IT waste generated	Metric Tonnes	15.3	16.9	8.4	19.2	21.8	2.6	14%	☐	3	●

Indicator/disclosure	Units	2018	2019	2020	2021	2022	2021 vs. 2022	Var %	Externally assured	Notes	Trend
Environmental protection											
Operations covered by certified ISO 14001 EMS - by revenue	%	–	–	–	24	30	6	25%		6	●
Operations covered by certified ISO 50001 EMS - by revenue	%	–	–	–	–	0.5	0.5	–		6	●
Prosecutions	Number	0	0	0	0	0	–	–			●
Fines paid	£'000	0	0	0	0	0	–	–			●
Enforcement notices	Number	0	0	0	0	0	–	–			●

Environment – notes and commentary

- Our reporting year for greenhouse gas (GHG) emissions is one quarter behind our financial year, namely 1 Oct 2021 to 30 Sept 2022.
- See our Environmental Basis of Reporting Supplement for information on our reporting boundary and methodologies, available at www.serco.com/esg/environment
- We quantify and report to ISO 14064-3:2019. In 2022 we moved to a financial control approach to define our reporting boundary, previously reported emissions from customer-owned assets have moved into our Scope 3 upstream leased reporting category (see page 82). Our refreshed net zero targets will be set against 2022 as our new baseline as per Science Based Targets Initiative guidance.
- We report all material emission sources for which we consider ourselves responsible and have set our materiality threshold at 5%.
- Our move to a financial control reporting boundary means that many of our metrics are no longer comparable. However this represents progress as our proposed new net zero targets are less reliant on client asset replacement policy and will be independently validated in 2023 in line with the latest climate science using our new base year of 2022, aligning with SBTi guidance. Our environmental reporting was further expanded in 2022 to include additional performance metrics.

Net zero and climate

2022 is the new base year for our net zero targets. These are likely to be Scope 1 & 2 (market based) reduction of 34% by 2030 vs 2022 baseline (customer owned assets are no longer included in this). Target to increase suppliers signed up to science-based targets by 2028. Net zero across Scopes 1–3 by 2050. We have introduced renewable fuel in the form of biodiesel HVO to our fleet in 2022 in order to transition from fossil fuels. For the first time our entire Scope 1, 2 & 3 emissions have been externally assured and verified to the ISO 14064-3 standard following improvements made to the measurement of purchased goods and services and capital goods categories. Furthermore additional environmental KPIs have also been assured by Carbon Intelligence, part of Accenture.

Efficient use of natural resources

We continue to drive resource efficiency throughout our operations and increase our focus and reporting on this pillar. In 2022 we have included hazardous IT waste stream within our reporting and have backdated to 2018 to support performance analysis despite the nature of this waste stream being infrequent.

Environmental protection

We continue to strive to avoid and reduce pollution and improve our focus on protecting nature throughout our operations as expectations increase on organisations to understand value chain impacts on biodiversity.

Notes:
1. Previously reported data no longer comparable due to change to financial control reporting boundary.
2. New reporting category but not comparable as previously reported in entirety in Scope 2.
3. New indicator with historic data provided.
4. For many companies Scope 3 emissions form the majority of emissions with purchased goods and services and capital goods categories collectively significant. The Quantis Scope 3 evaluator tool was developed by the World Resource Institute/World Business Council for Sustainable Development's GHG Protocol and was designed as a first-step screening process to encourage the measurement and reporting of value chain GHG emissions. This year we have gained more precision for these categories by using a hybrid approach, the Quantis methodology updated to address inflation along with supplier specific Scope 1 & 2 and upstream Scope 3 emissions where available.
5. 2021 water consumption restated as previously reported in m_3.
6. All Contracts are required to comply with our SMS and environmental requirements, which align with ISO 14001. At many of our contracts we also operate within customer ISO 14001 certified management systems. A smaller proportion of our contracts have certified ISO 50001 management systems, as only our more energy-intensive operations benefit from this standard.

External assurance

We engaged Grant Thornton UK LLP to provide independent limited assurance over selected 'Social' and 'Governance' KPIs in accordance with ISAE 3000 (Revised) for the year ending 31st December 2022. KPIs covered are marked with a ◊ above and in our 2022 ESG Report and 2022 ESG Databook. This assurance is specific to the 2022 values and excludes prior year performance or any targets stated. Grant Thornton has issued an unqualified opinion over the KPIs covered and the full assurance report is available from www.serco.com/esg/reporting

In regard to environmental data, we again engaged Carbon Intelligence, part of Accenture to provide independent reasonable assurance over our Environmental KPIs in accordance with ISO 14064-3:2019 for the period 1 October 2021 to 30 September 2022. KPIs covered are marked with a ☐ above and in our 2022 ESG Report and 2022 ESG Databook. Carbon Intelligence's full assurance statement is available from www.serco.com/esg/reporting

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

Here we provide our full TCFD disclosure which is consistent with all recommendations and disclosures, having considered the four TCFD recommendations and the 11 recommended disclosures as well as the 'Guidance for all sectors' as set out in section C of 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021.

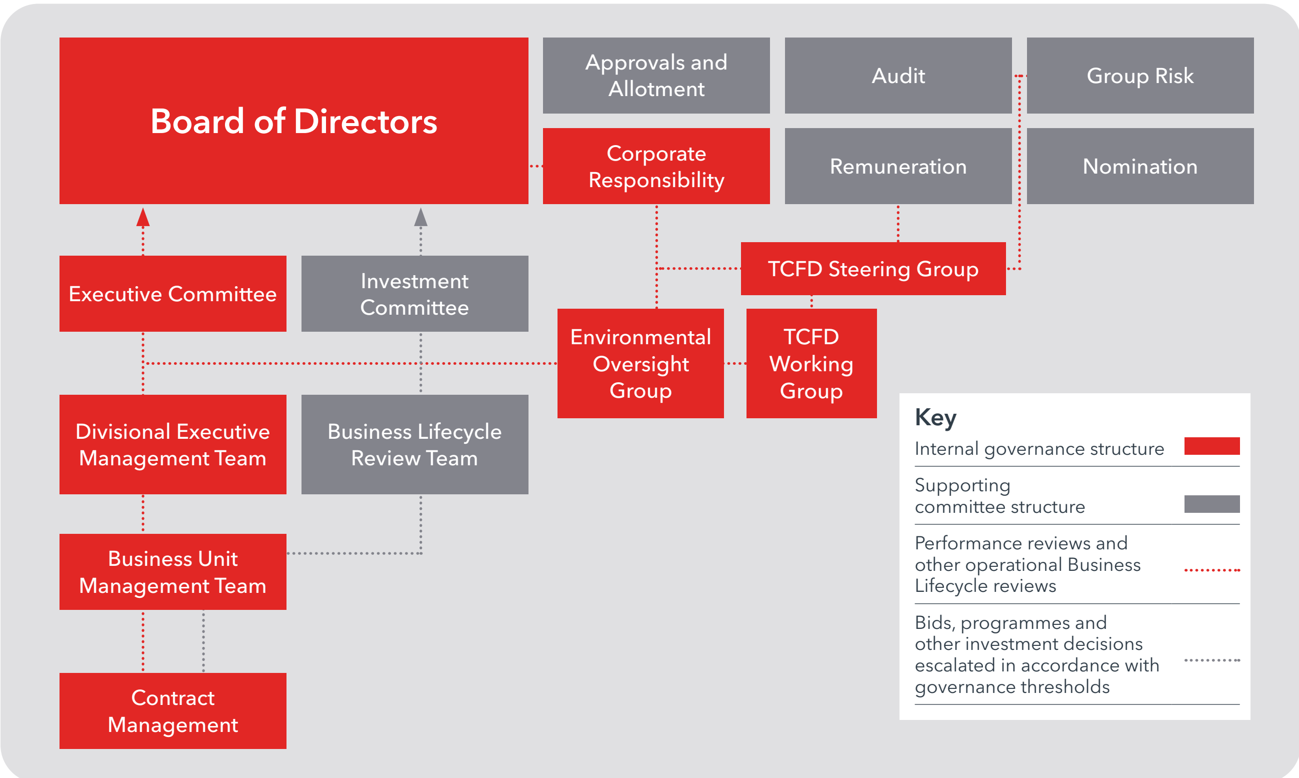
This year's disclosures provide more detail on risk and opportunity impacts from both a qualitative and, importantly, a quantitative perspective, as well as highlighting our refreshed carbon reporting boundary approach, baseline year and corresponding net zero standard aligned targets and associated net zero transition planning approach.

Governance section covering all recommended disclosures

The Board has continued to maintain a framework of effective controls which seeks to enable risks (including climate-related risks and opportunities) to be assessed and managed.

Responsibility for ESG matters is embedded in our corporate governance through the Corporate Responsibility Committee, providing oversight of TCFD activities which includes the review of net zero strategy, targets and transition planning. The Committee receives inputs from:

- Group Risk Committee – supporting assessment and management of climate risks;
- Group Audit Committee – supporting assessment of financial impact and where the TCFD report was also reviewed; and
- Group Remuneration Committee – supporting inclusion of climate-related targets in remuneration for our executive-level incentives in line with good practice for our sector and operations. ESG scorecards are included in our annual bonus and Long-Term Incentive Plan (LTIP) and are the current mechanism which ensures climate-related performance is assessed; see our Remuneration Report on pages 142 to 169, for further detail.



Responsibilities and roles for the assessment and management of climate-related risks and opportunities, by Committee, Group and wider management

Governance body/ reporting structure	Chair	Climate risk/ opportunities agenda frequency	Roles and responsibilities related to climate risk/opportunities	Areas covered, review areas and material climate risk/opportunities decisions in 2022	Focus areas for 2023
Serco Group plc Board	Chairman	Annual, updated through the Corporate Responsibility Committee.	Oversight of climate risks and opportunities and input into related Group strategies. Approval of Group Environment and Climate Change Policy Statement. Approval of Group environmental strategy and climate-related targets.	Review and approval of Annual Report and Accounts including TCFD elements.	Approval of updated environmental strategy, metrics and targets.
Corporate Responsibility Committee – reporting to the Board	Independent Non-Executive Director	Biannual review of Group environment strategy including climate-related risks and opportunities.	Responsible for assisting the Board in providing independent oversight and guidance of the Company's ESG framework, related strategies, performance, policies, and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its values of Trust, Care, Innovation and Pride. Oversight of environmental strategy and targets, climate-related risks, and opportunities.	Oversight of TCFD disclosure programme and review and approval of TCFD disclosure statement. Review of sustainable procurement charter progress which will help to measure and manage climate risk in the supply chain. Review and endorsement of carbon reporting boundary change and net zero target refresh.	Oversight over the integration of TCFD requirements. Oversight of environmental strategy, metrics and targets review, including net zero transition planning.
Executive Committee – reporting to the Board	Group Chief Executive Officer	Biannual review of Group environment strategy including climate-related risks and opportunities.	Review and approval of Group environmental strategy, climate risks and opportunities. Executive Committee members are responsible for the delivery of environmental strategy and flow of information in their respective areas supported by Divisional and Group management functions.	Review of TCFD disclosure programme. Approval of carbon reporting boundary change and net zero target refresh.	Review of 2023 TCFD disclosures and environmental strategy, metrics and targets. Review and approval of net zero targets, performance, implementation and transitional planning.
Audit Committee – reporting to the Board	Independent Non-Executive Director	Annual review of climate risk disclosure.	Review of climate risks and opportunities and financial elements.	Review of TCFD disclosure and financial elements.	Review quantitative elements of 2023 TCFD disclosures and approve level of any support from external advisors.
Risk Committee – reporting to the Board	Independent Non-Executive Director	Biannual review of principal, material cross-cutting and emerging risks (including climate).	Responsible for overseeing the Company's approach to the risk management, compliance, and assurance framework. Review principal risks, material cross-cutting risks and emerging risks (including climate) and report these to the Board.	Decision to maintain climate change as a cross-cutting risk in relevant principal risks. Extreme weather events relating to climate captured in the Group principal risk, 'catastrophic risk'.	Review climate elements in principal, material cross-cutting and emerging risks.

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

Governance body/ reporting structure	Chair	Climate risk/ opportunities agenda frequency	Roles and responsibilities related to climate risk/opportunities	Areas covered, review areas and material climate risk/opportunities decisions in 2022	Focus areas for 2023
Remuneration Committee – reporting to the Board	Independent Non-Executive Director	Annual agenda discussion of elements within our ESG scorecards.	Embed performance against climate and wider environmental issues within executive long-term incentive plan.	Consideration of climate-related metrics for inclusion within our ESG scorecards.	Review of climate-related metric performance within our ESG scorecards.
Investment Committee – reporting to the Board	Managing Director, Group operations	As required.	Review, monitor and approve bids, mergers, acquisitions and disposals and other corporate activity and major capital expenditures.	N/A	Climate transition planning nature based solutions investment. Potential acquisitions delivering sustainable services.
TCFD steering group – reporting to the Board Committees	Group General Counsel & Company Secretary	Quarterly meetings.	Multi-functional groups with the responsibility for preparing and responding to TCFD disclosures via collaboration and input from internal and external stakeholders. Organisation of climate risk and opportunity workshops and engagement of internal stakeholders to input to the climate risk/ opportunities process.	Review of TCFD disclosures programme and disclosure statement ahead of submission to Corporate Responsibility Committee.	Review of TCFD disclosure programme and 2023 statement. Further embed climate risks and opportunities into business strategy, planning and processes.
TCFD working group – reporting to the TCFD steering group	Group Head of Environment Energy & Sustainability/ Group Head of Financial Reporting	Regular meetings during 2022 to manage and undertake TCFD reporting process supported by external advisors.		All aspects of TCFD reporting. Collaboration with external advisors on gap analysis, global climate risks and opportunities workshops; integration into overall Group risk framework; scenario analysis approach; and disclosure statement.	Lead further integration of climate risks and opportunities into business strategy, planning and processes. Support climate risks and opportunities review and prepare 2023 TCFD disclosure statement.
Environmental Oversight Group – reporting to the CRC Committee and Executive Committee	Group Head of Environment Energy & Sustainability	Quarterly meeting. Climate risks and opportunities reviewed.	Formulating, reviewing, and progressing Group environmental strategy including climate objectives and targets. Representation from Divisional Health, Safety & Environment (HSE) leads and wider functions, collectively supporting the flow of information to and from Divisional Executive, Business Unit and contract level management teams.	Input to climate risks and opportunities workshops and engagement of internal stakeholders and management functions.	Input into climate risks and opportunities review and support the update of environmental strategy, metrics and targets and transition planning.

In 2022 our Board undertook a corporate update session with an external provider covering TCFD reporting, improving TCFD disclosure and the increasing expectations from regulators and investors.

Wider management throughout the organisation also have climate-related roles and responsibilities. For example:

- Health, Safety and Environment teams, with input from our Environmental Oversight Group, are responsible for Group Environmental strategy.
- Divisional Executive Management Teams support the delivery of net zero initiatives through HSE strategies and sponsorship of green ambassador networks. We intend to extend these networks in 2023 by establishing net zero Divisional teams to help deliver net zero targets and associated transition plans.
- Procurement support the measurement of Scope 3 emissions and engagement with key suppliers.
- Risk and insurance support the review of climate risks and opportunities within our ERM framework.
- Finance support the quantification and reporting of climate risks and opportunities and subsequent support on addressing these from an accounting perspective.

Risk management

Our approach to risk management and details on our principal risks are laid out on pages 98 to 108.

We recognise that the climate and wider environmental emergencies present significant risks to society and the planet. As an outsourcing organisation operating across multiple sectors and geographies, the ways in which climate change may impact our own and our customers' assets (where we deliver most of our services), supply chains and operations is diverse.

We do not currently consider climate risk as a standalone principal risk, instead we embed it as a cross-cutting scenario under several of our principal risks. Where climate-related risks have been identified at a contract level, they are consolidated into a business unit assessment and risk register, then consolidated into a Divisional assessment. Principal and emerging risks are then identified at Group level and managed by our Group Risk Committee. Control measures are outlined in these registers and linked to the Serco Management System and/or client management systems. Contract and Business Units have targets set, aligned to Divisional and Group strategy, to address risk.

Following our 2022 risk workshops, we reviewed risks and opportunities which could be material to Serco at the Group level, supported by scenario analysis. This analysis is summarised in Table 1 which provides a summary of our most substantive climate-related risks and opportunities. This shows that we do not currently perceive climate risks as substantive to Serco in the short term; however, we recognise that over the medium and longer term this will change and will require increasing focus in our strategy and financial planning, for example as supply chain impacts are more fully understood and our current fleet lease terms expire and options to transition to a hybrid and electric vehicle fleet become more accessible for all vehicle types across our diverse geographies. We generally operate in short to medium-term contract-driven sectors, on client assets the majority of the time, therefore we do not hold long-term assets which can be as adversely affected by climate and risks from a valuation perspective which is a challenge faced by many other sectors.

In considering our climate risks and opportunities we have considered short-term risks between nought to three years in line with how we assess our principal risks and viability statement. Medium-term risks are between three and five years, in line with our medium-term contracts. Long-term risks are between five and thirty years, in line with some longer-term contracts, our Group Environment Strategy, and the net zero transition plans, visions and commitments of the governments we serve. Serco's standard risk assessment process was followed and Divisional/functional stakeholders reviewed climate risks and opportunities in 2022 and the results are summarised below.

Risk type	Risk sub-type	Area	Risk/Opportunity scoring	Disclosed in Table 1
Physical Risk	Acute	Extreme weather events	Severe	Yes
		Employee wellbeing	Major	No
	Chronic	Precipitation patterns / drought / water shortage / temperature increase	Major	No
Transition Risk	Policy and Legal	Reporting obligations / contract risk	Major	No
		Product / Service performance	Moderate	No
		Carbon tax and levies	Severe	Yes
	Technology	Cost to transition to lower emission options	Major	No
		Unsuccessful investment	Moderate	No
	Market	Reduction of market share	Moderate	No
	Reputation	Stakeholder expectations	Severe	Yes
		Misreporting	Major	No
Transition Opportunity	Resource efficiency	Employee locations	Minor	No
		Building efficiency	Major	No
		Energy efficiency	Major	No
	Energy source	Renewable energy focus	Moderate	No
	Market / Service	Net Zero and sustainability enabling services	Significant	Yes
	Resilience	Upskilling employees	Moderate	No

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

Scenario analysis

To understand how the climate risks and opportunities we may face evolve under certain situations and to help us assess and improve our climate resilience we undertook scenario analysis for both physical and transitional risks in 2021, assisted by an external climate analytics advisory firm. For this we selected publicly available climate scenarios, including a 2°C or lower scenario, sourced from the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) to help reach plausible outcomes.

Using the latest scenario analysis and sources in 2022 we have matured our understanding of all risks and opportunities and identified the following severe risks/significant opportunities for disclosure, summarised in Table 1 – Risks and opportunities, along with timeframes, mitigations, actions, strategic planning and a range of indicative financial impacts and assumptions.

Table 1 – Risks and opportunities

Severe risk	Impact/Description/timeframe/scenarios	Mitigation, action taken and strategic planning	Financial impact and assumptions
Transitional risk: Carbon taxes and levies	We have used the International Energy Agency's (IEA) medium to long-term outlooks which use a scenario approach to examine future energy trends relying on the Global Energy and Climate (GEC) Model (Oct 2022). The GEC Model is used to explore scenarios, each of which is built on a different set of underlying assumptions about how the energy system might respond to the current global energy crisis and evolve thereafter. – the Announced Pledges Scenario (APS) – aims to show to what extent the announced global government ambitions and targets, including the most recent ones, are on the path to deliver emissions reductions required to achieve net zero emissions by 2050. – The Net Zero Emissions (NZE) – scenario shows a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050, with advanced economies reaching net zero emissions in advance of others. In both these scenarios increased carbon pricing mechanisms are introduced to support the transition to net zero.	– Monitoring of policy and tax changes across our operating geographies and understanding where costs will be borne by Serco or might be a pass-through cost to customers. – Increasing energy management focus across all operations. – Where we control electricity contracts, we are looking to transition across to green energy tariffs where possible and purchase renewable energy certificates where green tariffs are unavailable. – Support clients/landlords with renewable generation projects where applicable. – Reduce and avoid fossil fuel use in our fleets where and when we can, by transitioning to biodiesel HVO hybrid and electric vehicles, noting that some vehicle classes and operations will be easier than others in the short term as we await options around larger vehicles. – Our sustainable procurement charter will focus on measuring and managing carbon within our supply chain. – We are seeking to initially influence suppliers to take positive steps toward measuring carbon and setting net zero targets through the Science Based Targets Initiative process to support our net zero strategy, given purchased goods and supply chain is our biggest category across our value chain. – We are exploring external partners to support measurement and analysis of supply chain emissions, complementing our supplier ratings system through EcoVadis.	– Range of **£2.8–4.1m** based on forecast carbon emissions under different control methods and success in implementing net zero transition plan and meeting targets. Assumptions: – A base year amount of 38,762[1] tCO_2e for Scope 1 & 2 emissions for assets within the Group's financial control. – 34% Scope 1 & 2 carbon reduction target achieved by 2030 against the 2022 baseline which is subject to external validation in 2023. – Carbon pricing based on APS and NZE scenario figures for carbon price. – Minimum range: No growth in carbon through additional contract wins by 2030 and 34% reduction achieved using carbon cost of £109 tCO_2e. – Maximum range: 25% growth in carbon through additional contract wins by 2030 and 25% reduction achieved using carbon cost of £113 tCO_2e.

1 2022 scope 1 & 2 (market based) verified base year emissions.

Severe risk	Impact/Description/timeframe/scenarios	Mitigation, action taken and strategic planning	Financial impact and assumptions
Transitional risk: Reputation	Risk of not meeting stakeholder expectation on managing climate risks and opportunities over the short to medium term. Under both APS and NZE scenarios net zero targets could be construed as not credible if not independently validated. Increasing requirements on strategic suppliers to have net zero targets from clients in certain geographies.	– Serco's management framework and strategy on ESG, including externally validated net zero targets and transition planning, will seek to ensure we do not suffer reputational damage in relation to climate change. – However, it is assumed that this will be more substantive at top end of the risk if we fail to meet increasing stakeholder expectations on climate. – Net zero transition plan will include engagement strategy incorporating current and future initiatives such as Sustainable Procurement Charter and contribution to Industry Groups.	– Minimum range: **£0** assumed. – Maximum range: >10% of profit before tax = **£1.9m** p.a. by 2030. Assumptions: – Minimum range, from an optimistic perspective we assume that our management framework and strategy on ESG, including 2023 anticipated SBTI externally validated net zero targets and transition planning will ensure we do not suffer reputational damage/suffer contract losses in relation to climate change.
Physical risk: Extreme weather	Based on the Intergovernmental Panel on Climate Change (IPCC) range of shared economic pathway models. – In 2021 we modelled the impact of climate change using two climate scenarios on 52 global sites representing approximately 26% of the Group's annual revenue, 31 client sites and 21 leased properties. – The impact based on the sample selected indicated a range of potential annual cost to the Group based on lost revenue and damage to buildings and contents. – In 2022 we have gained more in-depth climate risk analysis of our insurable Australian assets from our insurance brokers using scenarios based on climate models for both acute and chronic risks. – There is a high value of assets at risk under different scenarios, therefore we will undertake more detailed quantification in 2023 to validate and disclose from a global perspective.	– This risk is principally managed through our catastrophic incident principal risk and local controls such as heat illness prevention planning and business continuity planning. – Update insurance strategy to get regular insights from insurers and external advisers on climate analytics and scenario analysis will help prioritise and inform site-specific risks and ensure focus in contract/location-specific risk registers, environmental aspect and impact registers and business continuity planning, taking into account contractual mitigations where the risk of damage to assets and infrastructure and business interruption sits with our customers or is covered via contractual protection, such as force majeure clauses or business interruption insurance.	– To be matured in 2023 with more climate analytics support from external advisers to present a global financial impact range.

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

Opportunity

Significant opportunity	Description/timeframe/scenarios	Financial impact, assumptions, strategic planning and actions
Net zero and sustainability-enabling services.	The scale of the opportunity associated with low emission or sustainable services is difficult to assess. We have utilised the EU Green taxonomy criteria to assume which current contracts/services could be considered low emission/sustainable by 2030. This will need to be reviewed in more depth once the UK taxonomy is published.	– Minimum range: **£11m** per annum assumed by 2030. – Maximum range: **£23m** assumed by 2030. – Further developing offerings associated with low emission or sustainable services is an opportunity which the Group is already exploring. Developing a more strategic offering is in its early stages; however, based on services currently provided which align to the EU Green taxonomy, an increase in just 10% of these services would add c.0.5% to the Group's revenue. – Minimum financial range based on 10% growth by 2030 in current contracts with potential to be considered sustainable under the taxonomy criteria. – Future development of low emission services include exploring acquisition opportunities captured within the maximum range. – 2023 launch of Advisory with Purpose Division in Middle East which will focus on driving ESG goals through sustainability services, helping empower governments to accelerate their national visions.

Our risks and opportunities draw upon some of the most recently updated and recognised climate scenarios and models, consistent with 2˚C and lower, and as a consequence our assumptions take into account a medium to longer-term timeframe given that climate-related issues often manifest themselves over the medium and longer terms. Considering the above climate risks and opportunities from a business strategy perspective our Business to Government platform approach will not change, we will continue to provide services that support government-led policies and for the majority of time we will operate on customer assets and in the locations the services are required, working in partnership and aligning with customer-led net zero policies, supply chain and climate resilience approaches. The physical risks of climate change are anticipated to increase under all the scenarios considered and we will work with our value chain to develop a greater understanding through further climate analytics in 2023 noting that we have experienced limited material impacts to date on operations and insurance claims. This could lead to potential changes in where we lease properties and likely lead to more engagement with clients and insurance partners on climate resilience in future as impacts become more material. We recognise we must continue to support customer requirements and challenges where we have influence, bringing focus and innovation through our service provision and supply chain. Our strategy is already considering the climate-related opportunities as highlighted through our refreshed net zero targets (see page 82) and disclosure of net zero and sustainability-enabling services opportunity in Table 1 (above), which details the potential increased revenue streams and launch of new service lines which we will continue to explore and assess.

Our climate-related impact narrative included within our financial statements (see pages 177 to 259) does not yet identify significant risks induced by climate change that could negatively and materially affect the Group over the shorter term. However, management regularly assesses the impact of climate-related matters. Assumptions will likely change in the future in response to maturing our understanding of risks and opportunities; forthcoming environmental regulations; enhanced supply chain measurement and management; climate change impacts; any future sustainability focused acquisitions and increasing customer net zero requirements. These changes, if not anticipated and assessed, could have an impact on the Group's future cash flows, financial performance and financial position.

Geographic perspective

Risk type	Climate change impacts on geographies and operations – medium to long term
Physical	Extreme weather events anticipated to become more frequent and severe under all scenarios: ASPAC / North America – Heatwaves, wildfires, flooding and storm events. UK&E – Flooding and heatwaves. Middle East – Heatwaves, spring flooding, high winds in summer and sandstorms. There has been limited material impacts to date on operations and limited insurance claims as a consequence of extreme weather events.

Risk type	Climate change impacts on geographies and operations – medium to long term
Transitional	Direct tax and levies impacts anticipated on buildings where we pay utilities under 2030 NZE scenario, in particular: ASPAC – Corporate offices, Citizen Services and Facilities Management business units. North America – Corporate real estate. UK&E – Corporate offices and Citizen Services business unit. Middle east – Corporate offices and staff accommodation. Direct tax and levies impacts on our sectors with fleet under 2030 NZE scenario, focus required on transitioning road fleet from fossil fuel use: ASPAC – Over 280 vehicles (transition underway) UK&E – Over 3,500 vehicles (transition underway) North America – Over 400 vehicles Middle East – Limited fleet vehicles All geographies and operations could be impacted through indirect supply chain carbon taxes. Analysis of supply chain hotspots will be undertaken through EcoVadis ratings and other mechanisms in future to support low carbon procurement decisions. A fleet transition assessment will be undertaken in 2023 considering regional policy, supply chain, commercial and operational elements over the medium to long term.

Metrics and targets

We have set a range of metrics and targets in our Group environmental strategy against our themes of net zero Carbon and Climate, Efficient use of Natural Resources and Environmental Protection. Specific metrics to assess climate-related risks and opportunities are outlined below:

Metric category	Unit of measure	Metric	Group targets set and reported	Example linkage to identified risks and opportunities
***Green House Gas (GHG) emissions** Absolute Scope 1, 2 & 3 emissions	tCO_2e	Absolute Scope 1, 2 & 3 emissions (market based)	Yes, awaiting external validation in 2023	Impact of carbon taxes and levies
***GHG emissions** Emissions intensity	tCO_2e per full time equivalent (FTE) & £m revenue	Scope 1 & 2 emissions per FTE & £m revenue (market based)	No, reported as indicator	Impact of carbon taxes and levies
****Climate-related risk** Proportion of real assets exposed to 1:100 and 1:200 climate-related hazards*	%	Proportion of sites Serco where Serco operates with medium to high risk of flooding	No, reported as indicator for sites selected for modelling, to be expanded in 2023 with support from insurance partners	Increased severity of extreme weather events
Climate-related risk Impact of carbon taxes and levies	£GBP	Climate-related taxes/levies included in annual electricity and gas costs	No, reported as indicator	Impact of carbon taxes and levies
***Climate-related opportunity** Transition to renewable electricity	% & Megawatt hour (MWh)	% and MWh of electricity consumption sourced from green tariffs and/or energy attribute certificates	No, reported as indicator, targets to be considered in net zero transition planning	Impact of carbon taxes and levies
Climate-related opportunity Transition to greener fleet	%	% of vehicles by fuel type	No, reported as indicator, targets to be considered in net zero transition planning	Impact of carbon taxes and levies
Climate-related opportunity ISO Management System certification	%	% of operations covered by relevant ISO certified management systems	No, reported as indicator	Contract risk

* Independently assured.
** We cannot yet report fully on this proportion but can report on a sample of 52 sites. Our intention is to report the Group proportion in our 2023 TCFD compliance statement.

The full suite of our environmental and climate-related metrics can be viewed in our ESG metrics table on page 70 to 73 and ESG Data Book www.serco.com/esg/reporting.

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

As committed to in our disclosure for the year 2021 we have reviewed our carbon reporting boundary and have moved to a financial control approach (see diagram opposite) which enables us to set Scope 1 & 2 net zero targets against assets and activities we control financially (i.e. Serco has the ability to make decisions on replacing/upgrading assets to meet net zero targets rather than being reliant on client decisions) while continuing to support our client's net zero journeys by managing and operating customer-owned assets in an energy and carbon conscious manner. This change in boundary approach makes comparisons to our previously reported carbon data (see pages 70 to 73) difficult however this is not as relevant given our net zero target base year is being updated in line with Science Based Targets Initiative guidance. We believe the change to financial control to be the right approach and will encourage clients to measure, report, and set targets for their assets and carbon inventory more holistically using the globally recognised GHG protocol standard and all relevant carbon reporting categories.

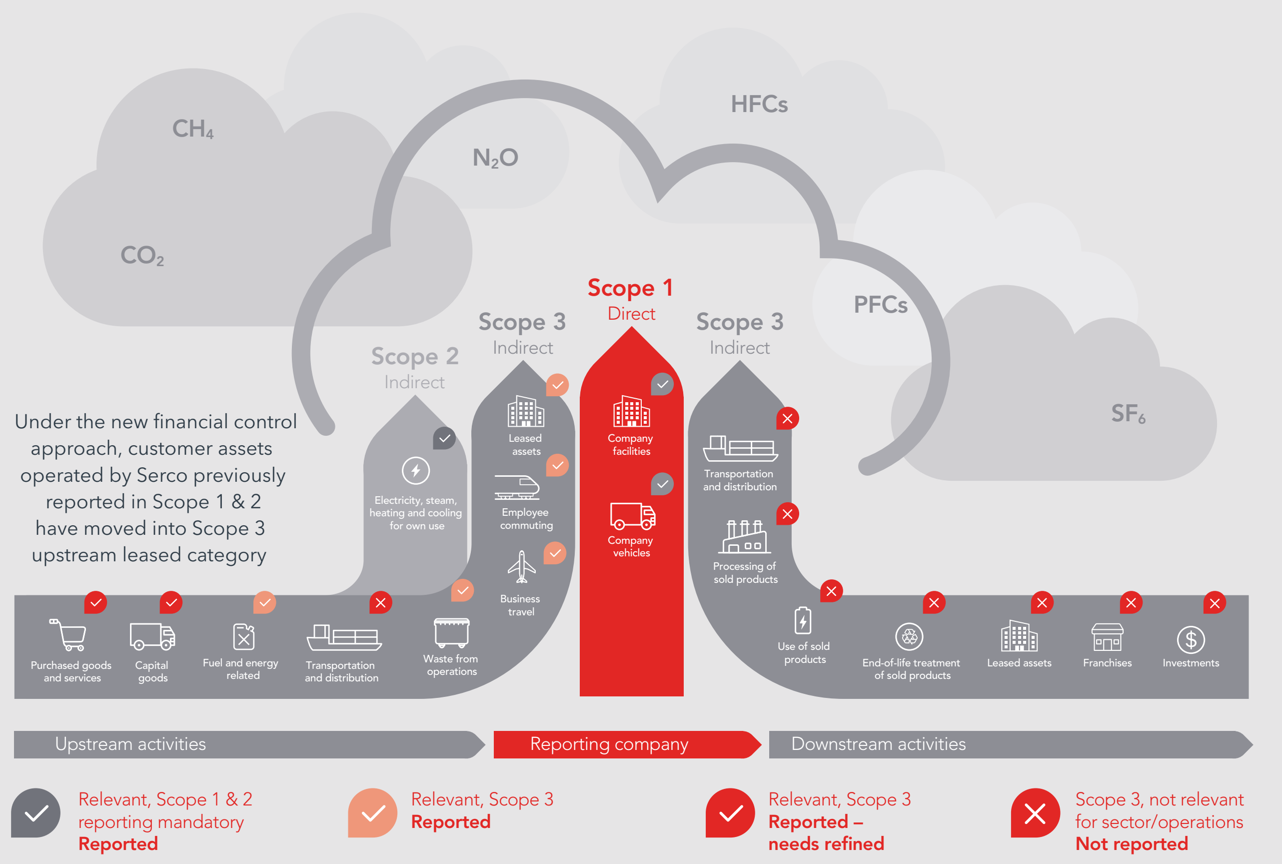
We have formally committed to net zero and are listed on the Science Based Targets Initiative (SBTi) website as a company taking action and are in the process of having our refreshed net zero targets independently validated by SBTi using 2022 as our new base year, supported by external advisors. Our proposed targets awaiting validation include:

- near-term Scope 1 & 2 reduction circa 34% vs. 2022 baseline by 2030;
- near-term Scope 3 – influencing target on a proportion of our suppliers to set science based targets by 2028; and
- long-term target of net zero across Scopes 1, 2 and 3 by 2050.

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

To achieve our near-term Scope 1 & 2 2030 target we will require focus on a limited number of contracts/operating locations to procure green sourced electricity and transition fleet from fossil fuels as government policies, client requirements and vehicle options evolve. We do not currently consider these to have material implications in our 2022 financial statements. More detail on our net zero transition planning can be found on our website https://www.serco.com/esg which has taken into account the draft guidance published from the UK government transition planning taskforce. Our full transition plan will be published following the issue of the final guidance, anticipated in Summer 2023. This will be a dynamic plan and will be updated accordingly in line with new guidance and progress.

Carbon reporting scopes and reporting categories material to Serco



Finance Review

Revenue of £4,534m grew by 2%, while Underlying Trading Profit was up by 4% to £237m with Underlying Trading Profit margin unchanged at 5.2%. Strong Free Cash Flow of £159m with Adjusted Net Debt of £204m and covenant leverage below the target range at 0.8x; Recommend a final dividend of 1.92p and new share buyback programme of £90m."

Nigel Crossley
Group Chief Financial Officer

For the year ended 31 December 2022	Underlying £m	Non-underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre-exceptional £m	Exceptional items £m	Statutory £m
Revenue	4,534.0	–	4,534.0	–	4,534.0	–	4,534.0
Cost of sales	(4,044.7)	4.2	(4,040.5)	–	(4,040.5)	–	(4,040.5)
Gross profit	489.3	4.2	493.5	–	493.5	–	493.5
Administrative expenses	(264.3)	–	(264.3)	–	(264.3)	–	(264.3)
Exceptional operating items	–	–	–	–	–	(2.4)	(2.4)
Other expenses	–	–	–	(21.6)	(21.6)	–	(21.6)
Share of profits in joint ventures and associates, net of interest and tax	12.0	–	12.0	–	12.0	–	12.0
Profit before interest and tax	237.0	4.2	241.2	(21.6)	219.6	(2.4)	217.2
Margin	*5.2%*		*5.3%*		*4.8%*		4.8%
Net finance costs	(20.4)	–	(20.4)	–	(20.4)	–	(20.4)
Profit before tax	216.6	4.2	220.8	(21.6)	199.2	(2.4)	196.8
Tax charge	(47.9)	–	(47.9)	5.8	(42.1)	0.3	(41.8)
Effective tax rate	*22.1%*		*21.7%*		*21.1%*		*21.2%*
Profit for the period	168.7	4.2	172.9	(15.8)	157.1	(2.1)	155.0
Minority interest	(0.4)	–	(0.4)	–	(0.4)	–	(0.4)
Earnings per share (EPS) – basic (pence)	*14.18*		*14.54*		*13.21*		*13.03*
Earnings per share (EPS) – diluted (pence)	*13.92*		14.27		*12.97*		*12.79*

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

Alternative Performance Measures (APMs) and other related definitions

Overview

APMs used by the Group are outlined below along with a definition, reconciliation from each non-IFRS APM to its IFRS equivalent and an explanation of 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 the Group's 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 profit or cost 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 the business. Management strongly encourages readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

The methodology applied to calculating the APMs has not changed since 31 December 2021.

Alternative revenue measures

For the year ended 31 December	2022 £m	2021 £m
Reported revenue at constant currency[1]	4,358.8	4,424.6
Foreign exchange differences	175.2	–
Reported revenue at reported currency	4,534.0	4,424.6

1 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 ended 31 December 2022 into Sterling at the average exchange rates for the year ended 31 December 2021.

For the year ended 31 December	2022 Organic revenue[1] £m	2021 Organic revenue[1] £m	2022 Revenue plus share of joint ventures and associates[2] £m	2021 Revenue plus share of joint ventures and associates[2] £m
Alternative revenue measure at constant currency	4,025.7	4,208.8	4,596.7	4,663.0
Foreign exchange differences	153.4	–	175.2	–
Alternative revenue measure at reported currency	4,179.1	4,208.8	4,771.9	4,663.0
Impact of relevant acquisitions or disposals	354.9	215.8	–	–
Share of joint venture and associates	–	–	(237.9)	(238.4)
Reported revenue at reported currency	4,534.0	4,424.6	4,534.0	4,424.6

1 In order to provide a comparable movement which removes the effect of both acquisitions and disposals, Organic revenue at constant currency is recalculated by excluding the impact of any relevant acquisitions or disposals. There are five acquisitions excluded for the calculation of Organic revenue in the year to 31 December 2022 being the acquisitions of Facilities First Australia Holdings Pty Ltd, Whitney, Bradley & Brown, Inc, Mercurius Finance S.A, OXZ Holdings AG and Sapienza Consulting Holdings BV. The acquisitions of OXZ Holdings AG completed on 1 September 2022 and Sapienza Consulting Holdings BV 12 July 2022, respectively. The acquisitions of Facilities First Australia Holdings Pty Ltd, Whitney, Bradley & Brown, Inc and Mercurius Finance S.A were completed during 2021.

2 The alternative measure includes the share of revenue from 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.

Alternative profit measures

For the year ended 31 December	2022 £m	2021 £m
Underlying trading profit at constant currency[1]	222.6	228.9
Foreign exchange differences	14.4	–
Underlying trading profit at reported currency[2]	237.0	228.9
Non-underlying items (excluding exceptional items):		
OCP charges and releases[3]	0.2	1.3
Other Contract and Balance Sheet Review adjustments and one-time items[4]	4.0	3.2
Trading profit[5]	241.2	233.4
Amortisation and impairment of intangibles arising on acquisition[6]	(21.6)	(16.0)
Operating profit before exceptional items	219.6	217.4
Operating exceptional items[7]	(2.4)	(1.2)
Reported operating profit	217.2	216.2

1. In order to provide a comparable movement on the previous period's results, reported Underlying Trading Profit (UTP) is recalculated by translating non-Sterling values for the year ended 31 December 2022 into Sterling at the average exchange rates for the year ended 31 December 2021.
2. The Group uses an alternative measure, UTP, 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 period.
3. Charges and releases on all Onerous Contract Provisions (OCPs) that arose during the 2014 Contract and Balance Sheet Review are excluded from UTP in the current and prior periods. 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.
4. Revisions to accounting estimates and judgements which arose during the 2014 Contract and Balance Sheet Review and other one-time items are separately reported where the impact of an individual item is material. The item recorded in the current year relates to the reversal of an impairment in respect of assets which is no longer required due to contractual changes which the Group has agreed with its customer.
5. The Group uses Trading Profit as an alternative measure to Operating Profit, as shown in the Group's Consolidated Income Statement on page 189. Trading profit is derived by making the two adjustments outlined below in footnote 6 and 7.
6. 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.
7. Exceptional items, being those considered material and outside of the normal operating practice of the Group to be suitable for separate presentation and detailed explanation. Where items are not material, their inclusion as exceptional items is to ensure they are treated consistently with prior periods.

Alternative tax measures

For the year ended 31 December	2022 £	2021 £	2022 %	2021 %
Underlying tax charge[1]	47.9	48.6	22.1	23.7
Non-underlying items (excluding exceptional items)	–	(156.2)	(0.4)	(75.1)
Amortisation and impairment of intangibles arising on acquisition	(5.8)	(4.3)	(0.6)	(6.5)
Operating exceptional items	(0.3)	0.2	0.1	(0.2)
Reported tax charge/(credit)	41.8	(111.7)	21.2	(58.1)

1 Underlying tax and the corresponding underlying tax rate are used because they remove the impact of typically non-recurring, or out of period, items. This gives better clarity of the tax associated with the Group's underlying financial performance. The underlying tax rate enables comparison to the previous period's results.

Alternative Earnings per share (EPS) measures

For the year ended 31 December	2022 basic pence	2021 basic pence	2022 diluted pence	2021 diluted pence
Underlying EPS[1]	14.18	12.78	13.92	12.56
Net impact of non-underlying operating items, non-underlying tax and amortisation and impairment of intangibles arising on acquisition	(0.97)	12.19	(0.95)	11.98
EPS before exceptional items[2]	13.21	24.97	12.97	24.54
Impact of exceptional items	(0.18)	(0.11)	(0.18)	(0.11)
Reported EPS	13.03	24.86	12.79	24.43

1 Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on page 84.

2 EPS, as shown on the Group's Consolidated Income Statement on page 189, includes exceptional items charged or credited to the Income Statement. EPS before exceptional items aids consistency with historical operating performance.

Alternative cash flow and net debt measures

Free cash flow (FCF)

For the year ended 31 December	2022 £m	2021 £m
Free cash flow[1]	159.1	189.5
Exclude dividends from joint ventures and associates	(9.1)	(13.5)
Exclude net interest paid	22.5	24.3
Exclude capitalised finance costs paid	2.6	0.6
Exclude capital element of lease repayments	120.5	111.3
Exclude proceeds received from exercise of share options	(0.1)	(0.2)
Exclude purchase of own shares to satisfy share awards	15.9	20.3
Exclude purchase of intangible and tangible assets net of proceeds from disposal	18.7	25.1
Cash flow from operating activities before exceptional items	330.1	357.4
Exceptional operating cash flows	(2.9)	(7.5)
Cash flow from operating activities	327.2	349.9

1 We present an alternative measure for cash flow to reflect net cash inflow from operating activities before exceptional items, which is the measure shown on the Consolidated Cash Flow Statement on page 193. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates, net interest paid, the capital element of lease payments, cash flows on the purchase of own shares to satisfy share awards and net capital expenditure on tangible and intangible asset purchases.

UTP cash conversion

For the year ended 31 December	2022 £m	2021 £m
Free cash flow[1]	159.1	189.5
Add back:		
Tax paid	44.2	42.1
Non-cash R&D expenditure	0.4	–
Net interest paid	22.5	24.3
Capitalised finance costs paid	2.6	0.6
Trading cash flow	228.8	256.5
Underlying trading profit	237.0	228.9
Underlying trading profit cash conversion[1]	97%	112%

1 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.

Net debt and Adjusted net debt

As at 31 December	2022 £m	2021 £m
Cash and cash equivalents	57.2	198.4
Loans payable	(262.9)	(377.0)
Lease liabilities	(446.0)	(430.3)
Derivatives relating to Net debt	1.8	0.6
Net debt[1]	(649.9)	(608.3)
Add back: Lease liabilities	446.0	430.3
Adjusted net debt[2]	(203.9)	(178.0)

1 We present an alternative measure to bring together the various funding sources that are included on the Group's Consolidated Balance Sheet on page 192 and the accompanying notes. Net debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net debt includes all lease liabilities, while adjusted net debt is derived from net debt by excluding liabilities associated with leases.

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

Pre-tax Return on invested capital (ROIC)

For the year ended 31 December	2022 £m	2021 £m
ROIC excluding right of use assets		
Non-current assets		
Goodwill	945.0	852.7
Other intangible assets – owned	158.0	144.0
Property, plant and equipment – owned	48.1	55.5
Interest in joint ventures and associates	23.3	17.6
Loans to joint ventures	10.0	–
Contract assets, trade and other receivables	16.1	16.2
Current assets		
Inventory	22.4	19.6
Contract assets, trade and other receivables	719.6	624.7
Total invested capital assets	1,942.5	1,730.3
Current liabilities		
Contract liabilities, trade and other payables	(683.3)	(587.3)
Non-current liabilities		
Contract liabilities, trade and other payables	(42.8)	(55.9)
Total invested capital liabilities	(726.1)	(643.2)
Invested capital[1]	1,216.4	1,087.1
Two-point average of opening and closing Invested capital	1,151.8	967.0
Trading profit, 12 months ended	241.2	233.4
ROIC%[2]	20.9%	24.1%
Underlying trading profit, 12 months ended	237.0	228.9
Underlying ROIC%[2]	20.6%	23.7%

1 Invested capital excludes right of use assets recognised under IFRS 16 *Leases*. This is because the Invested capital of the Group are those items within which resources are, or have been, committed, which is not the case for many leases where termination options exist and commitments for expenditure are in future years.

2 ROIC is a measure to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UTP and Trading Profit, using the Income Statement for the period and a two-point average of the opening and closing Balance Sheets.

Overview of financial performance

Revenue

Reported revenue increased by 2.5% in the year to £4,534.0m (2021: £4,424.6m), a 1.5% decrease at constant currency. Organic revenue decline at constant currency was 4.4%. This is in line with the trading update issued on 15 December 2022 where revenue was expected to be £4.5bn for the year ended 31 December 2022.

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

Underlying Trading Profit (UTP)

UTP increased by 3.5% in the year to £237.0m (2021: £228.9m), a 2.8% decrease at constant currency. This is in line with the trading update issued on 15 December 2022 where UTP was expected to be around £235m for the year ended 31 December 2022.

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

Joint ventures and associates – share of results

In 2022, the most significant joint ventures and associates in terms of scale of operations were Merseyrail Services Holding Company Limited (Merseyrail) and VIVO Defence Services Limited (VIVO), with dividends received of £7.3m and £nil (2021: £nil and £nil), respectively, and total revenues of £185.0m and £327.0m, respectively (2021: £161.0m and £nil).

The split of the share of profits in joint ventures and associates, net of interest and tax for the 2022 was £12.0m (2021: £8.7m), with Merseyrail generating a profit of £5.3m (2021: loss £0.3m), VIVO £6.6m (2021: £nil) and other joint ventures and associates recording a profit of £0.1m (2021: £9.2m).

The 2021 result included AWE Management Limited (AWEML) where services provided by the Group through AWEML ceased on 30 June 2021. AWEML generated a profit of £9.2m in 2021. During 2022 a final dividend of £1.8m (2021: £13.5m) was received from AWEML.

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

For the year ended 31 December	2022 £m	2021 £m
Revenue	237.9	238.4
Operating profit	14.3	11.5
Net finance cost	(0.3)	(0.1)
Income tax charge	(2.0)	(2.7)
Profit after tax	12.0	8.7
Dividends received from joint ventures and associates	9.1	13.5

The change in revenue and profits on the prior year is primarily due to the exit from the AWEML contract. This is offset by Merseyrail generating a profit in 2022 compared to losses in 2021 as a result of Covid-19 impacted passenger volumes. VIVO operations also commenced in 2022, resulting in a profit being generated in the current period.

Dividends received reduced due to the exit from the AWEML contract partially offset by Merseyrail paying a dividend following a return to profitability.

Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. These require separate disclosure on the face of the Income Statement to assist in the understanding of the performance of the Group. In 2022, the total exceptional charge for the year net of tax was £2.1m (2021: £1.4m).

The exceptional charge relates to the successful acquisitions of OXZ Holdings AG (ORS) in 2022 and Whitney, Bradley & Brown, Inc (WBB) in 2021. The combined transaction and implementation costs incurred during the year ended 31 December 2022 of £2.4m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2021.

Exceptional tax for the period was a tax credit of £0.3m (2021: charge £0.2m) which arises on exceptional items within operating profit. The tax credit arises in relation to the costs associated with WBB. Costs associated with the acquisition of ORS did not give rise to a tax credit as they were either treated as capital, and therefore not tax deductible, or augmented non-valued deferred tax.

Finance costs and investment revenue

Net finance costs were £20.4m (2021: £24.0m) and net interest paid was £22.5m (2021: £24.3m).

Investment revenue of £4.7m (2021: £2.4m) consists primarily of interest accruing on net retirement benefit assets of £2.7m (2021: £1.1m), interest receivable of £1.9m (2021: £0.6m) and dividends received of £nil (2021: £0.6m).

The finance costs of £25.1m (2021: £26.4m) include interest incurred on the US private placement loan notes and the revolving credit facility of £15.2m (2021: £15.6m), lease interest payable of £7.9m (2021: £7.8m), and other financing-related costs including the impact of foreign exchange on financing activities.

Tax

Underlying tax

In 2022 we recognised a tax charge of £47.9m (2021: £48.6m) on underlying profits after net finance costs. The effective tax rate of 22.1% is slightly lower than in 2021 (23.7%). The decrease compared with 2021 is due to a credit recognised in respect of the prior year on the finalisation of certain matters (reducing the rate by 0.6%), the impact of movements in the Group's provisions as part of Management's regular reassessment of tax exposures across the Group (reducing the rate by 0.5%) and a reduced impact of overseas profits taxed at a higher rate (reducing the rate by 0.4%). Further, the increase in profits generated by the Group's joint ventures, whose post-tax profits are included in the Group's profit before tax, have reduced the rate by 0.2%. This is partially offset by a reduction in the Group's expenses not deductible for tax (0.1%).

The tax rate at 22.1% is slightly higher than the UK standard corporation tax rate of 19%. This is mainly due to the impact of the higher statutory rate of tax on overseas profits (increasing the rate by 5.6%), and the impact of the movement in unprovided overseas deferred tax (increasing the rate by 0.9%). This is partially offset by the reduction in provisions held for uncertain tax positions which reduced the rate by 1.8%. The rate is further reduced by the impact of the profits of our joint ventures and associates whose post-tax profits are included in the Group's profit before tax (reducing the rate by 1.1%) and a prior year tax credit that arises due to differences between estimates made at the previous year end and the final positions for tax (reducing the rate by 0.6%). Other smaller items result in a net increase to the rate of 0.1%.

Pre-exceptional tax

A tax charge of £42.1m (2021: £111.9m credit) on pre-exceptional profits has been recognised which includes an underlying tax charge of £47.9m and a tax credit of £5.8m in respect of the amortisation of intangibles arising on acquisitions. The tax charge of £0.8m in respect of non-underlying items is fully offset by the impact of tax items that are non-underlying themselves, resulting in no tax charge or credit being disclosed. The £0.8m non-underlying tax credit relates to a reassessment of when the deferred tax assets in the UK are expected to be utilised.

Finance Review continued

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

Deferred tax assets
At 31 December 2022 there is a net deferred tax asset of £190.4m (2021: £174.0m). This consists of a deferred tax asset of £244.2m (2021: £214.3m) and a deferred tax liability of £53.8m (2021: £40.3m). A £186.9m UK tax asset has been recognised on the Group's balance sheet at 31 December 2022 (2021: £162.8m) on the basis that the performance in the underlying UK business indicates sustained profitability which will enable the accumulated tax losses within the UK to be utilised. The main driver for the increase in the UK deferred tax asset in the year is the reduction in the deferred tax liability associated with the pension. As the pension surplus has fallen in the year, the associated deferred tax liability has also fallen, hence leading to the net deferred tax asset increasing.

Taxes paid
Net corporate income tax of £44.2m (2021: £42.1m) was paid during the year, relating to our operations in AsPac (£23.0m), North America (£16.1m), UK (£2.6m), Europe (£2.1m) and the Middle East (£0.4m). The payments made in the UK consisted of £2.8m to HMRC, offset by £0.2m received from the Group's joint ventures and associates for losses sold to them.

The amount of tax paid, £44.2m, differs from the tax charge in the period, £41.8m, mainly because taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit. This is particularly the case with regards to movements in deferred tax and provisions for uncertain tax positions.

Total tax contribution
Our tax strategy of paying the appropriate amount of tax as determined by local legislation in the countries in which we operate, means that we pay a variety of taxes across the globe. 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 2022, Serco globally contributed £934.5m of tax to government in the jurisdictions in which we operate.

Taxes by category

	Taxes borne £m	Taxes collected £m	Total £m
Total of Corporate Income Tax	44.4	–	44.4
Total of VAT and similar	10.4	276.7	287.1
Total of People Taxes	167.8	419.5	587.3
Total Other Taxes	14.8	0.9	15.7
	237.4	697.1	934.5

Taxes by region

	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	127.1	365.6	492.7
AsPac	50.0	195.2	245.2
North America	58.9	130.8	189.7
Middle East	1.4	5.5	6.9
	237.4	697.1	934.5

Corporation tax, which is the only cost to be separately disclosed in our 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 £4.53 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 £2.94 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, share buyback and share count
During the year to 31 December 2022, the Group paid dividends of £30.3m (2021: £26.5m) in respect of the final dividend for the year ended 31 December 2021 and the interim dividend for the year ended 31 December 2022. As noted in the Chief Executive's Review, the Board has decided to declare a final dividend of 1.92p per share in respect of the year ended 31 December 2022 (2021: 1.61p per share).

On 24 February 2022, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. On 8 March 2022, the Group confirmed that the repurchase would be split over two tranches, with the first tranche of £40m completed during the period 8 March 2022 to 16 August 2022. The second tranche of £50m was completed during the period 17 August 2022 to 9 December 2022. The total cost including fees was £91.2m and resulted in the repurchase of 55,506,704 shares at an average price of £1.64. These are held within treasury shares at 31 December 2022.

The Group has announced its intention to commence a further share buyback of up to £90.0m. Consistent with the Group's capital allocation policy, the objective of the programme is to provide additional returns to shareholders as well as aid the Group in meeting its medium-term leverage targets. The buyback programme is expected to complete within 12 months with the shares either cancelled or held in Treasury.

The weighted average number of shares for EPS purposes was 1,192.2m for the year ended 31 December 2022 (2021: 1,222.6m) and diluted weighted average number of shares was 1,214.8m (2021: 1,244.0m). The decrease in the weighted average number of shares is primarily due to the full year impact of the 30,721,849 shares repurchased in 2021 of which 15,371,849 were cancelled and 15,350,000 were transferred to the Employee Share Option Trust to satisfy share awards, and additionally, the impact of the repurchase of 55,506,704 shares during 2022 now held in treasury.

Cash flows and net debt

UTP of £237.0m (2021: £228.9m) converts into a trading cash inflow of £228.8m (2021: £256.5m). The decrease in trading cash inflows is mainly due to a £24.4m outflow of working capital compared to an inflow of £25.2m in 2021. The decrease in working capital is driven by 2021 benefitting from the unwind of working capital in respect of the Dubai Metro contract. The Group saw a marginal increase in the debtor days from 19 days (2021) to 22 days (2022) and a decrease in creditor days from 23 days (2021) to 21 days (2022) during the year, as the Group continues to ensure its suppliers are paid on time.

The table below shows the cash flow from operating activities before exceptional items and Free Cash Flow (FCF) reconciled to movements in Net Debt. FCF for the period was an inflow of £159.1m compared to £189.5m in 2021. The movement compared to 2021 is consistent with the decrease in trading cash flow above.

Adjusted net debt increased by £25.9m in the year to 31 December 2022, a reconciliation of which is provided at the bottom of the following table. Average Adjusted net debt as calculated on a daily basis for the year ended 31 December 2022 was £231.0m (2021: £216.1m). Peak Adjusted net debt was £376.8m (2021: £346.3m).

For the year ended 31 December	2022 £m	2021 £m
Operating profit before exceptional items	219.6	217.4
Less: Share of profit from joint ventures and associates	(12.0)	(8.7)
Movement in provisions	4.0	(7.2)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	54.7	47.2
Depreciation and impairment of right of use assets	117.5	109.0
Other non-cash movements	15.3	16.6
Operating cash inflow before movements in working capital, exceptional items, and tax	399.1	374.3
Working capital movements	(24.4)	25.2
Tax paid	(44.2)	(42.1)
Non-cash R&D expenditure	(0.4)	–
Cash flow from operating activities before exceptional items	330.1	357.4
Dividends received from joint ventures and associates	9.1	13.5
Interest received	1.9	0.6
Interest paid	(24.4)	(24.9)
Capital element of lease repayments	(120.5)	(111.3)
Capitalised finance costs paid	(2.6)	(0.6)
Purchase of intangible and tangible assets net of proceeds from disposals	(18.7)	(25.1)
Purchase of own shares to satisfy share awards[1]	(15.9)	(20.3)
Proceeds received from exercise of share options	0.1	0.2

Cash flows and net debt continued

For the year ended 31 December	2022 £m	2021 £m
Free cash flow	159.1	189.5
Net cash outflow on acquisition and disposal of subsidiaries, joint ventures and associates	(19.2)	(234.9)
Net increase in debt items on acquisition and disposal of subsidiaries, joint ventures and associates	(6.5)	(14.3)
Dividends paid to shareholders	(30.3)	(26.5)
Purchase of own shares[1]	(91.2)	(20.4)
Movements on other investment balances	1.6	0.6
Loans to joint venture	(10.0)	–
Exceptional sale of other investments	–	13.0
Capitalisation and amortisation of loan costs	1.4	(0.7)
Exceptional items	(2.9)	(7.5)
Cash movements on hedging instruments	(2.7)	(16.6)
Foreign exchange loss on Adjusted net debt	(25.2)	(2.4)
Movement in Adjusted net debt	(25.9)	(120.2)
Opening Adjusted net debt	(178.0)	(57.8)
Closing Adjusted net debt	(203.9)	(178.0)
Lease liabilities	(446.0)	(430.3)
Closing Net debt	(649.9)	(608.3)

1 In 2022 the Employee Share Ownership Trust purchased shares directly of £15.9m to satisfy share awards. This purchase is presented separately from the Group's £91.2m repurchase of own shares on the Consolidated Cash Flow Statement on page 193. In 2021 the Group repurchased shares at a cost of £40.7m as shown on the Consolidated Cash Flow Statement on page 193 and subsequently transferred £20.3m to the Employee Share Ownership Trust to satisfy share awards.

Risk management and treasury operations

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.

Liquidity and funding

As at 31 December 2022, the Group had committed funding of £616m (at 31 December 2021: £629m), comprising £266m of US private placement loan notes and a £350m revolving credit facility (RCF) which was undrawn. The US private placement loan notes are repayable in bullet payments between 2023 and 2032. The Group does not engage in any external financing arrangements associated with either receivables or payables.

During the year ended 31 December 2022 total net repayments of debt were £149.3m, which included the repayment of NSBU acquisition loan (£45.0m), WBB 2021 acquisition loan (£75.0m), USPP debt (£22.6m), and ORS bank debt (£6.7m).

On 18 November 2022, the Group refinanced its RCF increasing its standby liquidity from £250m to £350m. The facility is supported by 10 banks and has a five-year tenure, maturing in November 2027. As part of the refinancing, an accordion option has been included, providing a further £100m of funding (uncommitted and therefore not incurring any fees) if required without the need for additional documentation and agreements. This option has not been included in the Group's assessment of available liquidity as approvals are required to access the funding.

Interest rate risk

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 2022, £266.4m of debt was held at fixed rates and Adjusted Net Debt was £203.9m.

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

For the year ended 31 December	2022 £m	2021 £m
Operating profit before exceptional items	219.6	217.4
Remove: Amortisation and impairment of intangibles arising on acquisition	21.6	16.0
Trading profit	241.2	233.4
Exclude: Share of joint venture post-tax profits	(12.0)	(8.7)
Include: Dividends from joint ventures	9.1	13.5
Add back: Net non-exceptional (releases)/charges to OCPs	(1.0)	1.3
Add back: Net covenant OCP utilisation	(1.3)	(0.6)
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non-acquisition intangible assets	33.1	31.2
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets held under finance leases – in accordance with IAS 17 Leases	4.8	5.0
Add back: Foreign exchange on investing and financing arrangements	0.4	(0.6)
Add back: Share-based payment expense	15.6	15.8
Other covenant adjustments to EBITDA	(1.0)	6.3
Covenant EBITDA	288.9	296.6
Net finance costs	20.4	24.0
Exclude: Net interest receivable on retirement benefit obligations	2.7	1.1
Exclude: Movement in discount on other debtors	0.1	0.1
Exclude: Other dividends received	–	0.6
Exclude: Foreign exchange on investing and financing arrangements	0.4	(0.6)
Other covenant adjustments to net finance costs resulting from IFRS 16 Leases	(7.5)	(7.3)
Covenant net finance costs	16.1	17.9
Adjusted net debt	203.9	178.0
Obligations under finance leases – in accordance with IAS 17 Leases	21.8	26.5
Recourse net debt	225.7	204.5
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	6.9	2.9
Covenant adjustment for average FX rates	(8.2)	(5.7)
CTNB	224.4	201.7
CTNB/covenant EBITDA (not to exceed 3.5x)	0.78x	0.68x
Covenant EBITDA/covenant net finance costs (at least 3.0x)	17.9x	16.6x

Acquisitions

On 12 July 2022, the Group acquired 100% of the issued share capital of Sapienza Consulting Holdings BV (Sapienza), a provider of consulting, talent acquisition and digital solutions to European space and defence institutions for consideration of €3.3m (£2.8m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included €1.9m (£1.6m) of cash resulting in a net cash outflow on acquisition of €1.4m (£1.2m). The operating results, assets and liabilities have been recognised effective 12 July 2022.

Sapienza contributed £6.5m of revenue and £0.3m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2022.

On 1 September 2022, the Group acquired 100% of the issued share capital of OXZ Holdings AG (ORS), a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy for consideration of CHF19.2m (£16.9m) subject to standard working capital and completion adjustments. CHF12.8m (£11.2m) is contingent consideration and the remaining CHF6.4m (£5.7m) was paid in cash. At the same time, the Group transferred CHF19.2m (£16.9m) to acquire shareholder loans of ORS and the acquired net assets included CHF5.2m (£4.6m) of cash resulting in a net cash outflow on acquisition of CHF20.4m (£18.0m). Including the balance of contingent consideration payable the total expected cash outflow for the acquisition, net of cash acquired, is CHF33.2m (£29.2m). Post completion there was a further cash outflow of CHF7.3m (£6.7m) to settle the bank loan acquired. The acquisition included net pension obligation of CHF5.7m (£5.0m). The operating results, assets and liabilities have been recognised effective 1 September 2022.

ORS contributed £62.4m of revenue and £1.6m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2022.

Net assets

At 31 December 2022, the Consolidated Balance Sheet shown on page 192 had net assets of £1,029.7m, a movement of £21.3m from the closing net asset position of £1,008.4m as at 31 December 2021.

Key movements since 31 December 2021 on the Consolidated Balance Sheet shown on page 192 include:

- Goodwill increased by £92.3m due to the impact of exchange rates (£71.4m), the acquisitions of ORS (£17.3m) and Sapienza (£2.1m), and an adjustment to the goodwill in respect of WBB of £1.5m.
- Net retirement benefit assets reduced by £97.4m primarily in respect of SPLAS; further details are provided in the pension section below.
- The Group generated Free Cash Flow of £159.1m, made payments in respect of acquisitions of £25.7m and undertook dividend payments and share buybacks of £121.5m. The net repayment of loans was £149.3m which resulted in an overall decrease in cash and cash equivalents by £141.2m.
- Net bank, bond borrowings and other loans have decreased by £114.1m in the year. This movement is driven by the repayment of acquisition loans of £126.7m and USPP loans of £22.6m and movements in capitalised finance costs of £1.4m, offset by the acquisition of ORS's £6.5m bank loan, and foreign exchange in respect of the USPP loans of £29.9m and ORS loan of £0.2m.
- The increase in contract assets, trade receivables and other assets have largely offset increases in contract liabilities, trade payables and other liabilities and are as a result of normal working capital movements.

Pensions

During the year there has been a high degree of volatility in the pensions market. Discount rates and short-term inflation rates have been rising since 31 December 2021 which has resulted in the weighted average durations used for pension schemes decreasing. Concerns over high global inflation, recession, disruption to supply chains due to the war in Ukraine and rising interest rates, compounded by the market volatility in September 2022 due to political events resulted in a sharp rise in bond yields and a subsequent reduction in the value of Liability Driven Investments (LDI), which triggered collateral calls. The Group made a short-term temporary loan of £60m to the Serco Pension and Life Assurance Scheme (SPLAS) on 28 September 2022 while the scheme liquidated assets to meet these collateral calls, in order to ensure that the LDI hedge was maintained; this loan was repaid on 3 October 2022.

Serco's pension schemes remain in a strong funding position, and show an accounting surplus, before tax, of £50.8m (31 December 2021: £148.2m) on scheme gross assets of £1.1bn (2021: £1.6bn) and gross liabilities of £1.0bn (2021 £1.5bn). The high degree of volatility as noted above resulted in a reduction in pension scheme assets particularly investments in bonds, LDIs and amounts held by insurance companies. There has been a significant reduction in pensions scheme obligations as discount rates have risen but this has only partially offset the reduction in assets as the liabilities are hedged on an actuarial basis rather than an IAS 19 basis. The decrease in pension scheme obligations was partially offset by experience adjustments on SPLAS which were primarily due to the impact from inflation on the current year allowances for deferred valuations and pension increases.

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

The opening net asset position led to a net interest income within finance costs of £2.7m (2021: £1.1m).

Claim for losses in respect of the 2013 share price reduction

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

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

Nigel Crossley
Group Chief Financial Officer
27 February 2023

Risk Management

Serco is exposed to a wide range of risks that, should they materialise, could have a detrimental impact on our financial performance, reputation and operational resilience. We therefore take risk management extremely seriously and invest significant effort into identifying and managing risks.

Managing risk

The Board oversees the Company's risk management and internal control processes within an Enterprise Risk Management (ERM) framework, discharging its oversight responsibilities through the Group Risk Committee (GRC), supported by the Corporate Responsibility Committee (CRC) and the Audit Committee. The Board has monitored and reviewed the effectiveness of risk management and internal control systems through these Committees and the processes outlined below.

Our ERM approach is not about eliminating risk but seeks to identify, understand, mitigate and manage risks that might disrupt our ability to execute our strategy or deliver against our customer and contractual commitments. Our key risks are agreed through an annual review with the Executive Committee and through quarterly challenge and review at either the GRC, CRC, Audit Committee or Board supported by Divisional level quarterly reviews with the Executive Management teams. Each risk response reflects the nature of the activities being undertaken and the level of control considered necessary to protect our interests and those of our stakeholders. In addition to the operational focus on risk, consideration and assessment of risk is part of our annual strategic review that helps inform our approach to operating across geographies, jurisdictions and sectors. These discussions include consideration of several of our principal risks, most notably Failure to grow.

We have assessed our markets and possible growth over the next five years as part of our strategy review to ensure it is sustainable and provides sufficient growth opportunities to meet our ambition without the need for a material shift in our operating model and existing markets. A key focus throughout 2022 has been on the continued development of our ERM maturity to seek the consistent application of our Group policies and procedures and process improvement. This has focused on the continued execution of actions identified in a Group-wide capability assessment and an internal audit of the risk management process completed in late 2021. Key actions completed include improved consistency of ERM organisational structures across the Divisions, shared objectives, and improvements in ERM integration in strategy and bid activity. We have faced some resource challenges within the ERM team across the Group which has caused some delay to progress; however, as at the end of 2022 we are now operating with all key vacancies filled, noting the appointment of new Heads of Risk in three of our four Divisions.

As part of the capability assessment, and recognising expected requirements of the BEIS White Paper, we identified the need to improve and refresh our approach to Assurance, particularly regarding the potential future need for a clearly defined Audit and Assurance Policy, to gain improved visibility of key controls and clarity as to how assurance is provided over the lines of defence. To address this we launched a global Assurance review, which, following a successful pilot in our UK&E Division, we anticipate being rolled out across the Group through 2023. The programme to review our Serco Management System (SMS) to ensure it remains an effective and efficient vehicle to document and communicate our processes and controls is nearing completion. This programme has re-categorised key controls against personas, so that colleagues can much more readily identify the controls and processes they need to follow. The core of this work is complete with supporting implementation changes to local policies and procedures to run into 2023. We have also invested in a new Governance Risk and Compliance tool in 2022.

Risk management life cycle

Risk Management continued

Initially focused on the design of the controls module, we will be implementing the new tool in 2023 to support our assurance activities. July 2022 also saw the successful discontinuance of the DPA. The SFO confirmed that Serco had cooperated fully and has fulfilled all of its obligations, including reviewing and enhancing the Group-wide compliance programme related to internal controls, compliance policies and procedures.

Risk management process

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

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

Our principal risks, detailed on page 98, are those risks that we determine to be the most material when considered against our strategic ambition (as outlined on page 25) and that can materially affect the performance, prospects or reputation of our business. These risks are identified and assessed as part of our strategic review and through additional discussions at a Divisional level, Executive Committee and the GRC where internal and external emerging risk trends are considered. Once identified, each risk's inherent, residual and target position is assessed against a standardised set of impact categories that include financial, reputational, operational and strategic considerations on a worst-case credible scenario basis. The likelihood of each risk occurring is then assessed, resulting in a residual risk position that enables us to score the risk from minor to severe and rank accordingly.

Each principal risk has a Subject Matter Expert (SME), who acts as the lead in overseeing risk updates and driving risk action, and a nominated Executive Committee sponsor, whose role is to advocate and oversee risk ownership, allocated to it, supporting its review and management. A robust assessment of our principal risks and their mitigations is carried out as part of the GRC reporting schedule, as well as reviews of topical deep dives that focus on pertinent risk themes. These deep dives may be focused on a region, led by the Divisional CEOs or risk leads, or on functional or business unit areas involving specialists from our business operations. This risk-focused approach facilitates flexibility that allows us to be responsive to changes in our risk profile throughout the year while still maintaining appropriate coverage of our principal risks and Divisional risk landscapes. Our principal risks and uncertainties are detailed on page 98.

Each of our principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept as well as informing our decision-making. The statements include one of four appetite categories – averse, cautious, moderate and flexible – that reflect the Board's tolerance to each risk.

These statements are aligned to our Values, Code of Conduct and other ethical requirements to support and drive the right risk culture within the Group, are set through discussion with the principal risk Executive Committee Sponsor and SME and ratified annually by the GRC. The Board's risk appetite associated with each principal risk is shown on page 98.

The majority of our principal risks operate under an averse risk appetite demonstrating we have a close to zero tolerance for incidents. We appreciate that, by the nature of our operations, we have inherent risk exposures but we strive to mitigate them. In the case of our Health, safety and wellbeing principal risk for example, despite our focus, we unfortunately do still experience incidents and near misses as the following two case studies demonstrate.

A wellbeing awareness day at one of our Environmental Services contracts highlighted a risk of significant mental health issues, including suicidal ideation, and financial challenges among our colleagues. Our response focused on provision of one-to-one support and facilitated contact with appropriate support services, from our EAP and 24/7 nursing line to local community options. Follow-on support is being provided, including monthly visits from the local Citizens Advice, targeted financial support, on-site counselling, and tailored promotions of Serco support such as the People Fund. These bespoke initiatives demonstrate collaborative working across Serco and how this approach can find creative solutions to meet our colleagues' needs.

This year has seen exceptional activity in the AsPac J&I business (with unpredicted issues relating to gang violence and unrest) resulting in a higher than predicted number of injuries against our people.

Notwithstanding the challenges and in addition to wider, complementary Group improvement plans, there are several Divisionally specific opportunities with potential to positively impact harm reduction in 2023 and beyond, namely:

- establishment of AsPac CEO Safety Committee, providing a Divisional focal point for critical safety collaboration and innovation;
- enhancements to HSE leadership with the recruitment of a new Divisional Head of HSE and supporting HSE Systems Manager;
- the introduction of new AsPac approach to safety 'Start with Care';
- expansion of the pilot injury 'Early Intervention Programme' which targets better outcomes from minor-medium level injuries;
- continued focus on critical risk activities/inspections and 2023 harm reduction plans, particularly in high-risk/high-frequency areas; and
- introduction of a specific psychosocial risk management framework.

This collaborative Divisional alignment engages with our people and our partners for better solutions development, aligns with new legislation changes and strives to provide better care for our people and ultimately reduce injury.

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

We review the effectiveness of the Risk Committee on an annual basis. Following an external Board Performance Evaluation Review in 2021 where no material changes to the Risk Committee were reported or deemed necessary, our approach this year is based on feedback obtained via a questionnaire sent to the Risk Committee members and those who regularly attend the Committee, including the Group CEO, Group COO and Group ERM Director. Focus areas for 2023 include further interaction between Board Committees who oversee individual principal risks and enhancements to our emerging risk approach.

Emerging risks

We have an annual process to identify and monitor emerging risks to ensure that adequate steps are being taken to understand and mitigate new risk themes before they materialise and to assess any impact on our principal risks. This robust assessment of emerging risks is completed through individual and group discussions with our Executive Committee members, via input from our Divisional risk teams and the Risk Committee and through the monitoring of internal and external macro risk trends.

Examples of some of the current emerging risks discussed and being monitored via our quarterly risk process include:

- political volatility and geo-political uncertainty, including the war in Ukraine, and the impact that could have directly and indirectly on Serco's operations;
- pandemic or other material black or grey swan events response and Serco's ability to respond/demonstrate business resilience;
- significant and prolonged IT infrastructure failure preparedness;
- macroeconomic implications and related cost-of-living challenges and inflation pressures that may be felt across the business and by our people; and
- technology risk and its potential implications on our ability to grow in line with our strategic ambitions.

Other risk areas

While no longer considered as emerging risks, more so as enduring bodies of work we are committed to, we also reviewed both ESG and climate change as part of the Emerging risk review.

- **ESG:** We have a clear objective to address the ESG risks that are material to us and important to our stakeholders, recognising their deep strategic relevance. Managing these risks and taking them seriously is something we have been doing for many years as they are woven inseparably into our operational and commercial landscape, our strategy and governance and how we analyse our performance and prospects. Our refreshed ESG Framework consolidates our ESG priorities in one model aligned to our materiality assessment completed with internal and external stakeholders. We continue to treat ESG as an embedded consideration across several of our principal risks rather than a standalone item at the Group level. More information on our approach to ESG can be found on page 36.
- **Climate change:** Our environmental footprint varies significantly between our contracts and business units and is dependent upon the boundary and scope of our environmental reporting. Across much of our business we work on our customers' premises and are not in direct control of environmental impacts. Regardless of where we operate, however, we recognise the need to drive consistent environmental behaviours and performance improvements throughout our operations. We have chosen not to consider climate risk as a standalone principal risk and instead consider it as a cross-cutting scenario under several of our principal risks, including Catastrophic incident, and have embedded this more clearly in the principal risk narrative. We will continue to monitor the profile of climate change matters as part of our ongoing quarterly risk reviews and it will remain a focus area for development throughout 2023. Further detail on our approach to environmental reporting and TCFD can be found on page 74 and our commitment to climate change as part of our ESG agenda on page 52.

Principal Risks and Uncertainties

Changes during the year

Our strategic objectives (outlined on page 25) consider the risks and opportunities associated with our existing market and services and did not highlight a need for a material shift in approach. As outlined in the Chief Executive's Review on page 15 we are reporting strong financial performance and despite the macroeconomic volatility of the last 12 months we have not observed any material manifestation of risk that has caused significant operational or performance disruption. Our principal risks therefore remain valid with their definition and scope remaining largely unchanged. These risks continue to underpin our business model described on page 13 and mitigation of the risks link directly to our four strategic priorities as described in our management philosophy on page 11. Some changes are noted that reflect updated thinking and responses to operational influences. We have broadened the definition and scope of our Catastrophic incident risk such that it now includes consideration of our resilience to an external event such as extreme weather events, pandemic or infrastructure failure. Similarly, we have updated the definitions of our Failure to grow risk to incorporate a wide set of causal factors, including failure to continue to focus on and show progress in relation to ESG matters, digital ambition and to anticipate and respond appropriately to changing customer expectations, competitor activity and potential concentration risk. We also clarified that the Major information security breach risk includes data privacy and data governance elements appropriately.

Summary of principal risks and uncertainties

Principal risks, as described below, have been reviewed by the Executive Committee, GRC and the Board. The risks are described on the following pages, together with the relevant strategic business objectives, key risk drivers, the Group-wide material controls which have been put in place to mitigate principal risks and the mitigation priorities to improve the effectiveness of the controls. We have included the residual risk trend indicator for each risk and a brief commentary to contextualise these trends. Each of the principal risks is relevant to the achievement of our KPIs as outlined on page 28 with the strongest links highlighted as part of the commentary.

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 109, 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.

Risk description	Executive sponsor	Primary risk category	Annual trend as at 31 December	Risk appetite
Failure to grow profitably	Kate Steadman Group Strategy Director	Strategic	Stable residual risk position reflecting a strong 2022 financial performance and a robust, qualified, new business pipeline as we enter 2023.	Cautious
Financial control failure	Nigel Crossley Group FD	Financial	Stable residual risk reflecting level of confidence in robustness of financial processes and controls.	Averse
Major information security breach or cyber-attack	Mark Irwin Group CEO	Operational	Following a residual risk increase in 2021 the residual risk has been reduced back to the original position as a result of significant investment and implementation of strengthened IT controls.	Averse
Contract non-compliance, non-performance or misreporting	Peter Welling AsPac CEO	Operational	Despite no material incidents, the stable risk trend is driven by acknowledgment of the scale and volume of contracts and the ongoing work to improve our controls and the low level of both Serco management and customer tolerance for any significant issues.	Averse
Significant failure of supply chain	Anthony Kirby UK&E CEO	Operational	Following an increase in residual risk in 2021, the risk remains elevated largely as a result of external macroeconomic pressures.	Moderate
Failure to act with integrity	Mark Irwin Group CEO	People	Stable risk trend recognising the ongoing commitment to maintain high standards of integrity, reflected in this year's Viewpoint results, and a low customer tolerance for any issues.	Averse
Failure to attract, engage and retain key talent	Anthony Kirby UK&E CEO	People	Following an increase in residual risk in 2021 the risk remains elevated largely to recognise the external challenges in the labour market as an ongoing outcome of Covid-19 and existing social economic pressures.	Cautious
Health, safety and wellbeing	Phil Malem ME CEO	People	Introduced as a new risk in 2020 the risk remains stable as despite the fact that we missed our LTIFR target we remain focused on the road to zero harm.	Averse
Catastrophic incident	Tom Watson NA CEO	Hazard	A stable residual risk position reflects that despite strong controls the nature of the work we do exposes us to a degree of ongoing risk of a Catastrophic event occurring.	Averse
Material legal and regulatory compliance failure	David Eveleigh Group GC	Legal and Compliance	Following an increase in residual risk in 2020, largely related to Covid-19, the risk remains elevated reflecting the fast-moving and complex global legal and regulatory environment and diverse nature of our business.	Averse

The method and four priorities we use to deliver our strategy as part of our management philosophy are set out on page 11, namely Winning good business, Executing brilliantly, A place people are proud to work, and Profitable and sustainable. Each of our principal risks supports one or more of these priorities with the strongest link shown against each risk using the following icons. Appropriate consideration and management of the principal risks have a direct link to key Executive remuneration as outlined in the Remuneration Report on page 142.

Winning good business | Executing brilliantly | A place people are proud to work | Profitable and sustainable

STRATEGIC RISKS

Failure to grow profitably

Integral to our Strategy Review process, this risk considers the potential impact of failure to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets, restricting revenue growth which may in turn have an adverse impact on Serco's profitability. This risk has a broad and direct link to our ability to meet the financial KPIs described on page 28. We have a cautious appetite for this risk recognising that we will take reasonable and considered risks to generate profitable growth. Our business is linked to changes in the economy, fiscal and monetary policy, political stability and leadership, budget priorities, and the perception and attitude of governments and the wider public to outsourcing, which could result in decisions not to outsource services or lead to delays in placing work. Our ability to succeed is also linked to the competitive landscape and our ability to efficiently deploy resources as part of our service offering as well as delivering our ESG commitments and digital strategy ambition. We carried out a comprehensive strategy review that took the Divisional five-year strategies and rolled these up for a Group view. This work concluded that our markets remain robust with significant revenue opportunity in our chosen markets and chosen activities.

In 2022, despite the tailing off of Covid-related work, we have been successful in securing good organic growth. In particular our immigration work in the UK and Australia has benefited from significant volume growth, and our defence marine defence business units in the US and the UK have secured critical rebids and extensions. We have also secured one of the new wave of UK prisons with HMP Fosse Way, and won a mandate to manage re-employability services in Canada in a first in the region for Serco. Rebid rates in the UK have been more challenging with the losses of the DWP Universal Credit Phase 1 and Lowdham Grange Prison contracts and win rates in AsPac were lower with the loss of the VicRoads bid. Tight employment markets and inflation have continued to increase operating costs as well as vacancies that have adversely affected some parts of our portfolio. Despite these challenges, our revenues and Underlying Trading Profit increased by 2.5% and 3.5% respectively. Further detail on our financial performance can be found on page 83 and summarised in the Chief Executive Review on page 15. We also enter 2023 with a robust and qualified new business pipeline, suggesting that the near and medium-term risk is stable.

Key risk drivers:	Material controls:	Mitigation priorities:
External factors reducing the pipeline of opportunities. **Failure to be competitive.** **Inability to meet customer and solution requirements during design, implementation and delivery.** **Ineffective business development leading to lower than expected win rates.**	– Serco Group and Divisional Strategy including periodic strategy reviews. – Investment Committees, Divisional level Business Lifecycle Review Teams (BLRTs). – Sector-specific Centres of Excellence and Value Propositions. – Serco Institute developing thought leadership and innovation for our markets. – Business Lifecycle Review Team process. – Pipeline and Business Development spend reviews. – Regular Growth Forum reviews. – Divisional Performance Reporting process.	– Review portfolio for new attractive organic expansion areas. – Keep focus on business development processes in UK and AsPac to improve capture effectiveness. – Strengthen our customer focus and interactions to better anticipate and shape markets and opportunities. – Continue to improve leveraging of Serco best practice and innovation and refinement of bid development processes. – Continue to adopt a robust bid qualification process. – Retain focus on effective management for major bids. – Develop efficient common platforms for service delivery to support our strategic pillars, in particular customer intimacy and market shaping.

Principal Risks and Uncertainties continued

FINANCIAL RISKS

Financial control failure

Serco operates complex financial systems and processes and there is an inherent risk that these may fail if appropriate oversight is not in place. Such failures may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a heightened risk of error and fraud: poor quality data leading to poor business decisions, or an inability to forecast accurately; the failure to create a suitable capital structure; and an inability to execute critical financial transactions, leading to financial instability, potential business losses and negative reputational impact. This risk links directly to our ability to meet the financial KPIs outlined on page 28. We have an averse appetite for financial control failures and require a robust framework of financial processes, systems and controls to enable timely and accurate financial reporting and forecasting.

The Group was able to demonstrate that its financial processes and systems were able to operate effectively despite the significant change to working conditions and reactive nature of the business operations brought about by the pandemic. The financial control framework is transitioning to the continuous improvement stage.

Over the last 12 months, the Group has continued to improve its financial control environment. While the UK Government's proposals outlined in the consultation document issued by the Department of Business, Energy and Industrial Strategy (BEIS) entitled Restoring Trust in Audit and Corporate Governance has not yet resulted in any formal changes to the expectations or reporting from businesses, the Group has continued to deliver its programme of work to improve the financial controls framework recognising that the objectives of this programme, if achieved, should support the objectives set out in the consultation document in respect of financial controls. The Group is conscious of the impact of this programme and has been mindful of additional costs and administration placed on its operations before the expectations from BEIS or the Financial Reporting Council are formalised.

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

OPERATIONAL RISKS

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

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

We continue to make significant investments in cyber-security, particularly with respect to our servers, endpoints, network and application security devices (and nowadays including third-party Cloud infrastructure, platforms and software services provided by our partners). We run planned penetration tests as well as seeking to meet specific security standards in line with customer requirements as a provider of public services to government. We maintain a continuing programme of upgrading IT to ensure we operate on supported versions of the hardware and software and risk assess any essential exemptions, standardise services where possible and so this year are pleased to report that we continue to see a decreasing trend in the number of devices outside centralised management and monitoring.

Serco is committed to delivering secure services which protect our own and our customers' data and as such holds a variety of externally audited security-related certifications. In most of our jurisdictions this also includes accreditation or assessment against government standards. These include the Information Security Management System covering our UK corporate environment that is certified to ISO 27001, Cyber Essentials Plus in the UK and PCI-DSS globally where required. Our certifications are generally publicly available on the relevant accreditors' websites or can be requested from the Company directly.

Serco regularly reviews how we protect and secure information in our custody to ensure we maintain our defences. This year we have also approved for implementation in 2023 an additional investment in our cybersecurity tooling to assist in maintaining access to our cloud environment systems while simultaneously improving our ability to prevent, detect, investigate and respond to advanced threats against the background of the rising sophistication of modern attacks. As custodians that care for personal data held on behalf of our customers, suppliers, business partners, employees and data subjects we have adopted a risk-based approach to implement a data protection framework that is integrated into our management system and our customer requirements. It aims to strengthen our operating culture and to seek to ensure we operate and continuously improve our business in a compliant, ethical and responsible way.

We continue to invest in staff security training as a key mitigant to this risk. Security training is delivered via our Learning Management System as part of the broader Serco Essentials framework, and this has been recently refreshed with updated material being launched from January 2023. Training comprises mandatory modules that cover a range of areas including responsibilities when dealing with personal data and how to identify and respond to issues. All Serco employees, including contractors, must complete Serco Essentials and pass a test at the end or, alternatively, in the case of subcontract staff, their employer must demonstrate that they provide equivalent security training. Training is further supplemented, where appropriate, to cover specific points relevant to any particular contract, together with regular campaigns and awareness tests such as protecting against phishing threats.

Key risk drivers:	Material controls:	Mitigation priorities:
Non-compliant or obsolescent systems. **Non-compliance or misconfiguration with policies and standards.** **Vulnerability of systems and information.** **Unauthorised use of systems.** **Inadequate incident monitoring and response.** **Increased regulatory scrutiny.** **Human factors leading to data breach.** **Failure to follow Data Protection laws and Customer requirements.** **Poor data mapping and retention.**	– Enterprise Architecture Boards and Solution Review meetings. – Serco Management System (SMS) including detailed guidance on minimum security controls. – IT security infrastructure, processes and controls including isolated backups. – Privileged Access Management and multi-factor authentication for our centralised managed systems. – External assessments and scenario based cyber security testing and incident planning. – Regular attestation statements on security controls compliance. – Third-party supplier cyber assessment due diligence. – Data Protection training and awareness campaigns. – Data Protection Officer programme and Data Protection Champions network. – Monitoring Data protection laws and Customer requirements. – One Trust data inventory mapping and data retention programme.	– Perform market appraisals of technology when bidding new contracts and review existing technology at renewal points to ensure we maintain our defences as threats change and develop in sophistication. – Ongoing continuous strategic improvement programmes to maintain our cyber defences (for example the investment in improved cyber tooling) as described in the section above. – Continued routine vigilance and proactive vulnerability identification coordinated through our Security Operations Centres. – Continued use of global key security risk indicators and regular third-party testing and best practice configuration reviews to support mitigation priorities. – Leveraging Cloud adoption to ensure standardised control mechanisms. – A focus on the behavioural aspects of our employees. – Maintaining compliance with government security standards. – Data Protection training through Serco Essentials and communication through International Data Privacy Day week using 'back to basics' and other global campaigns reflected on Serco.com/privacy. – Monitoring the Global changes in law including international transfer laws and customer requirements. – Build a stronger consistent data protection framework of sharing information and knowledge through the Global Data Protection and Information Security Working Group. – Gold IAPP Membership and data protection champions.

Principal Risks and Uncertainties continued

Contract non-compliance, non-performance or misreporting

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

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

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

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

Underpinning these initiatives, the review and relaunch of the SMS in 2023 will bring greater clarity to what is expected by each persona throughout the business cycle. The relaunch will bring greater visibility of the controls we do or do not have in place, allowing them to be challenged and strengthened throughout the year.

Key risk drivers:	Material controls:	Mitigation priorities:
Not setting the right tone from the top. **Unclear contract requirements/ obligations.** **Human error (deliberate or unintentional).** **Operational delivery or reporting failures.**	– Contract Management Application. – Monthly performance reviews at Contract, Business Unit and Divisional level. – Business Lifecycle Review team process. – Communication of Our Values and Code of Conduct. – Speak Up process (Ethicspoint). – Extensive internal and external assurance reviews, including independent third-party reviews and customer oversight processes.	– Strengthen processes related to agreeing clear contracts, change management, bid to contract handover and KPI reporting, formalised through the enhanced application of the Serco Management System. – Contract Management training (Global and Divisional). – Greater visibility of performance through our contract performance dashboard 'Gauge'. – Continued focus on consistent approach to risk assessment. – Operational excellence improvement plans. – Ongoing ethics, business conduct and compliance training. – Improvements to assurance framework and activities.

Significant failure of the supply chain

As a result of a significant failure in Serco's end-to-end supply chain to perform to the required standard, Serco may be exposed to risks that mean Serco is unable to meet its customer obligations, perform critical business operations or win new business. Serco uses thousands of suppliers globally each year and we accept that it is not feasible to monitor and manage the performance of every supplier. This risk also includes risks to Serco from non-business critical suppliers and from the suppliers of our suppliers. Consequently, we take a proportionate approach to management of these third parties and have a moderate risk appetite for using them.

Over the last year, we have continued to see growing global supply chain risk, not just through increased reliance on suppliers through subcontracting and complex supplier services, but also volatility in the external environment through macroeconomic and geopolitical events as well as increasing environmental and social regulation.

To take account of these growing supply chain risks, our newly established Supplier Risk Management Framework, which was developed over the last year, encompasses the following risk exposures: information security and cyber; data protection; regulatory and legal; health and safety; environmental; business integrity and ethics, financial; performance and resilience. Each of these risk exposures has been considered in relation to stages of the supplier life cycle from supplier sourcing, contracting, onboarding, ongoing monitoring and exit, with gaps identified.

Where the performance of these third parties fall within our criteria of 'severe or major business critical' or where there are suppliers with material inherent risk against the range of risk exposures in our Supplier Management Framework, we seek to mitigate that uncertainty by endeavoring to put controls in place at each stage of the supplier life cycle.

Implementation of the Supplier Risk Management Framework is being progressed through a phased Divisional focus. A tiering approach to identifying the most material risk suppliers is being developed, which will enable better monitoring of the most material risk suppliers across the range of risk exposures, proportionate to the risks these represent for our business.

The Group-level risk remains elevated given macroeconomic circumstances, continued considerable inflationary pressures and consequent supply chain challenges for the foreseeable future. Although there is a risk of disruption in all Divisions, the highest perceived risk is in our UK&E Division where we continue to experience and manage localised challenges.

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

Principal Risks and Uncertainties continued

PEOPLE RISKS

Failure to act with integrity

As a people-based business employing over 50,000 colleagues there is an inherent risk of rogue employees engaging in significant corrupt or dishonest acts including bribery, fraud, misreporting, cheating or lying. 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. Were we to fail to manage this risk it could lead to: the loss of existing business; restrictions on our ability to bid or win new business and a reduction in our ability to attract high-quality people or partners. It could also impact shareholder, investor and financial institutions' confidence in Serco and for these reasons we operate an averse risk appetite to this risk.

After significant work the DPA was closed out successfully with no action being taken by the SFO. That means we have been released from all associated undertakings. Much of the work completed is about continuous improvement in programmes and processes to manage this risk and these activities will continue and remain a focus for management attention. While the DPA has ended the impact of something going wrong remains high and therefore we have not changed the risk rating to recognise that customer tolerance if found to have been misrepresenting and/or misreporting data at this critical time has the potential for serious reputational impact.

Other emerging factors that could impact this risk include fast changing sanction regulations following recent world events against which we need to remain vigilant. This places increased importance on due diligence of third parties and our new screening provider is strengthening our levels of review. We have seen increasing regulation, particularly out of the EU, e.g. Whistleblowing directive and supplier due diligence including human rights and have also seen more active enforcement by regulatory authorities. Assurance of compliance controls is in place and remains key. Finally, there is the general economic pressure/cost of living which is hitting everyone and we recognise this may increase the risk of fraud.

This risk relies not just on clear policies and procedures but also behaviours. That is why our values and purpose sit at the top of our Management Philosophy described on page 11 and integrity sits at the centre of and underpins our ESG framework. One achievement this year was the relaunch of our Code of Conduct (mycode.serco.com) which has been designed to be clear and engaging and a useful tool for all colleagues to understand what the right thing to do is. In addition, we have evolved our mandatory training for all colleagues and are updating our management modules for 2023, which continue to reinforce our strong tone at the top, and further developed our ESG framework as outlined on page 36.

Key risk drivers:	Material controls:	Mitigation priorities:
Not setting the right tone from the top. **Weak values and culture.** **Increased pressure to deliver.** **Ineffective systems and processes.** **Weak diligence on where we work and who we work with.**	– Strong, meaningful and understood Values and required behaviours which are defined in mycode, role modelled by leaders and included in bonus assessments for those that are eligible. – Robust governance (Corporate Responsibility Committee; Executive Committee; Investment Committee; Divisional Executive Management etc.) exercising oversight of decisions within delegated authorities. – Clear policy and procedures, including financial controls and processes defined within the SMS, which has been subject to a comprehensive review and refresh, supported by mycode. – Independent Speak Up process supported by corporate investigations. – Mandated Serco Essentials training. – Group-wide Assurance programme.	– Continue to drive leadership ownership and accountability for a strong ethical culture. – Roll out refreshed Ethics Compliance controls and procedures linked with the refresh of the SMS. – Embed new due diligence processes for all third parties. – Complete a review of Speak Up provision and related processes to improve efficiency and better manage risk of retaliation. – Continue to strengthen Ethics Compliance resource and competency supported by robust data dashboards to inform management decisions. – Continue to drive a programme of assurance including focusing on Ethics Compliance controls.

Failure to attract, engage and retain key talent

It is our ambition to be regarded as the best-managed company in the sector and, notwithstanding our framework of people processes, systems and controls, there is a risk that we are unable to attract, engage and retain an appropriately sized, qualified and competent workforce and management team. The impact of this risk materialising would restrict Serco's ability to deliver on its customer obligations, execute its strategy and achieve its business objectives while driving employee pride in the organisation. ESG is an implicit consideration in this risk and influences the achievement of our Employee Engagement KPI as outlined on page 30. We have a cautious risk appetite and take a pragmatic approach to the attraction, retention and development of key talent. We ensure that robust contingency plans are in place for business-critical roles and regularly track turnover and vacancy rates but recognise that an element of churn is healthy for any business, meaning that we are not averse to change.

This risk includes consideration of key person reliance in our leadership and executive teams, including succession planning for our senior management team and other business-critical roles. It should be noted that, although difficulties in relation to labour markets continue, the overall downward trajectory of vacancies has continued and by the end of the year had reduced by over 1000 with our recruitment teams making good progress. The positive trend has been seen across all Divisions with a number of our initiatives paying off, including our global employer brand refresh, the go-live of new recruitment technology in AsPac, increased utilisation of recruitment tools and processes and a refresh of our internal and external career websites.

The Board continues to ensure effective succession planning, both for Executive Committee and Group roles noting the successful Board and Executive Committee changes made this year as detailed in the Chairmans Statement on page 4.

Key risk drivers:	Material controls:	Mitigation priorities:
Lack of staff development. **Poor talent management and succession planning.** **Low employee engagement.** **Unsatisfactory reward framework.** **Recruitment failings.** **Inability to attract appropriate new hires.**	– Talent Management and Succession processes. – Leadership capability development. – Targeted retention arrangements. – Critical Resource Planning. – Tracking of turnover and vacancy rates. – Annual Performance Management process. – Exit interview surveys. – Annual Viewpoint survey. – Focus on colleague health and wellbeing.	– Ensure up-to-date understanding of local employment markets. – Continue to monitor channels to access external talent in chosen markets. – Ongoing benchmarking activity to ensure market competitive reward packages to aid retention of existing staff and attraction of new. – Continue with detailed review of succession plans and mitigation strategies as part of the Talent Review process. – Ensure ongoing use and analysis of exit interview survey results. – Follow up and action on themes identified as a result of annual people survey. – Further roll-out of ISO 45003 Psychological Health and Safety at Work across Divisions.

Principal Risks and Uncertainties continued

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. It also includes elements of risks related to environmental concerns recognising that extreme heat, flooding or other extreme weather events may impact the safety and wellbeing of our employees, the employees of our customers and suppliers and those we look after. These may be caused by a process or control failure or by the wrong behaviour and/or an inadequate safety culture. As responsible employers we recognise the complexity of wellbeing risk and aim to ensure that working for Serco does not impose any additional wellbeing challenges on our employees. This is a wide-reaching risk that directly supports the KPI target for Lost Time Incident Frequency Rate and Major Incident frequency rate as described on page 30 and other HSE related metrics outlined in our ESG report on page 67. We have an averse risk appetite for actions/failures that would cause loss of life. We cannot eradicate this risk entirely while maintaining operational delivery so we prioritise prevention of major injuries and threats to wellbeing while accepting that minor injuries will occur on occasion but are minimised by training, risk assessment, safe systems of work, operating procedures, PPE, site supervision, audit and inspection, and a positive safety cultural approach.

Our vision is zero harm. We aim to ensure that no one comes to harm because of the work we do. Wherever we work, we are committed to the prevention of injury and promoting an equitable and positive safety culture in which we foster transparency, honesty and trust in order to identify root causes and prevent recurrence. Wherever we work, we are committed to the promotion of wellbeing and the prevention of ill health. We understand that healthier, happier employees go hand-in-hand with strong business performance, enhanced productivity, a positive culture and better outcomes for those we serve. In addition to personal injury concerns, a breach of health and safety regulations or failure to meet our contracted expectations could disrupt our business, have a negative impact on our reputation and lead to contractual, financial, regulatory and reputational costs.

While the impacts of the Covid-19 pandemic continue to challenge our people and services, these have largely merged into broader risk categories related to the wider public health, political and economic climates in which we are operating. The current cost-of-living challenges, for example, can trace their routes to the pandemic and are now being exacerbated by a number of global drivers, from the war in Ukraine to political decision-making. These broader risks can be labelled as crossover risks due to their potential for impact across several risk areas, from this risk, to Legal and Regulatory, Compliance, Attraction and Retention of Talent, and Catastrophic Incident risk. As with the pandemic, our Health, Safety and Wellbeing teams continue to support our organisational response across the business through key mitigations, including enhanced risk assessments, financial wellbeing support and updated training resources.

We continue to engage our people with this work and, through Viewpoint, the Safety Culture Survey and the Mind Workplace Wellbeing Index, can confidently comment that the controls and mitigations in place are more effective and well received. Notably the LTI reduction planning and the ISO 45003 accreditation are key markers of our continued focus on risk mitigation in these areas.

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

Key risk drivers:

Failure of the Serco Safety Management System.

Insufficient communication of key issues, risks and changes.

Lack of/out-of-date task-specific competence.

Human factors impact on behaviour.

Occupational wellbeing risks including psychosocial risks.

Public Health and wellbeing risks.

Behavioural failures/human error resulting in injury or incident.

Global economic challenges manifesting in colleague safety and wellbeing issues and incidents.

Future impact of cross-cutting risks for example Catastrophic Incident, Legal and Regulatory etc.

Extreme weather events such as fire and flooding.

Material controls:

- Serco Health, Safety, Environmental and Wellbeing (HSEW) Strategies and Safety Management System (policies and procedures) underpinned by our ESG framework.
- Safety and wellbeing training, communications, and guidance (inc. Serco Essentials) and individual development plans and processes based on role and operational risk.
- Spontaneous and planned preventative, maintenance, audit, inspection and repair programmes.
- Effective incident/near-miss observations reporting and investigations and effective use of ASSURE (independent reporting and compliance system).
- A programme of first, second and third line assurance.
- Risk assessments and supporting safe systems of work for activities.

Mitigation priorities:

- Continue to embed updated Health, Safety, Environment and Wellbeing strategies and a positive and equitable culture.
- Increase safety observation, Zero Harm Engagement and Safety Moment activity across the regions.
- Drive wellbeing agenda and ensure appropriate focus at a corporate level.
- Continuing first, second and third line assurance activities and ensuring understanding of appropriate levels of ownership, accountability, and responsibility.
- Further embed the Serco (Health, Safety, Environmental and Wellbeing) Strategies and Safety Management System (policies and procedures).
- Further development and maturity of our approach to ESG and programme of improvements to meet best practice and evolving stakeholder expectations.
- Continued review and sharing of lessons learnt throughout the global organisation.
- Continued CRC, Board and Executive Committee oversight and review.

HAZARD RISKS

Catastrophic incident

Given the nature of our business we are exposed to the risk of an event (incident or accident) occurring as a result of Serco's actions or failure to effectively respond to/prepare for an event that results in multiple fatalities, and/or severe property/asset damage/loss and/or very serious environmental damage. Management of this risk influences the KPI target for Major Incident Frequency Rate as described on page 30. We are also exposed to the inherent risk of an external catastrophic incident such as a fire, flood or black swan event. We aim to provide safe services, places to work and to operate a resilient organisation and have an averse risk appetite for this risk.

Throughout 2022 our five-step plan to ensure each Division continues to assess risks at a contract level to ensure that all relevant material risks have been identified, to assess and assure mitigations, including insurance cover, are appropriate and have been embedded. The physical risks linked to climate change-related events are now included more explicitly in our risk management framework as part of the work initiated for TCFD and outlined in more detail on page 77. The former Health, Safety and Wellbeing elements of this risk have been moved to the Health, safety and wellbeing principal risk.

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

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

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

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

We remain subject to a fast-moving and complex global legal and regulatory environment. 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, trade compliance, competition and antitrust, human rights and modern slavery.

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

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

Viability Statement

Strategic Report
Corporate Governance
Financial Statements

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 2025.

Three-year term

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

- Short term projections can be heavily reliant on successful bidding opportunities which have a binary outcome.
- The Group has limited visibility of contract bidding opportunities beyond three years given the lead times which generally exist before opportunities come to market.
- Approximately 57% (2021: 63%) 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 a strategic goal rather than a shorter term forecast against which a definitive statement can be made.

Financial forecasts

In assessing the prospects of the Group over the three-year period, the Directors have also considered the Group's current financial position as well as its financial projections in the context of the Group's debt facilities and associated covenants. These financial projections are based on a bottom-up Budget exercise for 2023 and 2024, and an extrapolation to 2025 using higher level assumptions based on local market growth rates and identified opportunities which has been approved by the Board.

The Group's covenant net debt balance at 31 December 2022 is £224.4m. The Group's base projections indicate that debt facilities and projected headroom are adequate to support the Group over the period to 31 December 2025. The Group's financial plan has been stress-tested against key sensitivities which could materialise as a result of the crystallisation of one or a number of the principal risks, the objective being that the future viability of the Group is tested against severe but plausible scenarios.

Funding facilities

At 31 December 2022, the Group's principal debt facilities comprised a £350m revolving credit facility refinanced during 2022 over a five-year term (of which £nil was drawn), and £266m of US private placement notes. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility and are outlined on page 92.

During the period of assessment, £142m of the Group's US Private Placement (USPP) loan notes mature. The long-term forecasts supporting this statement assume that if the acquisition facility is not refinanced and no further debt is raised, there is still sufficient liquidity headroom for the Group to remain viable.

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

Risks

The Board and the Group Risk Committee continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, business model, future performance, solvency and liquidity. The potential outcome, management and mitigation of those principal risks have been taken into consideration when modelling sensitivities to assess the future viability of the Group. The Group's risk review is set out on pages 98 to 108 and outlines the Group's principal risks and mitigating controls that are in place.

Severe but plausible scenarios

Due to the Group's long-term contracting nature, the sensitivities tested include a reduction in the win rates for rebids, extensions and the pipeline of new opportunities, a reduction in delivering margin improvements and a potential penalty arising from risks such as contract non-compliance, major information security breach or a material legal and regulatory compliance failure.

Viability Statement continued

A reverse stress test of the Group's profit forecast has been completed using different assumptions of new business and rebid win rates and the Group's profit margin. This analysis shows that the Group can afford to be unsuccessful on 60% of its target new business and rebid wins combined with a profit margin 60 basis points below the Group's forecast before the Group has insufficient liquidity available in April 2025, on the assumption that all USPPs and other facilities are repaid during the period. May 2024 is the point with the lowest amount of liquidity headroom 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 57% of total revenues are expected to be rebid in the next three years. The Group has won more than 85% of its rebids and available contract extensions over the last two years by volume, therefore a reduction of 60% or more to the budgeted win rates and rebid rates is not considered plausible. While these sensitivities will change in line with the Group's order book and contract performance going forward, including the impact of new contract wins and losses, the ability for the Group to absorb sensitivities of this scale within its existing financing arrangements drove the assumptions below which the Directors felt appropriate to disclose in making this viability statement.

The Group will rebid two significant contracts in 2023; its Immigration Services contract in Australia and Center for Medicare & Medicaid Services (CMS) in the US which were both retained when previously rebid. We have modelled a severe but plausible scenario in which the outcome of both of these rebids are unsuccessful, with the analysis demonstrating that the Group would remain viable over the assessment period. In spite of the outcome of these rebids, we will continue to focus on margin improvement through improved efficiency whilst focusing business development investment on the most attractive market opportunities.

On 23 February 2023 the Group announced that it had been successful in the rebid of the CMS contract which significantly mitigates this risk. However the decision may not eliminate the risk in its entirety as the award could potentially be protested.

Mitigations

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

Conclusions and assumptions

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

- There is no significant unexpected contract attrition of existing work that becomes due for extension or rebid over the next three years;
- There is no significant reduction in scale of existing contract operations as a result of customer policy or other changes;
- There is no significant deterioration in new bid and rebid win rates from those anticipated;
- The Group is able to continue the execution of its strategy of growing revenue and profits; and
- The Group is not subject to any material penalties, claims or direct and indirect costs and/or debarment from bidding for new contracts.

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

David Eveleigh
Group General Counsel and Company Secretary
27 February 2023

Corporate Governance

Chairman's Corporate Governance Overview

> This report sets out how Serco is governed and the key activities of the Board of Directors in promoting effective governance during 2022. Further information on how the Company complied with the UK Corporate Governance Code during 2022 is set out on pages 260 and 261."

John Rishton
Chairman

Dear Shareholders
I am pleased to present the Corporate Governance Report for 2022. The Board believes that good governance is key to the long-term success of the Group and is committed to upholding high standards of governance.

Board leadership and Company purpose
As Chair, I am responsible for providing leadership to ensure that the Board operates effectively and that Serco has strong governance which, in recent years, is an area that has received increased focus from our stakeholders. I continue to be supported in this by each of the Directors, in particular Lynne Peacock, our Senior Independent Director. Details of our Governance structure, along with attendance at Board and Committee meetings, which include presentations from management and third parties, is provided on page 119.

Our markets and strategy were comprehensively reviewed during 2021 and, following the 2022 Strategy Review, our view remains that our strategy and operating model continue to deliver competitive advantage and differentiation, enabling the business to grow faster than the overall market. Further information on how we are performing against our strategic objectives can be found on pages 25 to 30. Details of how we ensure that we operate and deliver our strategic objectives in a way that is responsible and consistent with the broader interests of society is summarised on pages 36 to 73 and in our separate ESG Report, available on the Company website, www.serco.com.

Changes to the Board
As announced on 12 September 2022, Rupert Soames confirmed to the Board his intention to retire from the Company. He stood down both from his role as Group Chief Executive Officer and from the Board at the end of December 2022, and was succeeded by Mark Irwin, who was previously the Chief Executive Officer of Serco's UK and Europe Division. Mark was chosen by the Board after a rigorous selection process that involved both internal and external candidates. During our selection process it was clear that Mark's deep knowledge of Serco in the UK, Europe and Asia Pacific, as well as his prior experience working in the US and the tremendous results he has delivered for us in all his roles make him the ideal person to lead the Group through its next phase of growth.

On behalf of the Board, I want to pay tribute to Rupert. Serco is unrecognisable from the business that he joined in 2014. Under his leadership, the business was stabilised and a clear strategy developed and executed, which has resulted in the strong and successful business it is today. Rupert should be really proud of what he achieved. Further information on Mark's skills and experience are provided in his biography on page 115 of this Corporate Governance Report and details of the selection process we followed and our approach to Board and senior leadership succession are provided in my Nomination Committee Report on pages 136 to 138.

Highlights of 2022
- Group Chief Executive Officer succession.
- Executive Committee succession, with changes to the Americas and UK and Europe Divisional Chief Executive Officer roles.
- Growth of the business in Europe, with a number of acquisitions.
- Increased focus on ESG.
- Completion of the 2022 share buyback programme.
- Completion of the refinancing.
- Closure and exit of the Deferred Prosecution Agreement with the Serious Fraud Office.
- Responding to the cost-of-living crisis by supporting further payments to employees and other initiatives.

Effectiveness

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

The annual Board effectiveness review assists the Board in assessing how the Board and its Committees operate and to identify areas in which improvements can be made. This year, the review was undertaken internally and the outcome of this review and progress against the recommendations from the 2021 externally facilitated review are set out on page 138.

Diversity

We have a strong and diverse Board with over 40% female representation, a female Senior Independent Director, and an increasing level of female representation within senior management, further details of which are set out on page 66.

The Board is committed to ensuring the development of gender and ethnic diversity within the Company's senior management and reviews progress annually. It recognises that there is more to do, not just at the Board level, but also in regard to senior management. More information is provided in the Nomination Committee Report on pages 136 to 138.

Environment, Social and Governance

Our commitment to Environment, Social and Governance (ESG) continues to be central to the way we operate. The Corporate Responsibility Committee provides formal oversight of our ESG Framework and its effective delivery against agreed objectives and targets. ESG targets are also now included as a measure within the incentive schemes by way of an ESG scorecard, which is more fully described in the Directors' Remuneration Report on pages 142 to 169. Further details of the Company's approach to ESG matters and activity during the year are provided in the ESG section of this Annual Report on pages 36 to 73 and in our separate ESG Report, available on our website.

Engagement

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

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

I am pleased to report that the overall engagement score from this year's Group-wide engagement survey, Viewpoint, was high (70) and we received 12,697 'Tell the Board' comments, which were considered as part of a deep dive undertaken by the Board on the Viewpoint outputs.

As in 2021, accompanied by senior management, I and other members of the Board attended a number of meetings with shareholders during the year to discuss a range of matters, including governance and remuneration.

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

Further information about how the Board engaged with stakeholders and how stakeholder feedback has influenced Board decisions is set out in the s172 Statement on pages 121 to 126.

In addition to our standalone ESG Report, we have published a separate People Report which is available on our website, www.serco.com.

John Rishton
Chairman
27 February 2023

Governance At a Glance

The UK Corporate Governance Code 2018 (“the Code”)

The Board confirms that, during 2022, the Company has complied with the principles and provisions of the Code, which is available on Financial Reporting Council website, www.frc.org.uk, with the exception of provision 38 relating to the alignment of Executive Director pension contributions with those available to the workforce[4].

Details on how we have applied the principles set out in the Code can be found throughout the Directors’ Report. Our full Corporate Governance Statement outlining our compliance with the Code is available on pages 260 and 261.

Skills and Experience

	Skills and Experience					
Board Skills Assessment 2022	**Very Limited**	**Limited**	**Moderate**	**Substantial**	**Very Substantial**	**Total**
Environment (E in ESG)		2	5	2		9
Social (S in ESG)		1	2	4	2	9
Governance (G in ESG) including of PLCs and complex global groups	1		1	1	6	9
Previous and/or current PLC board & committee experience	1		2		6	9
Financial expertise including banking, financing and audit etc	1	2	2		4	9
HR & remuneration in international businesses	1		3	3	2	9
Working with governments	1	1	3	2	2	9
Outsourcing contracting	1	1	1	3	3	9
Leadership of complex global groups			1		8	9
Management and oversight of group health and safety arrangements			1	5	3	9
Risk management, ethics and compliance				3	6	9
People and culture including D&I, employee inventives and change programme implementation or ongoing oversight etc.			1	4	4	9
Technology, digital and cyber security			6	3		9
Strategy and M&A of complex global groups		1		4	4	9

1 As at 31 December 2022.
2 As at 31 December 2022 and as at the date of this report.
3 As at the date of this report.
4 As outlined in 2020 and 2021 phased arrangements were in place to reduce the Chief Executive Officers’ pension contributions to be in line with those of the wider workforce by 1 January 2023, in accordance with Investor Association guidelines. With the decision of Rupert Soames to step down from the Board on 31 December 2022, this is no longer an issue in 2023.
* One Director did not disclose their Ethnic Group Response Category.
~ Where White is as defined by the Office of National Statistics Ethnic Group Response Categories for England.

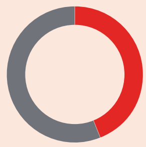
Independence[2]

Independence
78%

Chair*	1
Executive Directors	2
Independent Directors	6

* The Chair was independent on appointment.

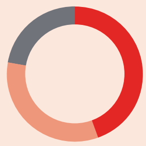
Gender[2]



Female
44%

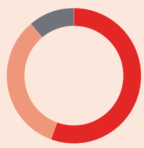
Further information on Board diversity considerations is provided in the Nomination Committee Report on pages 136 to 138. The Senior Independent Director is female.

Tenure[1]



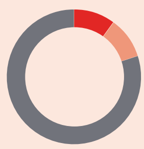
0-3 years
44.4%
4-7 years
33.3%
7-9 years
22.2%

Tenure[3]



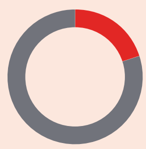
0-3 years
55.5%
4-7 years
33.3%
7-9 years
11.1%

Ethnic Group[1]



Other than White~
1 of 9*
Undisclosed*
1 of 9

Ethnic Group[3]



Other than White~
2 of 9

Board of Directors

John Rishton
Chairman

A N R C GR

Appointed to the Board
September 2016 (Chair since April 2021)

Skills and experience
John Rishton has over 40 years' business experience gained in a variety of companies, industries and roles, including nearly 14 years as a Chief Executive or Chief Financial Officer.

He has a BA in Economics from Nottingham University and is a Fellow of the Chartered Institute of Management Accountants.

Previous roles
Chief Executive of Rolls-Royce Group plc, Chief Executive and President of the Dutch international retailer, Royal Ahold NV (and prior to that, its Chief Financial Officer) and Chief Financial Officer of British Airways plc. Non-Executive Director of Associated British Ports, Allied Domecq and ICA Gruppen AB. Non-Executive Director and Chair of the Audit Committee of Unilever plc.

Current external commitments
Chair of Informa plc.

Non-Executive Director of Majid al Futtaim Properties LLC.

Mark Irwin
Group Chief Executive Officer

A N R C GR

Appointed to the Board
January 2023

Skills and experience
Mark Irwin has extensive international experience in business and operations management, holding numerous senior leadership positions in state-owned, public and private equity business environments.

He has an MBA from Victoria University.

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

Current external commitments
None.

Nigel Crossley
Group Chief Financial Officer

A N R C GR

Appointed to the Board
April 2021

Skills and experience
Nigel Crossley is an experienced Chief Financial Officer with over 30 years' experience in finance roles in international organisations. He has worked for Serco since 2014.

He has a BSc in Mathematics from Hull University.

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

Current external commitments
None.

Key to Committee membership

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

Board of Directors continued

Lynne Peacock
Senior Independent Director

A N R C GR

Appointed to the Board
July 2017

Skills and experience:
Lynne Peacock has over 30 years' senior management experience in a range of roles including brand development, mergers and acquisitions, change management and business transformation.

She has a BA (Hons) in Business Studies.

Previous roles
Non-Executive Chair of Standard Life Assurance Limited and Non-Executive Director and a member of the Nomination and Governance Committee and Audit Committee of Standard Life Aberdeen plc.

Non-Executive Director and Chair of the Audit Committee of Scottish Water.

Senior Independent Director, Chair of the Remuneration Committee and member of the Audit, Risk and Nomination Committees of Nationwide Building Society.

Non-Executive Director and a member of the Audit and Risk, Nominations and Remuneration Committees of Jardine Lloyd Thompson Group plc.

Chief Executive of Woolwich plc and National Australia Bank Limited's UK businesses.

Current external commitments
Non-Executive Director, Chair of the Environmental, Social, and Governance Committee and member of the Audit and Risk, Remuneration, and Nomination Committees of International Distributions Services plc (trading as Royal Mail).

Senior Independent Director and Chair of the Remuneration Committee of TSB Bank plc.

Chair of the charity, Learning Disability Network London.

Kirsty Bashforth
Independent Non-Executive Director

A N R C GR

Appointed to the Board
September 2017

Skills and experience
Kirsty Bashforth is an experienced executive and board member within the construction, services, consumer goods, energy, education, and health industries, with expertise in change management, safety and risk management, organisational culture and leadership.

She has an MA in Economics from the University of Cambridge and is the author of Culture Shift – a practical guide to managing organizational culture.

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

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

Group Head of Organisational Effectiveness at bp plc and other global roles.

Non-Executive Director, Chair of the Remuneration & People Committee and a member of the Audit & Risk and Reputation & Ethics Committees of GEMS Education.

Governor of Leeds Beckett University and Ashville College.

Current external commitments
Non-Executive Director, Chair of the Remuneration Committee and a member of the Nomination and ESG Committees of PZ Cussons plc.

Chief Business Officer of Diaverum AB (stepping down in March 2023).

Director of QuayFive Limited.

Kru Desai
Independent Non-Executive Director

A N R C GR

Appointed to the Board
October 2021

Skills and experience
Kru Desai has over 30 years' experience of working with the public and private sector in leading transformation of public services in the UK and internationally. She has held general management and board leadership roles in sales and operational delivery.

She has an MSc in Politics and Administration from Birkbeck College, University of London and an Executive MBA from the University of Bristol.

Previous roles
Partner, KPMG LLP (UK).

Non-Executive Director and Chair of the Remuneration Committee of KPMG LLP (UK).

Executive Director and Member of the Group Management Board of Mouchel Group plc.

Executive Director and Member of the Management Board of Hedra PLC.

Managing Director of Atos (UK).

Current external commitments
Chair of the Zinc Network.

Vice Chair and Chair of the Audit and Risk Committee at City, University of London.

Independent Non-Executive Director of Buro Happold Limited.

Ian El-Mokadem
Independent Non-Executive Director

A N R C GR

Appointed to the Board
July 2017

Skills and experience
Ian El-Mokadem is an experienced Chief Executive Officer with international experience in business transformation and acquisitions and disposals.

He has a BSc (Hons) in Economics and Statistics from University College, London and an MBA from INSEAD.

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

Current external commitments
Chief Executive Officer of RWS Holdings plc.

Director of Roegate Consulting Limited.

Tim Lodge
Independent Non-Executive Director

A N R C GR

Appointed to the Board
February 2021

Skills and experience
Tim Lodge is a fellow of the Chartered Institute of Management Accountants and has a strong finance and accounting background with over 30 years' experience in financial roles within international organisations, some eight of which were spent as Chief Financial Officer. He has considerable experience in leading significant strategic and operational transformation and driving commercial performance.

He has an MA in Classics from the University of Cambridge.

Previous roles
Chief Financial Officer at Tate & Lyle PLC and COFCO International and a Non-Executive Director and Chair of the Audit Committee of Aryzta AG.

Current external commitments
Non-Executive Director and Chair of the Audit Committee of SSP Group plc.

Senior Independent Director of Arco Limited.

Director of An African Canvas (UK) Limited.

Chair of the management committee of the Cordwainers Livery Company.

Trustee of Gambia School Support.

Dame Sue Owen DCB
Independent Non-Executive Director

A N R C GR

Designated Non-Executive Director for Employee Voice

Appointed to the Board
August 2020

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

She has an MA in Economics from Cambridge University and an MSc in Economics from Cardiff University.

Previous roles
Permanent Secretary for the Department for Digital, Culture, Media and Sport, Diversity and Inclusion Champion, chair of the Charity for Civil Servants and senior posts in the Department for Work and Pensions, Department for International Development, Foreign Office and HM Treasury.

Current external commitments
Chair of the Royal Ballet Governors.

Specialist Partner at Flint-Global.

Non-Executive Director of Pantheon International plc.

Non-Executive Director of Pool Reinsurance Company Limited and Pool Reinsurance (Nuclear) Limited.

Non-Executive Director of Methera-Global Communications.

Trustee of Opera Holland Park.

Supervisory Board member of DAF NV.

Chair of the UK Debt Management Office Advisory Board.

Key to Committee membership

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

Board and Governance

What the Board has achieved in 2022

The Board, and each of its Committees, maintain a rolling agenda of matters, including a day-long strategy review which considers the Group's strategy, supported by a budget for the following year and a medium-term financial plan.

During the year, the Board received regular reports and presentations at its scheduled meetings from the Group Chief Executive Officer, and updates from the Group Chief Financial Officer, Group Chief Operating Officer, Group General Counsel and Company Secretary and other senior management on a range of matters including: operational matters, bids, business development pipeline, deep dives from across the Company's divisions and its shared services operation as part of the monitoring of the Group's operations, financial performance, budgets, liquidity and tax matters, deep dives into key risks and summaries of detailed risk reviews undertaken by the Group Risk Committee, succession planning at Board and senior management level, people matters (including employee engagement, workforce diversity and inclusion, gender pay gap, workforce remuneration, health, safety, and wellbeing), pensions, investor relations, IT resilience and cyber security, ethics and compliance, ESG, legal matters and reports from each Committee Chair on matters discussed by each of the Committees.

The Board also considered, and as appropriate approved, the full and half year results, trading updates (including any unscheduled trading updates), dividend policy and the recommendation of final and approval of interim dividend payments, material bid submissions, acquisitions, share buybacks, matters recommended to it by the Committees, Non-Executive Directors' fees, the Modern Slavery statement and changes required by evolving governance.

In addition, during 2022, the Board:

- Undertook detailed reviews of the Centres of Excellence such as Justice, Health, and Facilities Management and Asset Management.
- Received presentations on workforce management and asset management.
- Explored the proposed Space and Maritime strategies.
- Together with the Nomination Committee, working with an external head-hunter, undertook a rigorous selection process involving internal and external candidates resulting in the recommendation of the appointment of Mark Irwin as Group Chief Executive Officer, Tom Watson as Chief Executive Officer of the Americas Division and Anthony Kirby as Chief Executive Officer of the UK and Europe Division. Further information is provided on page 136.
- Reviewed and approved our refreshed simplified ESG Framework, creating better alignment with business operations and Group principal risks. We summarise our progress and performance in the ESG section of this Annual Report on pages 36 to 73.
- Attended in person regional Divisional Leadership Conferences, Colleague Connexion and Inclusion Hub events, as well as virtual and on-site contract visits. In 2022, members of the Board engaged in over 25 contract visits and events (2021: over 30).
- Received regular briefings from Divisional management, which included details of engagement with Divisional stakeholders, strategy, performance, local market and competitor positions, operational and employee matters, and customer satisfaction and business development levels.
- Received presentations from Brokers in addition to updates on investors perspective.
- Discussed responses from our people to the 'Tell the Board' section of the annual employee engagement survey, Viewpoint. More details are provided on this on page 63.
- Held unscheduled Board and Committee meetings, as appropriate, to consider trading updates, bids or M&A opportunities.
- Met with Divisional Risk Assurance Managers and Divisional Ethics and Compliance Managers without Executive Directors or other senior management present.

The Board was keen to spend more time with the Americas business in 2022 to better understand the business and spend time with the management. A number of key acquisitions such as WBB and METS had taken place and Tom Watson took up the role of CEO of the Americas Division on 1 September 2022, on Dave Dacquino's retirement.

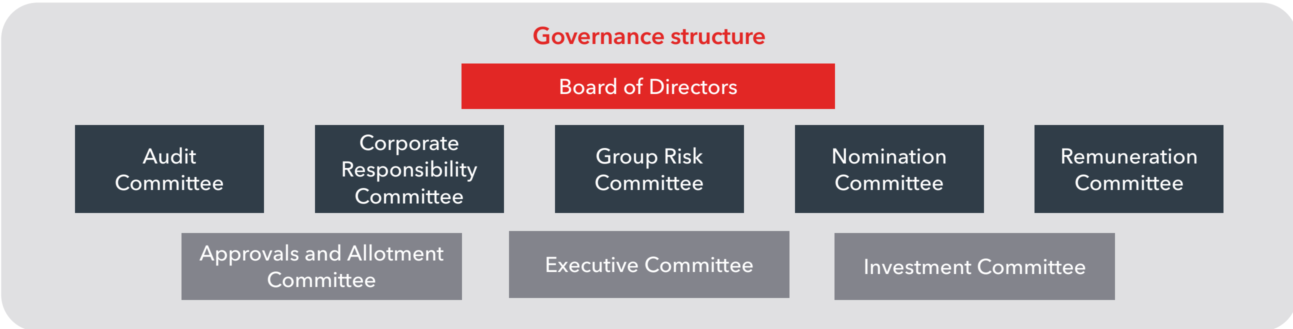
A number of the Board attended the Americas Management Conference in February 2022. In May 2022, PLC Board and Committee meetings were held in the US attended by all of the Board. Additionally while in the US, the Board carried out detailed reviews of each of the Americas Business Units and the Americas Division as a whole, as well as spending time with the Board of Serco Inc, including the external directors, and the management of the Americas Division (including the management of the businesses acquired in the US over the last two years). Members of the Board also attended Town Halls and local inclusion events, a female leaders event, met graduates, carried out site and contract visits, and held meetings with our customers. The opportunity was also taken by the Board to spend time reviewing financial controls, internal audit, assurance, cyber defences and people programmes across the Americas Division. Further details as a case study on the broader governance of the wider Serco group on how the Americas Serco subsidiary is managed is set out on page 120.

Board priorities for 2023

During 2023, the Board will continue to oversee those matters referred to above with particular focus on:

- Safety.
- The transition of the Group Chief Executive Officer, the Chief Executive Officer of the Americas Division and the Chief Executive Officer of the UK and Europe Division.
- Profitable growth and the strategy that supports it.
- Key new bids and the evaluation of strategic M&A opportunities.
- Ensuring we continue to listen to key stakeholders.
- The continued assessment of any ongoing impacts of inflation on the business and our colleagues.
- Supporting governments and their policies to address ongoing immigration challenges.
- Overseeing the effectiveness of enterprise risk management.
- Evolving our approach to ESG.

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



Board of Directors | Committee comprised solely of Board members | Committee comprised of Executive Directors and other senior management

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, Nomination, Remuneration and Group Risk Committees, the terms of reference of each of which are also available on the Company's website. In addition, there is a Disclosure Committee comprised of Executive Directors and other senior management which meets, as appropriate, to consider the disclosure of information to meet legal and regulatory obligations under the Market Abuse Regulation.

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

The Executive Committee is chaired by the Group Chief Executive Officer and additionally comprises the Group Chief Financial Officer, Divisional Chief Executives, the Group Chief Operating Officer[1], the Group Strategy and Communications Director and the Group General Counsel and Company Secretary. The Executive Committee has delegated responsibility from the Board to ensure the effective direction and control of the business and to deliver the Group's long-term strategy and goals.

The Investment Committee comprises the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Operating Officer[1], the Group Strategy and Communications Director, the Group General Counsel and Company Secretary and other members of senior management. It acts on behalf of the Board to review, monitor, and approve bids, mergers, acquisitions and disposals and other corporate activity within specific authority limits delegated by the Board.

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

The table below gives details of attendance at scheduled Board and Committee meetings during 2022. Ad hoc meetings of the Board and/or its Committees took place during the year to consider matters such as acquisitions, unscheduled trading updates, succession planning and major bids. During the year, the Audit and Group Risk Committees also held a joint meeting, attended by all members of each Committee, to consider in detail the Enterprise Risk Management philosophy.

	Board	Audit	Corporate Responsibility	Group Risk	Nomination	Remuneration
John Rishton	8/8	–	–	1/1	3/3	5/5
Rupert Soames (retired on 31 December 2022)	8/8	–	4/4	–	–	–
Nigel Crossley	8/8	–	–	–	–	–
Kirsty Bashforth	8/8	–	4/4	5/5	3/3	5/5
Kru Desai	8/8	5/5	4/4	–	3/3	–
Ian El-Mokadem	8/8	5/5	–	5/5	3/3	–
Tim Lodge	8/8	5/5	–	5/5	3/3	5/5
Dame Sue Owen	8/8	–	4/4	5/5	3/3	–
Lynne Peacock	8/8	5/5	–	–	3/3	5/5

1 The role of the Group Chief Operating Officer is no longer a position on the Executive Committee and Investment Committee as the role was fulfilled by Anthony Kirby who is now the CEO of the UK and Europe Division.

Governance in subsidiaries in action

Serco Inc., a North American subsidiary registered in New Jersey, and Serco Group plc are party to a Special Security Agreement (SSA) with the U.S. Department of Defense (DoD). A SSA enables companies that are considered by the U.S. Government to be operating under Foreign Ownership, Control and/or Influence (FOCI) to maintain eligibility for a facility security clearance, which Serco Inc. needs as its business includes the provision of defense-related services for various agencies of the U.S. Government. A company is deemed to be operating under FOCI whenever a foreign interest has the power to direct or decide matters affecting the management or operations of that company.

Pursuant to the SSA, Serco Inc. has additional layers of governance to ensure the protection of classified information and export-controlled information entrusted to it. The SSA restricts unauthorized access to classified information and other information that is the subject of U.S. export control laws and restricts influence over Serco Inc.'s business or management in a manner that could result in the compromise of classified information. Responsibility for such protection sits with the Serco Inc. board of directors and a committee of the Serco Inc. board, the Government Security Committee, that, in accordance with the SSA, comprises directors appointed from within the Serco Group ('Inside Directors') and independent external directors ('Outside Directors'). The Board of Serco Inc. and the Government Security Committee each meet four times per year. Further governance is provided by way of a Compensation Committee, an Audit Committee and an Ethics Committee which each meet twice per year. Serco Group plc and Serco Inc. take their responsibility under the SSA very seriously, and Serco Inc. has a strong and open relationship with the Defence Counterintelligence and Security Agency (DCSA), an agency of the U.S. government that oversees compliance with the SSA and related national security laws and ensures that the sensitive and classified U.S. government information entrusted to Serco is properly protected from attacks and vulnerabilities.

The members of Serco Inc.'s board of directors are:

David Dacquino
Chairman of the Board and Officer Director

Thomas Watson
Chief Executive Officer, Americas, and Officer Director

Rupert Soames
former Serco Group plc CEO and Inside Director

Nigel Crossley
Serco Group plc Chief Financial Officer and Inside Director

Pamela Drew
Outside Director and former President, Information Systems Division, Exelis Inc.

Carol Pottenger
Outside Director and retired Vice Admiral, US Navy

Tina Jonas
Outside Director and former Under Secretary of Defense (Comptroller) for the U.S. Department of Defense and former Chief Financial Officer for the Federal Bureau of Investigations

Section 172 (1) Statement

Section 172 (1) of the Companies Act 2006 requires a director of a company to act in the way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Directors, both individually and collectively, believe they have given due regard to the matters set out in s172 (1) (a-f) of the Companies Act 2006 in discharging this duty during the year.

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

Long-term decision-making

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

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

Our purpose, or, as we call it, our mission, is to be a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens. We gain scale, expertise, and diversification by operating internationally across five sectors and four geographies: Defence, Justice and Immigration, Transport, Health and other Facilities Management and Citizen Services, delivered in the UK and Europe, North America, Asia Pacific and the Middle East. Our Management Philosophy is simple and clear and applied across our business to deliver long-term value to our people, customers, suppliers, shareholders and other stakeholders.

Further details are referred to elsewhere in this report:

- The Management Philosophy can be found on pages 11 and 12.

Our People

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

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission to be a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens.

Through our annual Group-wide engagement survey, Viewpoint, and more frequent targeted 'pulse' surveying in selected parts of the business, we know that the majority of our people are happy working at Serco and would recommend Serco as a great place to work. Each year our people provide their views on a wide range of topics so we can better understand their perspectives and experience of working with us. The Board conducts a focused review of the output from the Viewpoint survey every year and, as a result of the responses received to the 2022 Viewpoint survey, we are currently focusing on improving communication, career opportunities and ways to engage with our colleagues while providing them with multiple channels to share their voice (2021: creating career opportunities and providing channels for colleagues to feel heard). There were 12,697 'Tell the Board' responses submitted this year (2021:12,609) and, as in previous years, compensation and recognition are key areas to be prioritised. In addition to this, our people indicated that they would like the Board to focus on health and wellbeing.

The Board fully supported the continued implementation and roll-out of the Serco People Fund, which is an independent charity and embraces Serco's value of Care. The Fund provides support to current and retired colleagues and their families in times of need or when facing extraordinary financial challenges. This was launched in the UK in 2021 and in Australia, the Middle East and the US during 2022. Dame Sue Owen DCB, Designated Non-Executive Director for Employee Voice, updates the Board on feedback received from our people through engagement activities held throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. Other members of the Board, the Executive Committee and leadership teams participated in a number of these engagement activities and Serco Inclusion Hub events arranged by our employee networks: Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco. Reports on the activities of each network are received by the Board through regular People reports and individual Board members provide feedback following participation in other activities during the year, such as contract visits and conferences. The Board considered the challenges that many of our employees are facing as a result of the cost-of-living crisis and the wider impact that this has on our stakeholders. The Company's response is set out throughout the Annual Report, with more detailed information in the ESG section of this Annual Report on pages 36 to 73.

During the year, the Company launched an ISAYE scheme in the UK, to be launched internationally where legislation permits. This is a great opportunity for our people to share in the long-term success of the Company by entering into a savings scheme to buy shares in the Company.

Further relevant details are referred to elsewhere in this report:

- Employee engagement metrics as part of the Key Performance Indicators on page 30.
- The ESG section of this Annual Report on pages 36 to 73.
- Remuneration Committee Report on pages 142 to 169.
- Our People Report, available on the Company's website www.serco.com

Section 172 (1) Statement continued

Our Customers, Suppliers and Others

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

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

Our business is built on our ability to retain existing, and win new, customers. As such, understanding, engaging with, and responding to customer needs is a critical priority. While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents good value for money. This requires us to have both a deep understanding of their sector-specific needs, and the technical and commercial 'know-how' to deliver public services more effectively and efficiently.

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

The Group Chief Executive Officer and Group Chief Financial Officer meet directly with different customers across all our regions and the Divisional Performance Reviews, which are made available to the Board, also contain details on customer issues and engagement.

With the appointment of our new Group Chief Executive Officer while maintaining our platform strategy we have also decided that the next steps in our growth journey will focus on three key new value drivers, one of which is 'Customers' – growing customer impact and market share. We therefore expect that our consideration of customers will not only remain, but be increasingly central to, our strategy going forward

In 2022, as usual we undertook our annual strategy process involving all parts of the business and taking several months. In 2022, this was focused primarily on driving execution at the Divisional level of the new B2G Platform strategy developed in December 2021. As in previous years this process culminated in several Executive Committee sessions as well as a day-long Board Strategy Day during which the Board debated current and future requirements at length. Further information on our strategy, its implementation, and next steps is provided on pages 25-27.

The Serco Institute is a think tank working to help governments develop the next generation of public service solutions for citizens. They do this through developing research and insight on public services internationally and through trialling innovation in service design.

Updates on the work of the Serco Institute are provided to the Board by the Group Strategy and Communications Director. This year, the Serco Institute has conducted research, held events and produced research papers, articles and thought pieces on a number of areas, including:

- Career breaks and the workplace of the future in the report 'Breaking Point'. Based on simultaneous polling of over 7,000 people across Australia, the UK, the US and the UAE, they looked at people's attitudes towards issues such as maternity, paternity and bereavement leave, as well as the barriers people perceive when returning to work following a break.
- How to judge people's feelings about public services in 'User Experience in Government Services: The Need for a Unique Approach'. A comprehensive review of the latest thinking in how to measure user experience and how it applies to services provided by governments globally. The paper proved particularly popular in the Middle East with the UAE Government publishing the report on their UX-dedicated research portal.
- Publicly funded active travel solutions, in 'Micromobility: The future of urban transport?' Based on new polling data, the report called for the UK Government and local authorities to consider the wider social, environmental and health benefits of micromobility schemes – such as e-scooters and bikes – instead of focusing primarily on funding considerations.

Our suppliers have an important role to play in Serco being a valued and trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference to our fellow citizens. We aim to build honest, respectful and transparent relationships with our suppliers which have high levels of regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms and receiving prompt payment.

The Group Chief Executive Officer and Group Chief Financial Officer engage directly with key suppliers and, via the Group Risk Committee and the Corporate Responsibility Committee, the Board is regularly briefed on operational matters as well as on the management and assessment of suppliers by Divisional senior management, the Group Director Enterprise Risk, the Group Director Business Compliance and Ethics and the Director of Procurement.

Further details are referred to elsewhere in this report:

- Pipeline and Order Book metrics as part of Key Performance Indicators on page 29.
- Divisional Reviews on pages 31 to 35.
- The ESG section of this Annual Report on pages 36 to 73.
- Principal Risks and Uncertainties on pages 95 to 108 in particular the risks of contract non-compliance, failure to act with integrity and failure to grow profitably.
- The Serco Institute website at www.sercoinstitute.com.

Our Communities and Environment

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

Our communities comprise those living and working in close proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of the communities we operate in, including charities, independent bodies, and local government. Operating among and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, while recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.

Our communities are primarily concerned with the impact of our operations on society, the economy, and the environment and knowing that we operate and conduct our business as a respectful and responsible neighbour.

We are committed to building climate resilience and limiting the impact of our operations on the environment, while also making positive contributions through our environment strategy and through the public and community impact element of our ESG Framework for our customers and stakeholders, including our communities. Our Group environmental strategy themes of net zero carbon and climate, efficient use of natural resources, and environmental protection, along with our Sustainable Procurement Charter and ESG Framework focus areas have oversight from the Board through the Corporate Responsibility Committee.

We support and contribute to societal objectives, helping meet climate and environmental challenges through our services and by decarbonising in line with global climate science. We also deliver sustainable procurement improvements and implement operational efficiencies to avoid and minimise resource use, supporting the transition to a circular economy. We also strive to ensure our operations prevent pollution and protect, value and enhance biodiversity and the natural world which sustains us.

Members of the Board had the opportunity to meet with users of the services we provide on behalf of our customers during contract visits. Further, the work of the Serco Institute and the Serco Foundation informs reports from management as part of the rolling agenda of matters considered during the year. The Director, Business Compliance & Ethics, Director, Health, Safety and Environment and the Group Head of Environment, Energy and Sustainability provide regular updates on ethics and business conduct, the Speak Up service and environmental strategy.

Further details are referred to elsewhere in this report:

- The ESG section of this Annual Report on pages 36 to 73.
- The ESG section of our website at www.serco.com.
- The Serco Foundation website at www.sercofoundation.org
- The Serco Institute website at www.sercoinstitute.com.

Our Conduct

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

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

The Board monitors:

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

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

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

Further details are referred to elsewhere in this report:

- The ESG section of this Annual Report on pages 36 to 73.
- Principal risks and Uncertainties on pages 98 to 108.
- The ESG section of our website at www.serco.com.

Section 172 (1) Statement continued

Our Shareholders

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

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

Our shareholders and debt holders are concerned with a broad range of issues, including our CEO succession, the cost-of-living crisis, the ongoing war in Ukraine, other operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate.

The Group Chief Executive Officer, Group Chief Financial Officer and other members of senior management meet with shareholders to discuss relevant developments in the business at our post-results roadshows and programme of investor meetings. Our new Group Chief Executive Officer, Mark Irwin, has already met with many of our investors through his previous roles in the UK and Europe and Asia Pacific Divisions and will continue to become better acquainted with them in his new role. We also consult with investors and fund managers to seek their views and actively engage with proxy advisers and ESG analysts to provide feedback on specific topics.

The Executive Directors had a significant number of meetings with shareholders and analysts over the year (69 meetings). During 2022, the Chair had 14 meetings with shareholders, the Senior Independent Director had 13 meetings with shareholders, and the Chair and a number of the Board attended the full year and half year results to meet shareholders and analysts. We also repeated our annual governance roadshow with the Chairman of the Board, the Chair of the Remuneration Committee, and the Group General Counsel and Company Secretary meeting a number of shareholders.

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

The AGM provides the Board with an additional opportunity to communicate with private and institutional investors and this took place on 27 April 2022 at our offices in Hook.

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

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

Further details are referred to elsewhere in this report:

- Key Performance Indicators on pages 28 to 30.
- The ESG section of this Annual Report on pages 36 to 73.
- Details of notifiable interests in the shares of the Company are provided on page 174 of the Directors' Report.

Decision-making in practice

A summary of how the Board applied the factors listed in section 172(1)(a) to (f) of the Companies Act 2006 when making principal decisions during the year is provided below.

Principal decision	S172 considerations
Returning funds to shareholders: Dividends and Share Repurchase Programme 2022 See also: – Finance Review on pages 83 to 94 – Capital Markets Day 2021 downloads and recording on www.serco.com – 2021 full year results announcement (24 February 2022) – Share buyback announcement (8 March 2022) – Results of AGM announcement (28 April 2022) – 2022 half year results announcement (4 August 2022)	In February 2022, the Board recommended the payment of a final dividend in respect of the year ended 31 December 2021 of 1.61 pence (2020: 1.40 pence), representing dividend cover of 5.2x, which was unanimously supported by shareholders at the 2022 Annual General Meeting. During the year, the Board considered whether to make an interim dividend payment and to recommend a final Dividend during the year and decided to declare an interim dividend of 0.94 pence (2021: 0.80 pence) in respect of the first half of 2022 and is recommending a final dividend of 1.92 pence per share in respect of the year ended 31 December 2022, representing dividend cover of 4.9x. The final dividend will be submitted for approval by shareholders at the 2023 Annual General Meeting. When the Company resumed paying dividends in respect of 2020, a starting level of cover of around 4x was targeted but the Board considered that the strong performance on Covid-related activities had increased cover temporarily and recommended a dividend representing a higher level of cover than the targeted 4x. As explained at our Capital Markets Day in December 2021, our strong balance sheet, confidence in the outlook and good cash generation, mean that the Board intend to reduce dividend cover progressively towards 3x over the coming years and intend to continue to increase dividends to shareholders as part of the Company's policy of progressively reducing dividend cover towards 3x over the coming years. In addition to the dividend payments, in 2022 the Company commenced a further share buyback programme of £90m. Consistent with the Group's capital allocation policy, the objective of the programme was to provide additional returns to shareholders as well as aid the Group in meeting its medium-term leverage targets. The buyback programme was completed on 12 December 2022 and the repurchased shares, which are currently held in Treasury, will be cancelled. The Board has agreed to buy back a further £90m of shares in 2023. The Board discussed both the dividend and share buyback programme and considered that this was in line with expectations. Positive feedback had been received from shareholders, as a key stakeholder, on the Company's capital allocation model and resulting share buyback programme and dividend and this feedback was considered in the context of potential acquisitions and future buybacks and the Company's overall liquidity. The Company had been prudent and had also taken advice from advisers.
Succession planning See also: – Nomination Committee report on pages 136 to 138 – North America CEO announcement (12 July 2022) – CEO retirement announcement (12 September 2022)	Succession planning forms part of the annual agenda plan for the Nomination Committee and, during the year, the Board approved the proposed succession plans for the roles of the Group Chief Executive, the Chief Executive Officer, Americas, and the Chief Executive Officer, UK and Europe. A rigorous selection process was followed, which included internal and external candidates, details of which are provided in the Nomination Committee report. Due to Mark Irwin's deep knowledge of Serco in the UK, Europe and Asia Pacific, and his prior experience working in the US, Anthony Kirby's role in delivering the Group's strong performance over recent years, and Tom Watson's recent experience as SVP, Defence in the Americas Division and his extensive experience in providing services to the U.S. Federal Government, the Nomination Committee concluded that the internal candidates selected were the most appropriate for each role. The Board considered that these appointments demonstrate to our people the effectiveness of the approach across the Group to develop talent from within (where appropriate) and provides our customers and shareholders with assurance that our senior management team has the knowledge and experience to continue to support them in delivering superb public services to our fellow citizens, and to continue to execute and deliver our strategy.
Agreement to acquire Sapienza Group from TP Group plc (UKE) See also: – Acquisition announcement (26 May 2022)	The Board considered how the acquisition would strengthen the Group's space portfolio and expand and enhance the offering and capabilities in the space market to existing and new customers globally, and how it would support the Group's growth strategy of becoming the leading European provider of complex managed services for the space sector. The Board also considered how the acquisition could create learning and development opportunities for existing teams at Sapienza and across the Group, bringing together expertise and resources for the benefit of customers, our people and the business.

Section 172 (1) Statement continued

Principal decision	S172 considerations
Acquisition of ORS, a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy (UKE). See also: – Acquisition announcement (1 September 2022)	The Board considered the strategic rationale and how this acquisition would add scale to European operations, enabling the Company to work with and support government customers across Europe who have a continuous and growing requirement for immigration and asylum seeker support services; provide reach and capability to the Company's position in immigration services, which is one of the Company's core sectors with large operations in the UK and Australia and through which the Group has deep expertise of providing immigration services with care and respect. The Board also considered the cultural alignment of the workforce, cost synergies, integration costs, and how the acquisition would be received by shareholders.
Contract to continue to provide marine services for the Royal Navy (UKE). See also: – Contract win announcement (16 November 2022)	The Board considered how the Company could utilise the decades of experience and expertise of the team of skilled mariners and engineers working at the sites and upon the Company's increasing global maritime presence to innovate for UK customers to support the UK Ministry of Defence in providing services for the Royal Navy to assist with the movements of Royal Navy ships in and out of harbour and providing a range of further support services, including trialling new maritime technology, ferrying passengers, supporting military training exercises, and the provision and maintenance of buoys and moorings at sites across the UK. The Board also considered the bid in the context of the Company's strategy to, in the longer term, provide benefit to the Company's shareholders. The Company was awarded a contract with the Royal Navy, valued at around £200m, that would last for 27 months commencing in December 2022 and followed on directly from the end of the 15-year private finance initiative (PFI) arrangements for the provision of marine services.
Submission of the final report to the Serious Fraud Office (SFO) under the Deferred Prosecution Agreement (DPA) entered into in 2019 and concluded in July 2022. See also: – The ESG section of this Annual Report on pages 36 to 73. – 2022 half year results announcement (4 August 2022)	The Board and its Committees regularly reviewed progress under the Company's DPA plan to ensure the Company was acting in accordance with the obligations and undertakings under the DPA, until submission of the final report in June 2022 which was approved by the Board. In July 2022, the SFO announced the expiry of the DPA and confirmed that the Company had cooperated fully with the SFO and had fulfilled all its obligations agreed as part of the DPA, including reviewing, improving and enhancing aspects of the Group-wide compliance programme related to internal controls, compliance policies, and procedures. The Board considered that the improvements and enhancements introduced to comply with the DPA have helped to enhance the Company's relationship with its key UK customers, improved the governance of its suppliers in helping to ensure an ethical supplier base, and demonstrates the strong values, robust governance and transparency in place across the Group and continue to oversee management in maintaining these standards.
Payments to front line staff See also: – People report on our website, www.serco.com – 2022 half year results announcement (4 August 2022)	During the year, the Board considered how the Group could support our people in the face of the surge in inflation seen during the year. Recognising the pressure many people, particularly the lower paid, were (and continue to be) under, the Board approved a faster increase in pay than originally budgeted and during the year the Company distributed an additional £9m in one-off payments to all colleagues outside management grades. Increases in pay is one of the reasons why the Board expects additional costs, which in turn impacts on profits, but the mechanisms in place in many of our contracts will, over time, help us to mitigate the effects of cost increases, and continue to innovate and improve the public services provided to our fellow citizens on behalf of our customers and to continue to execute and deliver our strategy in the longer term.

Group Risk Committee Report

Group Risk Committee members

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

Dear Shareholders,

Membership of our Committee has remained stable during the year with no changes made to its members with the Group Chairman continuing to attend on a regular basis.

Throughout 2022 the Committee has continued to oversee the Group's efforts to enhance its risk management capability and the way that the Enterprise Risk Management ("ERM") Framework has been embedded at Divisional level. We have continued to review the risk profile on a quarterly basis and, during these sessions, have held focused discussions around our principal risks and their mitigations.

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

- conduct "deep dives" with Divisions, considering and challenging their approach to their material risks to gain a deeper understanding of the management approach to risk management generally, as well as reviewing risk themes delivered by business leads;
- examine and debate detailed updates from principal risk subject matter experts to gain a deeper understanding of the current status of risks;
- review divisional risk registers to understand their alignment with the Group's principal risks;
- ensure that Divisions have adequate capability to implement the Group's Risk Management Framework;
- review the output from the Group Executive Committee's annual review of principal and emerging risks;
- maintain oversight of insurance trends and internal insurance programme updates;
- monitor business continuity progress;
- oversee the Compliance Assurance activities; and
- monitor the commitments under the DPA until its cessation in July 2022.

There has been continued focus on supporting the Group ERM function to drive process improvements and endorse developments towards a more integrated ERM methodology, particularly in reference to how we define best practice for Serco and in how Divisions are applying the ERM approach. The actions identified under a Group-wide ERM capability assessment have been embedded into Divisional execution plans and progress has been made in many areas, noting that some changes continue to be worked on as a longer-term improvement activity.

The Committee has adopted formal oversight of a programme of work to refine our Serco Management System and the continued drive to deliver both improved consistency of approach and resource models across the Group.

Improvement activity has also been a feature in our compliance assurance approach, evolving the way we self-assess controls to a more risk-based maturity model to drive a richer controls dialogue across the contracts and to increase value from the exercise.

Following a review by the Executive Committee, including a review of external and emerging risk trends, it was agreed that whilst there were no additions to the principal risks we would add further detail to better articulate the risk scenarios under Failure to Grow and also broadened the narrative of our Information Security risk to ensure it is clear that it includes matters of data governance and data privacy. We also chose to expand the definition of our approach to the Catastrophic Incident risk to include our ability to respond to an external event such as fire, flood or a black swan style event.

Our treatment of both ESG and climate change were also reviewed, and we maintain our position that we do not see these as new principal risks. This does not, however, undermine our commitment to our ESG or climate related objectives, described in further detail on pages 52 and 53, and we continue to recognise its importance to our business and stakeholders. Monitoring of our ESG and environmental strategy, including climate change, is led by the CRC which along with the Audit Committee supports our approach to the TCFD reporting requirements. More detail on this area can be found on page 74.

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

We have made some changes to the Executive Sponsors of several our principal risks to reflect changes in the Executive Committee. The Executive sponsor for each risk can been seen against each principal risk on page 98.

Ian El-Mokadem
Chair of the Group Risk Committee
27 February 2023

Group Risk Committee Report continued

Committee's responsibilities

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

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

Membership and attendees

The Committee is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. Biographical details for each member of the Committee are provided on pages 115-117. 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. This additional meeting was a combined Risk and Audit Committee to provide holistic oversight of assurance activities across the scope of the two Committees to help ensure no significant gaps in assurance coverage. Details of attendance at meetings are set out on page 119. Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are attended by the Group Chief Executive Officer, the Group Chief Operating Officer, the Group General Counsel and Company Secretary, the Deputy Company Secretary, the Chairman, the Group Director Enterprise Risk and the Head of Group Internal Audit.

Activities of the Committee during 2022

During the year the Committee's key activities included:

- receiving updates regarding the Group's principal risks, detailing key changes and trends. These included discussion on the potential impacts of challenges in the supply of short-term resourcing, changes to the approach taken to manage our Supply Chain risk, treatment of catastrophic risk exposure and updates on governance, risk, and compliance tooling options.
- considering internal and emerging risks and themes. These discussions included treatment of ESG, climate change, political volatility, IT infrastructure failure and geopolitical uncertainty;
- undertaking in-depth reviews ("deep dives") of the following risks: Major information security breach; Catastrophic incident, including a session focused on Maritime related risk; Material legal and regulatory compliance failure; and Significant failure of supply chain. The principal risk of Failure to act with integrity and risks around Health, safety and wellbeing were reviewed by our Corporate Responsibility Committee; the principal risk of Financial control failure was reviewed by our Audit Committee; and Failure to grow profitably and additional sessions on Major information security breach were reviewed by the Board;
- receiving updates on all Divisional risk management processes including alignment of their risks to the Group principal risks and progress with implementing improvement opportunities identified in the Group-wide ERM capability assessment;
- overseeing the compliance assurance programme including monitoring of key findings and process improvements to the self-assessment process and proposed review of our Serco Management System;
- continue to meet with the Divisional Heads of Compliance without management present as an opportunity for a check in and for any concerns or issues to be raised; and
- ongoing challenge and support of the Group Director Enterprise Risk to improve, enhance and embed the risk management framework.

2023 priorities and focus

During 2023, the Committee will maintain its focus on undertaking detailed deep dive reviews into the Group's principal risks in line with our forward agenda. In addition, we will continue to maintain a more flexible approach to include deep dives into specific risk themes and emerging risks delivered by functional leads and/or business unit subject matter experts from across the Group operations. Meetings with the Divisional teams will also continue. Committee attention will remain on the progression of mitigation actions and their effectiveness, the development of our Enterprise Risk Management approach and the review and refresh of supporting policies, standards, and reporting.

In addition, we will focus on completion of changes identified under the ERM process improvement initiative launched in 2021, as well as working closely with the Audit Committee on any changes required under the BEIS consultation and any potential associated regulatory changes. We have commenced a review of our Assurance framework to drive consistency of approach and to satisfy ourselves that we target assurance activity in the right areas aligned to our key risks that we anticipate will form the basis of the anticipated need for an Audit and Assurance policy. We will also continue our monitoring of governance of our Group-wide compliance assurance activity, including greater oversight of the three lines of defence and how they interrelate and work effectively. The Committee will continue to retain time at the end of each meeting to meet separately without management present and invite one of the Divisional Heads of Compliance Assurance to attend for part of this session. The Committee will also continue to meet privately with the Group Director Enterprise Risk.

Serco's approach to managing business risks and internal control

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

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

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

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

The Board confirms that there has been a focus on the three lines of defence for the year under review and up to the date of approval of the 2022 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. A programme to review our SMS to ensure it remains an effective and efficient vehicle to document and communicate our processes and controls is nearing completion.

In 2021, as part of our commitment to process improvement we refreshed our approach to our annual SMS self-assessment, introducing a maturity scale for the key principal and divisional risks. Following its successful introduction, this year we now mandate the minimum standards we expect each contract to achieve with mandated action plans where the requirement is not initially met. Progress against actions identified through this self-assessment continues to be monitored by senior management. We recognise that whilst the SMS controls can provide reasonable assurance against misstatement or loss, this cannot be absolute.

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

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

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

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

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

In addition to our in-house assurance teams, we are also subject to significant third line assurance activities and audits delivered through external third parties appropriate to the regulatory environment, certification standards and customer requirements in our varied service lines and business units. These reviews include those that support the range of ISO certifications we support across the business as well as independent performance and regulatory reports on Serco operations.

Audit Committee Report

Audit Committee members

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

Dear Shareholders

I am pleased to present the Committee's report for the year ended 31 December 2022. This review gives an insight into how the Committee addressed significant issues during 2022, which were reported to the Board as a matter of course, and how other responsibilities of the Committee were discharged. The Audit Committee continues to have a fundamental role to play in reviewing, monitoring and challenging the effectiveness of the Group's financial reporting and internal control processes.

During the year the Committee undertook a range of finance, accounting and control related reviews particularly in relation to specific risks identified within the Group's operations through its Internal Audit programme, and how the Group's financial assurance programme has developed to consider potential implications associated with the review led by the Department for Business, Energy and Industrial Strategy (BEIS) into restoring trust in audit and corporate governance (BEIS Review).

A joint meeting was also held with the Risk Committee following a suggestion from last year's Committee effectiveness review. The objective of this meeting was to review the integration of the Group's risk and assurance programmes and how the Group is developing its Enterprise Risk Management framework.

Throughout 2023, the Committee will continue to focus on the critical accounting judgements made, the effectiveness of the Group's financial controls and assurance programme and the delivery and effectiveness of the Group's Internal Audit function.

Additionally, during 2023, the Committee will continue to monitor developments from the Financial Reporting Council and legislative changes made in relation to the BEIS Review, and the impact the recommendations have on the Group's current internal control framework and the audit profession.

Tim Lodge
Chair of the Audit Committee
27 February 2023

Committee's responsibilities

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

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

Membership and attendees

The Committee is comprised solely of Independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code ("the Code") and that, between them, the members of the Committee bring strong international, service and public sector expertise and experience which is highly relevant to the Group. Tim Lodge has served as Chair of the Committee since 21 April 2021 having previously been CFO at Tate & Lyle plc and COFCO International, as well as holding other non-executive positions. Tim provides assurance to the Board that recent and relevant financial experience, as required by the Code, is held within the Committee. Biographical details for each member of the Committee are provided on pages 115 to 117.

The Committee met six times during the year which included the joint meeting with the Group Risk Committee. The details of attendance at meetings are set out on page 127.

Committee meetings are held in advance of Board meetings with the Committee Chair updating the Board directly on the outcomes of each meeting. In addition to the members of the Committee, the Chief Financial Officer, the Group Financial Controller, the Head of Internal Audit, the Group General Counsel and Company Secretary and representatives of the Group's external auditor, KPMG LLP, attended and received papers for each meeting. The Committee retain time at the end of each meeting to meet separately without management present and invite either the Head of Internal Audit or KPMG LLP to attend for part of this session. The Committee also meets privately with the Chief Financial Officer.

Performance review

The Audit Committee's effectiveness was reviewed as part of the Board's annual performance evaluation. The findings from the review were largely positive with it being noted that the Audit Committee is sufficiently informed of the risks identified by the internal and external auditors and that the Committee's review of key judgements is rigorous. The level of information received at the Audit Committee is considered to be sufficient with appropriate opportunity to challenge both management and the external auditors. The evaluation also indicated that the Audit Committee is rigorous in its evaluation of quality for both internal and external audits.

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 2022 Viability Statement to ensure that it is appropriate and balanced in respect of highlighting the risks the Group is exposed to 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 comments;
- Reviewing updates on accounting matters and those related to financial reporting including the recommendations and requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) which neither management nor KPMG believe is a significant risk given the industries in which the Group operates;
- Reviewing the effectiveness of the Group's financial controls and financial assurance programme, including a deep dive into the management of the Financial Control Failure principal risk;
- Receiving updates from the Risk Committee Chair in respect of key items discussed within that Committee and assessing whether they resulted in any additional financial risks which should be considered within the Audit Committee;
- Reviewing fraud related matters, if any, raised through the Speak Up process overseen by the Corporate Responsibility Committee;
- Providing oversight to the Group's tax strategy, including how provisions for uncertain tax positions are derived, the status of tax audits being undertaken, the Group's position in relation to historic tax losses and associated recognition of a deferred tax asset, and the intention to comply with both the letter and spirit of tax legislation in all jurisdictions within which the Group operates;
- Reviewing the effectiveness and independence of the Group's Internal Audit function;
- Succession-planning within the Internal Audit leadership; and
- Maintaining the Group's relationship with the external auditor, including assessing the audit plan and monitoring both independence and effectiveness.

As well as carrying out the core duties above, the Audit Committee received the following updates which assisted the Committee in understanding the framework in place to improve financial controls and mitigate the specific risks associated with these aspects of the business:

- Ongoing updates on the Group's progress to ensure compliance with the proposals contained within the consultation document on 'Restoring trust in audit and corporate governance' issued by BEIS in 2021, and the subsequent position paper released by the FRC in 2022; and
- Reviewing progress against the Group's Deferred Prosecution Agreement obligations up to July 2022 after which the Serious Fraud Office (SFO) announced its expiry.

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 and approving the annual Internal Audit programme of work and assessing both the adequacy of resources of the Internal Audit function and the scope of the Internal Audit programme.

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

Internal Audit

Internal Audit acts as a 'third line of defence' providing independent assurance to the Board, the Serco Group plc and Serco Inc Audit Committees and management, and in particular:

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

Internal Audit gives particular regard to the ongoing evaluation of the effectiveness of the Group's financial controls and reporting processes. Internal Audit (outside of the Americas) is headed by the Group Head of Internal Audit who reports functionally to the Chair of the Serco Group plc Audit Committee.

Within the Americas, to ensure compliance with the Special Security Agreement, there is a local Internal Audit team that reports functionally to the Serco Inc Audit Committee (which is chaired by the CFO of Serco Group plc). These arrangements are designed to ensure that Internal Audit's independence is maintained.

Further details on the Serco Inc. board and Special Security Agreement can be found on page 171.

Internal audits may focus on individual contracts, processes, functions or risk themes and in conjunction with the Group Risk Committee, the Group Audit Committee considers whether the Internal Audit programme is aligned to the Group's key risks. The Internal Audit function use the services of co-sourced providers to supplement and enhance in-house skills and resources where required, particularly in specialist areas such as IT and cyber-security.

The 2022 Internal Audit plan was a balance of work across the Group's inherent risks, giving due attention to specific risks and issues associated with the business. Internal Audit has delivered a full programme of audits during 2022 making recommendations to management for improvements to risk, governance and controls. This work has continued to focus on operational, commercial and IT risks, including cyber security controls across various parts of the Group, major projects and significant contract mobilisations. Audit reports are discussed with the parts of business they relate to and management actions agreed are then tracked by Internal Audit for progress. Key themes arising and progress on management's mitigating actions have been included in regular written updates to the Audit Committee.

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 and the Corporate Responsibility Committee to the extent that matters such as fraud are reported through the Speak up process.

Financial control risk is monitored through one of the Group's Principal Risks, 'financial control failure'. The Committee has reviewed this risk during 2022 and has focused in particular on:

- Management's review of the output and adequacy of the Group's financial assurance programme, with a focus to deliver better assurance through system controls and data analytics;
- Management's ongoing programme to improve internal controls whilst considering the proposals contained within the consultation document issued by BEIS and the position paper issued by the FRC; and
- Review of management's Key Risk Indicators associated with the risk and the strength of mitigating controls and actions to improve their effectiveness.

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

Significant financial judgements

Contract performance, including Onerous Contract Provisions (OCPs)

The measurement of OCPs requires significant judgement that the Audit Committee has kept under review, providing challenge to the assumptions used by management and key judgements used in assessing the performance of the Group's contracts.

The Audit Committee continues to focus on the potential for existing loss-making contracts to become onerous as well as assessing the risk of an onerous position materialising across a portfolio of contracts across the Group. The Committee agreed, that the view formed by management regarding each individually material potential OCP, as well as the aggregate view which includes management's assessment of portfolio risk, was reasonable. The Committee was satisfied that the work undertaken by management to monitor existing contracts and identify contracts where a new OCP may be required, and associated allocation of central costs, was sufficiently robust.

Viability and Going Concern

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

In challenging management's assessment in respect of the viability and going concern statements, which were based on anticipated future cash flows agreed by the Board as part of the Group's budgeting process, the Committee focused on the Group's headroom within its financial covenants and the liquidity available in the Group. The Committee considered the likely severity of key risks crystallising over the period of assessment including potential reductions in the Group's forecast win rates, reductions in profit margins, the current inflationary pressures being experienced within the economies in which the Group operates and management's assessment of the shareholder claim seeking damages for alleged losses following the reduction of Serco's share price in 2013.

The Committee concurred that, whilst in severe scenarios the ability of the Group to stay within its agreed headroom may be put under pressure, the Group remains viable and key assumptions supporting this assessment are disclosed within the viability statement on page 109. The Committee also agreed that the going concern basis of accounting is appropriate and this assessment is disclosed within the going concern statement on page 194. 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 a contingent liability at the year-end was appropriate. See note 28 to the financial statements.

Use of Alternative Profit Measures (APMs) and Exceptional Items

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

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

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

After review of the disclosure of APMs in the Half Year 2022 results and the 2022 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 2022 results and the 2022 Annual Report was recommended to the Board for approval.

Consistent with the approach adopted during 2020, management's assessment is that the APMs should not be adjusted to exclude the impact of Covid-19 and that clear narrative should continue to be used to describe the impact of Covid-19 on the Group's results. The Committee concurred with this approach and management's view that no APMs should be adjusted to exclude the impact of Covid-19 on the Group's measures.

Goodwill Impairment

The goodwill impairment test as at 31 December 2022 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.

The Committee has also reviewed the assumptions used in the valuation of the scheme assets in light of the market volatility in the fourth quarter of 2022. The Committee is satisfied that the valuations included within these financial statements are reasonable and reflect the best estimate of the pension asset and liability, and that the disclosures are appropriate.

The trustees of the Group's largest pension scheme (SPLAS) use Liability Driven Investments to hedge the scheme's exposure to inflation and interest rate risk. The Committee has considered whether this structure commits the Group to funding requirements in addition to those committed under the previous actuarial valuation and have concluded that there are no committed funding requirements under the current schedule of payments.

External auditor

The Audit Committee manages the relationship with the Group's external auditor on behalf of the Board. Following a tender process undertaken in 2016, KPMG LLP was appointed by the Board in 2017 as the Group's external auditor for the 2016 audit and has served as the Group's auditor for five years. In accordance with the Revised Ethical Standard 2019, the Group has followed the practice of rotating the audit engagement partner at least every five years. As a result, following the 2022 audit John Luke will be replaced by Juliette Lowes as audit partner should KPMG LLP be reappointed as external auditor at the AGM in April 2023. The Committee undertook a rigorous selection process to appoint a new audit partner which included interviews with the Committee Chair and the Group CFO. Potential successors were challenged on their relevant industry knowledge, focus on financial controls, and experience in delivering a robust and efficient audit process. A transition plan has been agreed to ensure an effective onboarding process. Juliette Lowes has been invited to attend certain Committee meetings to allow for sufficient knowledge transfer but has not been an active participant to comply with partner rotation requirements.

In respect of the audit scope and materiality, the Committee reviewed the audit strategy as presented by KPMG and found it to be comprehensive and focussed on the key risks within the Group. The Committee did not require any further areas of focus to be considered.

In addition to considering and approving the audit approach and scope of the audit undertaken by KPMG LLP, the Audit Committee has responsibility for certain core decisions relating to the external audit process that include:

- The evaluation of the effectiveness of the external audit
- The fees for the external audit;
- 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 evaluates the effectiveness of the external audit annually, using feedback obtained from Committee members and management. The performance of the external auditor is assessed against a range of criteria including calibre of the audit team, knowledge of the Group, and the quality of planning, review, testing, feedback and reporting. The feedback received was reviewed by management and reported to the Committee.

After taking these reports into consideration, the Committee concluded that the auditor demonstrated appropriate qualifications and expertise, remained independent of the Group, and had appropriate focus on the key issues within the Group. The feedback also confirmed that the audit process demonstrated professional integrity and objectivity, was effective, and that there was adequate scepticism and challenge on the key judgements adopted by management, particularly those related to contracts at risk of becoming onerous. The external auditors continued to challenge the level of prudence adopted in contract judgements which were deemed overall to be balanced. However, those judgements which were slightly cautious or optimistic were highlighted to the committee for consideration. No judgements were reported to be outside the auditor's acceptable range. As part of the evaluation of the external audit, the Committee considered the latest Audit Quality Review issued by the FRC, and KPMG LLP's firm wide response. As acknowledged by the FRC, KPMG's individual audit inspections have significantly improved, with none identified as requiring significant improvement. Overall, the Committee noted the improvements being implemented in order to improve audit quality within the firm.

As reported in 2021, foremost amongst the areas which required enhancement within the External Audit process was the balance of work before and after 31 December and whether contingency could be established in the period after 31 December. The 2022 audit plan presented to the Committee included commitments on how this would be achieved and with the collaboration of management, good progress has been made to deliver on this. However, the balance of testing pre and post 31 December remains an area of focus which the Committee will keep under review, with an increase in the use of technology amongst other possibilities being explored by the external auditor and management.

Despite the improvements made to the year-end reporting and audit process, the Group's auditors requested additional time to complete its standard procedures after their internal reviews late in the audit timetable delayed their audit process. This resulted in the announcement of the 2022 year end results being delayed by 5 days. The Audit Committee will review the learnings from the 2022 audit and year end reporting process with its auditors and incorporate them into the planning for 2023.

The Committee has reviewed the fees charged by KPMG for the statutory audit process which have increased from a core audit fee of £2.5m in respect of the year ended 31 December 2021 to an expected £3.6m and £4.7m in respect of the years ended 31 December 2022 and 31 December 2023, respectively. The Committee has challenged KPMG on the rationale for the fee increase which is more than underlying inflation within the economies in which the Group operates. The Committee has been informed that the fee increase is largely as a result of additional regulatory pressure placed on all audit firms to ensure audit quality is maintained and that audit generates a reasonable commercial return for the firm. The Committee has also reviewed information which benchmarks the Group audit fee against comparative companies which indicate that the fee as a proportion of revenue is reasonable. The Committee will keep under review the hours taken to complete the audit process and will challenge the external auditor and management to identify areas where additional efficiencies can be gained.

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.

As the Committee considers the relationship with the external auditors to be working well and the Committee remains satisfied with the external auditors' effectiveness, having considered the continued independence and objectivity of the auditors, the Committee considers it to be in the best interests of the Group's shareholders for KPMG to remain as auditors for the following financial year, and proposes that KPMG LLP be re-appointed as external auditor of the Group at the next AGM in April 2023. If so appointed, that they will hold office until the conclusion of the next general meeting of the Group at which accounts are laid. Further details are set out in the Notice of Annual General Meeting which is available on the Group's website. In accordance with the Statutory Audit Services for Large Companies Market Investigation Order 2014 (the Market Investigation Order), the Group intends to undertake a tender process for its external audit services before early 2025, and therefore would comply with the requirement to be on or before 10 years after the previous competitive tender which took place in 2016 in respect of the 31 December 2016 reporting period, when KPMG replaced Deloitte as the Group's external auditors.

The Committee believe this is an appropriate timeframe for the tender process and is in the best interest of the Group's shareholders as it complies with the Market Investigation Order and allows sufficient continuity in the audit process. The Committee also believe that more frequent tenders could lead to higher costs and disruption for the Group without increasing the level of independence or challenge provided by the external auditors. The independence of KPMG has been maintained and confirmed over the period, and the Group will have changed its lead audit partner three times between tender processes due to the retirement of Steve Wardell in 2018 and John Luke acting in the role for the maximum permitted five years; in addition KPMG have not provided any significant non-audit services over the period.

The timetable for the external audit tender process will be designed to permit time to plan for the transition of any non-audit services, if there is a change of auditor, and to enable any new auditor to fully prepare to assume responsibility for a complex and international audit across the Group.

The Independent Auditor's Report to shareholders is set out on pages 178 to 188.

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 2022, the non-audit fees paid to KPMG LLP were £32k (2021: £63k) excluding the half-year review. The non-audit services relate to Agreed Upon Procedures required to be performed under certain customer contracts and maintaining data for the SFO investigation which has since ended.

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 216. The Committee regularly reviews the nature of non-audit work performed by the external auditor and the volume of that work. Focus is given to ensuring that engagement for non-audit services does not: (i) create a conflict of interest; (ii) place the auditor in a position to audit their own work; (iii) result in the auditor acting as a manager or employee; or (iv) put the auditor in the role of advocate for the Group.

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

Nomination Committee Report

Nomination Committee members

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

Dear Shareholders

One of the key focuses this year for the Nomination Committee has been succession planning. As announced on 12 September 2022, Rupert Soames confirmed to the Board his intention to retire from the Company. He stood down both from his role as Group Chief Executive Officer and from the Board at the end of December 2022, and was succeeded by Mark Irwin, who was previously the CEO of Serco's UK & Europe Division.

In addition to the scheduled Committee meetings, the Committee and Nigel Crossley, Group Chief Financial Officer, met numerous times to consider succession planning for the Group Chief Executive Officer vacancy. A rigorous selection process was undertaken alongside an external headhunter with the support of Anthony Kirby in his role as Group Chief Operating Officer. This process naturally included consideration of both internal and external candidates.

During this selection process it was clear that Mark's deep knowledge of Serco in the UK, Europe and Asia Pacific, as well as his prior experience working in the US and the tremendous results he delivered for us in all his roles, made him the ideal person to lead the Group through its next phase of growth. Further information on Mark's skills and experience are provided in his biography on page 115 of this Corporate Governance report.

The Committee also considered the succession of other senior executives and following a selection process, Tom Watson was appointed as Chief Executive Officer (CEO) of Serco's North American division, in July 2022, following a rigorous selection process involving both internal and external candidates. He succeeded Dave Dacquino, who retired from his full-time executive role in September 2022 and continues to serve as Non-Executive Chair of the board of directors of the Serco Inc., a North American subsidiary. Tom joined Serco in April 2018 and stepped into the role of CEO of Serco's North American division from his position as Senior Vice President responsible for Serco's North America Defense business. He brings over 25 years of experience in providing services to the US Federal Government.

Additionally, Serco announced that Anthony Kirby would move from his role as Group Chief Operating Officer to become Chief Executive Officer of Serco's UK and Europe Division at the end of December 2022. Anthony joined Serco as Group HR Director in 2017 and was promoted to Group Chief Operating Officer in 2020 to lead the development of many elements of Serco's Business-to-Government platform and play a key role in delivering the Group's strong performance over recent years.

The Committee is pleased that in each of these cases, the rigorous selection processes involving external and internal candidates, ultimately resulted in the selection of internal candidates from within the Group for appointment. It is hopefully illustrative of our approach across the Group to developing talent from within, where appropriate.

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 skills and experience. The Committee also reviewed the time commitments for each of the Non-Executive Directors, including their commitments with other companies. The Committee concluded that no Non-Executive Director was considered overboarded and each individual was able to, and did, provide sufficient time to their commitment to Serco.

During the year, the Committee also 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 undertook a review of the Board Diversity Policy during the year with a focus on ensuring it progressively worded and focused and reflected the diverse nature of the current Board.

The Committee will continue to support the transition of Mark Irwin, Tom Watson and Anthony Kirby in their new roles in the year ahead.

John Rishton
Chair of the Nomination Committee
27 February 2023

Committee's responsibilities

The key responsibilities of the Committee are:

- reviewing the size, structure and composition of the Board and identifying candidates for appointment to the Board as well as appraising the performance of the Board;
- recommending membership of Board Committees as well as overseeing annual re-elections;
- undertaking succession planning for Executive Directors and other senior executives and seeking to ensure that the leadership needs of the organisation continue to be met;
- seeking to ensure that Board composition is appropriately diverse including agreeing the Board Diversity Policy and that Board and Committee evaluations are carried out, including by any third party evaluators ; and
- reviewing induction and training needs of Directors as well as time commitments.

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

Membership and attendees

The Committee is chaired by the Chair of the Board 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 three times over the year to discuss succession and three times to discuss other matters, and each of the Board spent time with the key candidates for the Group CEO role. Details of attendance at meetings is set out on page 119. Meetings of the Committee are normally attended by the Group Chief Executive Officer, the Group Chief Operating Officer[1], the Group General Counsel and Company Secretary and the Deputy Company Secretary. Biographical details for each member of the Committee are provided on pages 115 to 117.

Activities of the Committee during 2022

During the year the Committee's key activities included:

- **Appointment of new CEO**
  Following a search process led by the Chairman, assisted by an external recruitment consultant, Russell Reynolds Associates, with whom the Company has no other connection, and the Group Chief Operating Officer, the Committee recommended the appointment of Mark Irwin as the Group CEO.
- **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. The Committee recommended the appointment of Tom Watson as CEO of the Americas Division and Anthony Kirby as CEO of the UK and Europe Division in 2022.
- **Developing the Diversity Policy**
  Serco strongly supports the principle of diversity and values the benefits that diversity of thought can bring to its Board and throughout Serco. We believe that a mix of expertise, experience, skills and backgrounds (including age, ethnicity, disability, gender, sexual orientation, religion, belief, culture, education and professional backgrounds) allows Serco to deliver a great service that is valued by our customers and meets the needs of those who use the services we provide.

  Serco will always seek to appoint Board members and senior management on merit against objective criteria, including diversity. In developing the Board Diversity Policy, the Committee considered the recommendations in the Hampton-Alexander Review and the Parker Review and recommended that the Board commit to improving gender and ethnic diversity on the Board and in the senior management roles within Serco. The Nomination Committee reviews and assesses the Board Diversity Policy annually and recommends any revisions to the Board for approval.

  Further details on Diversity are provided in the Chairman's Governance Overview on pages 112 and 113, the ESG section of the Annual Report on pages 36 to 73 and in the standalone ESG and People Reports available on our website.

1 The role of the Group Chief Operating Officer is no longer a position on the Executive Committee and Investment Committee as the role was fulfilled by Anthony Kirby who is now the CEO of the UK and Europe Division.

Appointment, induction and training

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

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

The Company believes that visits by Non-Executive Directors to the Company's contracts, leadership conferences and management meetings are important in increasing Non-Executive Directors' awareness of the Company's operations and their accessibility to the Group's employees. A number of such contract visits, as detailed in the Governance Overview, were undertaken in 2022, some virtual. In addition, the Board met in the US for the May Board and Committee meetings and used the opportunity to spend time with US management, including the external directors of Serco Inc as well as undertaking a number of US contract visits and town hall and other employee events. Training is made available to and undertaken by Directors throughout the year and a record is maintained of the training undertaken by each Director. A face-to-face training session was held at the April meeting and access to online seminars and training was made available to Directors throughout the year covering areas such as ESG, Corporate Governance updates, TCFD and upcoming regulatory and legal changes.

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

Diversity

The Board values diversity and, when recruiting new Board members, the issue of diversity is addressed by the Committee. The percentage of women on the Board is currently 44%, exceeding the target of 33% set by the Hampton-Alexander review; the Company also meets the target set by the Parker Review of having at least one director from an ethnic minority background. In addition our Senior Independent Director is a woman. However, the Board is aware that it would be beneficial to broaden its diversity in other respects and this will continue to be a key focus as the Committee looks to broaden and refresh the Board. We have included additional data on sex, gender and ethnicity representation on page 66 within the ESG section of the Annual Report.

Nomination Committee Report continued

Board evaluation

An internal evaluation was undertaken in 2022 using a questionnaire, including questions based on the UK Corporate Governance Code. This questionnaire covered the Board and each of the Board Committees. This evaluation concluded that the Board and its Committees continued to operate effectively. It was noted that the Board continued to address the promotion of the Company's contribution to wider society and promoting the long-term sustainable success of the Company and generating shareholder value. It was felt that the Board gave sufficient opportunity to establish purpose, values and strategy, that this was aligned with the culture of the Company, and that this culture was promoted, monitored and assessed. It also ensured that workforce policies were consistent with the Company's values and that there was effective engagement with and participation from shareholders and other stakeholders. It was felt that, while the Board did have an adequate view and that s172 requirements were taken into account, there were opportunities to enhance how the Board could become better aware of the views of stakeholders and that this could be better signposted. Workforce engagement was also considered, specifically whether the Board regularly reviewed concerns raised by the workforce and whether there was a culture of openness and debate which it felt there was. It was felt that the Board and the Committees worked well together and that each of the Board was encouraged to make an effective contribution.

Board balance

The Committee regularly reviews of the skills, knowledge, experience and diversity of the Board and its Committees to ensure that the Board is collectively well placed to meet the strategic objectives of the Company and the challenges and opportunities that are likely to arise in meeting these objectives. Further details of the skills and experience of the Board that are relevant to the Company is set out on page 114. This followed a skills assessment undertaken in 2022.

External directorships

The Company has a policy which allows the Executive Directors to accept directorships of other quoted companies and to retain the fees paid, provided that they have obtained the prior permission of the Chair of the Board. In accordance with the Code, and to ensure sufficient time is devoted to their executive role, no Executive Director would be permitted to take on more than one non-executive directorship in a FTSE 100 company or the chairmanship of such a company.

Rupert Soames, who retired as a Director on 31 December 2022, was Senior Independent Director of DS Smith plc until 28 February 2022 and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc until 6 September 2022.

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.

2023 priorities and focus

During 2023, the Committee will oversee the transition of Mark Irwin as Group Chief Executive Officer, Tom Watson to Chief Executive Officer of Serco's Americas Division and Anthony Kirby to Chief Executive Officer of Serco's UK and Europe Division, alongside continuing to evolve its approach to succession planning for the Board, its Committees and the wider management team, diversity, training and consideration of ESG matters.

Corporate Responsibility Committee Report

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

Dear Shareholders
The purpose of the Corporate Responsibility Committee in Serco is to safeguard the organisation's culture in the service of fulfilling the company's role: that of delivering superb public services that make a positive difference to citizens and striving to be the best managed company in its sector. Serco's approach to matters environmental, social and governance ("ESG") is synonymous with that: it flows from the commitment of its people and the strength of its Values, underpinned by robust policies, processes and performance metrics, maturing from one year to the next.

The Committee is encouraged that this is a consistent focus no matter the macro context or the individual role. Where Committee members meet Serco colleagues that clarity of purpose, focus on ESG underpinned by a consistent culture comes through, whether it be in webinars discussing the Company's wellbeing offering, individuals discussing their everyday work in direct conversation on contract visits, overseeing the embedding of controls enhanced and developed under the 2019 Deferred Prosecution Agreement ("DPA"), or those who have raised a concern through Serco's 'Speak Up' service, without fear, knowing they will be heard.

In fulfilling its role in 2022, the Committee has focused on the following:

1. Monitoring and testing the health and effectiveness of Company culture and the systems Serco has implemented to protect and nourish the culture whilst driving value from it for all stakeholders. Examples include:
   a. Special meeting of the Committee to analyse the results of Serco's four-year Safety Culture survey programme.
   b. Aligning with management on the continuation and embedding of governance processes with respect to ethics and compliance as core to Serco's ongoing operations.
   c. Meeting with a Serco colleague to understand their user experience of the Speak Up system.
   d. Continued Colleague ConneXions programme, through which Non-Executive Directors take part in Inclusion Hub events with Serco colleagues throughout the year.
2. Supporting the Company to continue to mature the governance and metrics around its deep-rooted social credentials. Examples include:
   a. Engaged with management in rethinking how Serco monitors and reports community impact.
   b. Supported management to clarify a unified strategy on local community value generation through charitable and voluntary endeavours alongside employment and employability opportunities.

* stood down 31st December 2022
** joined 1st January 2023

3. Helping to drive the further development in the Company's maturing ESG governance and disclosure approach. Examples include:
   a. Engaged with management to review the results of the materiality assessment undertaken with internal and external stakeholders, considered its impact on Serco's areas of focus on ESG and endorsed a refreshed ESG framework.
   b. Engaged with management to develop a new system of 'ESG dashboards' introduced to keep management and the Board better informed throughout the year on important dimensions of Company ESG performance and overall ESG maturity.
   c. Agreeing the structure, key messaging and disclosures around ESG.

The Committee's role in 2023 and beyond
The Committee will continue working with management to maintain and build on all Serco has accomplished and become in the last decade, testing for vulnerability, driving maturity, always guarding against any complacency. Political, social, economic and environmental upheaval will continue to shape the public service landscape for years to come, of course, as will the ever-expanding, ever-accelerating global ESG movement in all its guises.

Specifically the Committee's priorities will be:

- Oversight on cultural resilience through a period of new senior leadership embedding (Group CEO and UK&E CEO (both effective January 2023), Americas CEO since September 2022).
- Supporting management to proactively address potential impacts of economic and social instability in the post-Covid era on continued progress towards the "best managed company in the sector" (specifically wellbeing, ethics & compliance).
- Assurance on maturity around local community value generation strategy and the environment strategy (with specific focus on TCFD, scope and boundary definitions and customer requirements).
- Deep diving safety assurance on specific topics (JVs, LTIs).
- Further developing and enhancing the Company's ESG disclosures and messaging.

After his exceptional tenure as CEO and as an actively robust and vocal member of the CRC, I would personally like to thank Rupert Soames for his immense and unparalleled contribution. We will miss him. Having said that, we are delighted to have welcomed Mark Irwin onto the committee from January 2023 and look forward to working with him as the cultural oversight and focus on growing ESG maturity continues.

Kirsty Bashforth
Chair of the Corporate Responsibility Committee
27 February 2023

Corporate Responsibility Committee Report continued

Committee responsibilities

The Corporate Responsibility Committee is responsible for assisting the Board in providing independent oversight and guidance of the Company's ESG Framework and, based on this agreed framework, considering related strategies, policies and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its Values of Trust, Care, Innovation and Pride.

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

Membership and attendees

The Committee comprises both Executive and Non-Executive Directors. Biographical details for each member of the Committee are provided on pages 115 to 117. The Committee met four times during the year. Details of attendance at meetings are set out on page 119.

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 Company's ESG position, approach and framework to ensure it remains appropriate, embedded in the business and conducive to the ongoing delivery of the Group strategy;
- reviews the Group approach to ESG reporting, reviews ESG Key Performance Indicators to track ESG maturity across Serco, and prepares the Group's annual ESG Report and Modern Slavery and Human Trafficking Statement;
- undertakes deep dives into key areas and risks within its remit to ensure appropriate focus, control and rigour throughout the Group;
- engages on new business opportunities to ensure consistency in addressing ESG factors;
- monitors the health and effectiveness of Company culture, including the impact on it of external trends and events and organisational change; and
- oversees effective delivery (including strategy and target setting, and monitoring and reviewing progress and performance across the Group) of the:
  - **Group Ethics & Compliance strategy and Speak Up process**, including in-depth review of specific Speak Up cases; in-depth review of the Group principal risk, 'Failure to act with integrity'; and meeting privately with a Divisional Head of Ethics and Compliance at each Committee meeting;
  - **Group Health & Safety strategy**, including in-depth review of specific incidents; and in-depth review of the Group principal risk, 'Health, Safety and Wellbeing';
  - **Group Environmental strategy**, including delivery of the Company approach to fulfilling the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD);
  - **Group People strategy**, including input into the annual employee engagement survey and in-depth analysis of survey results, with specific focus on Company culture; in-depth review of Employee Wellbeing and Diversity and Inclusion; and the Group Colleague Voice approach, including ongoing implementation of the Colleague ConneXions programme;
  - **Group Sustainable Procurement** approach; and
  - **Group Community Impact** approach.

Additional activity undertaken in 2022

- **Group ESG governance and disclosure:** reviewed refreshed materiality assessment following engagement with internal and external stakeholders and endorsed changes to Serco's ESG framework; looked at reporting requirements and standards for ESG to understand what's coming up, what's in place, and where we are now. Approved a new system of 'ESG dashboards' to better inform management and the Board on key dimensions of Company ESG performance, as well as the Company's overall ESG maturity, throughout the year; endorsed the new Company approach for external assurance of ESG data published in the Annual Report and Accounts; endorsed the new Company approach for ESG materiality assessment; and endorsed relevant KPIs to monitor public and community impact.
- **Group Ethics & Compliance strategy and Speak Up process:** monitored ongoing fulfilment of the Company's DPA obligations and approved proposals for ongoing compliance and continuous improvement following the discontinuance of the DPA; gathered first-hand feedback on the Serco Speak Up process by meeting with a user of the service; reviewed due diligence being carried out in relation to Russian sanctions on third parties engaged by the Company; and endorsed plans for the Serco Essentials training programme 2023-2025.
- **Group Health & Safety strategy:** reviewed the enhanced controls implemented during 2020-2022 to improve the mitigation of contractor health, safety and environmental ("HSE") risks; reviewed HSE performance, approach and maturity at Serco Joint Ventures; and held an additional meeting, also attended by the Chairman of the Board and the Chair of the Audit Committee, for in-depth review of the Group Safety Culture survey results and findings.
- **Group Environmental strategy:** in-depth review of approach and progress in embedding and maturing the management and reporting of climate-related risks and opportunities, per the recommendations of the TCFD; consideration of the rapidly expanding and evolving external environmental disclosures landscape and how Serco should respond; approval of the Company's updated Net Zero targets and pathway; and review of the Company carbon offsetting strategy and progress.
- **Group People strategy:** working directly with the Group Colleague ConneXions Lead to support delivery and direct the evolution of the Colleague ConneXions programme in 2022, including direct engagement between all Non-Executive Directors and the worldwide Company workforce through active involvement in colleague events and management learning programmes as well as 10 virtual/actual visits with Serco sites in every region;

- **Group Sustainable Procurement approach:** review of sustainable procurement initiatives implemented since publication of the Company's Sustainable Procurement Charter; and review of the external supplier sustainability ratings landscape.
- **Group Community Impact approach:** review of performance indicators to monitor community engagement and impact; endorsed an approach to monitoring Serco's public impact and reviewed potential indicators.

Additional activity planned for 2023

- **Group ESG governance and disclosure:** monitor the embedding of the revised ESG framework and performance through new ESG dashboards and develop and enhance ESG disclosure and messaging.
- **Group Ethics & Compliance strategy and Speak Up process:** monitor compliance with ongoing governance processes deployed through the DPA; monitor delivery of ethics and compliance strategy including review of Speak Up provision; maintain oversight of due diligence and internal processes to monitor human rights and modern slavery potential impacts.
- **Group Health & Safety strategy:** monitor development and deployment of LTI reduction plans and a business focus on reducing instances of workplace violence and aggression.
- **Group Environmental strategy:** continue to provide oversight of the delivery of Serco's environment strategy with a focus on the review of near- and long-term targets based on the Science Based Targets Initiative process.
- **Group People strategy:** continue to monitor employee engagement and wellbeing; further engage and support the evolution of the colleague ConneXions programme.
- **Group Sustainable Procurement approach:** ongoing review of progress in the deployment of Serco's sustainable procurement charter.
- **Group Community Impact approach:** monitor the capture and analysis of data to better understand Serco's public and community impact.

Remuneration Report

Remuneration Committee members

Lynne Peacock (Chair)
Kirsty Bashforth
Tim Lodge
John Rishton

Dear Shareholders

On behalf of the Board, I am pleased to share with you the Directors' Remuneration Report (the "Report") for Serco Group plc for the year ended 31 December 2022. In this Report, we set out how the 2021 Remuneration Policy (the "Policy", full details of which can be found in our 2020 Report) has been implemented for 2022, and how we intend to implement the Policy in 2023. A summary of the Policy can be found towards the end of this Report.

2022 was the second year of implementation of our revised Policy which was approved at the 2021 AGM with strong support from our shareholders. Our Policy included simplified bonus measures to focus on profitable growth and cash flow, plus an ESG scorecard (15% weighting) to support our ambition of being the 'best managed company in our sector'. We also introduced an ESG scorecard into the Long-Term Incentive Plan (LTIP) with components aligned to our long-term sustainability strategy.

There are no changes proposed to the Policy in 2023.

A year of further strong performance

Despite the end of our Covid-19 work (which had a negative impact on our revenues) and in the face of a challenging geo-political and economic environment, the Group's revenue and Underlying Trading Profit (UTP) are both up on 2021. Our focus has remained firmly on the delivery of public services and, reflecting this, our customers, as they did during the pandemic, have continued to turn to us as a trusted partner to support them with the challenges they face. Significant growth on existing contracts and acquisitions more than offset the reduction caused by the end of Covid-related work. Revenue for 2022 is £4.5bn despite the loss of Covid-related work reducing revenue by £480m. UTP was up on 2021, at £237m, and 22% higher than our initial guidance in December 2021. Free Cash Flow (FCF) was above prior guidance at £159m. Returns to shareholders also increased significantly in 2022, with increased ordinary dividends (up by 14%) and the completion of a £90m share buyback.

While always an area of importance for Serco, we have repositioned and strengthened our ESG approach, messaging and reporting throughout 2022 and have seen a better understanding of our ESG credentials with improved scores from a number of ESG agencies. We have made good progress on our ESG journey, with ESG embedded as a key pillar in our business strategy. Our performance against each area of our ESG strategic framework is set out in our ESG section on pages 36 to 73.

Supporting our people

We have more than 50,000 colleagues across our operations and each individual is critical to our success in making a difference to the lives of the service users we support through our contracts. The wellbeing of our people is therefore of utmost importance to us as an organisation.

The Remuneration Committee (the "Committee") is mindful of the current cost-of-living challenges facing our colleagues globally and have been supportive of the various targeted and whole-workforce actions taken by the Company to support colleagues throughout this difficult time. These varied across our Divisions in response to regional pressures and in 2022 included:

Whole-workforce initiatives	Targeted initiatives
One-off payments to colleagues outside management grades (totaling £6m in H1 and a further £9m in H2)	Increased pay-review budget for the normal cycle.
Over £200k of support to colleagues and their families from the Serco People Fund[1]	Additional off-cycle targeted pay increases.
Launch of MyShareSave[2]	
Improved benefits offerings including access to discounts on everyday spend, wellness offerings, improved EAP support, improved financial education and wellbeing support.	

Notes
1. The Serco People Fund provides financial support for current and former Serco colleagues and their close family in a range of situations, including hardship or personal crisis and when help is required for health, wellbeing or recovery. Support has been provided to colleagues in the UK and AsPac so far, with roll-out to our other colleagues continuing in 2023.
2 MyShareSave is our new all-employee share plan. This was launched in the UK with over 8% of eligible colleagues electing to participate in the savings plan with the option to purchase shares in Serco in three years' time. During 2023 and beyond, we intend to extend this plan to our other colleagues around the world, where feasible.

2022 variable pay outcomes linked to the delivery of our strategic plan

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

2022 Annual bonus

The Executive Directors' 2022 bonus awards have been determined based on a combination of financial (70% weighting; being 40% Trading Profit and 30% FCF), ESG (15%) and individual objectives (15%). ESG performance is assessed against a scorecard of measures intended to support the Company's ambition of being the 'best managed company in our sector'.

Taking into account performance against the targets set, including the individual performance of the Executive Directors, it was determined that the 2022 bonus award will be 88.0% and 87.3% of maximum for the CEO and CFO respectively. Further details can be found on pages 148 to 151.

As stated elsewhere, the overall performance of the Company in 2022 has been very strong and the Committee is satisfied that the bonuses are a true and fair reflection of the underlying performance of the Company and the Executive Directors.

2020 LTIP

Despite the challenges over the past three years, the Company's performance has continued to be strong, resulting in a payout of 90.18% of the maximum opportunity.

The Committee is satisfied that the overall vesting outcome is an appropriate reflection of the overall performance of the Group over this period, during which management continued to successfully drive the growth phase of our corporate strategy. Full details of actual performance against the framework of performance conditions are included in the Report on page 152.

Change in Group CEO

As previously announced, Rupert Soames stepped down from the Board and his role as Group CEO on 31 December 2022. He will work his contractual notice period, remaining an employee of the Group and a member of the US Board, retiring on 11 September 2023. From 1 January 2023 until the expiration of his notice period, Rupert will continue to receive his base salary and contractual benefits. As previously disclosed, his pension opportunity will reduce from 20% to the workforce average of 8% of salary with effect from 1 January 2023. As he is no longer an Executive Director, Rupert will not participate in the Group Executive Annual Bonus Plan in respect of services during 2023. However, he will be eligible to receive a bonus in relation to his continued employment after stepping down as CEO, which will be subject to performance and pro-rated to the date of cessation of employment. He will receive no further awards under the LTIP. As Rupert is retiring, he will be a good leaver in respect of Serco's incentive plans (with malus and clawback and holding periods continuing to apply in line with the Policy and the respective plan rules for each award). In line with our approved Policy, post-employment Rupert will be required to continue to hold shares equivalent to a minimum of 200% of salary until September 2024, and 100% of salary until September 2025.

Mark Irwin was appointed as Rupert's successor with effect from 1 January 2023.

Implementation of the Policy in 2023

Appointment of Mark Irwin

The Committee reviewed the base salary for the CEO taking into consideration the size and complexity of Serco, and the experience of Mark for whom this will be his first CEO role. Mark's base salary was set at a lower level than his predecessor (who himself received no salary increase since appointment in 2014). As set out in our announcement, the Committee determined that Mark will receive a base salary of £800,000 p.a., with a maximum bonus and LTIP opportunity for 2023 of 175% and 200% of salary respectively; any bonus awarded over 100% of salary will be subject to mandatory deferral into Serco shares. In line with our approved Policy, Mark's pension opportunity will align with that of our wider workforce (8% of salary).

Review of remuneration for our current CFO

As we explained at the time of appointment in April 2021, the base salary and incentive opportunities for Nigel Crossley were set taking into consideration this was Nigel's first Executive Director role. As previously disclosed, Nigel received a workforce aligned salary increase of 2% in 2022.

As signalled in our 2021 Report, we intended to review his remuneration package as his experience in the role increased. In light of his successful transition from new in role to a respected and highly competent CFO, and his strong performance in the role, the Committee has reviewed his remuneration package and determined that, with effect from 1 January 2023, his salary should increase to £480,000 p.a. (9% increase) and, in line with the approved Policy, his maximum annual bonus and LTIP opportunity should increase to 155% (from 140%) and 175% (from 150%) of salary respectively. These incentive levels align to those of his predecessor, Angus Cockburn, although his base salary remains lower than Angus's.

2023 Annual bonus

The Committee determined that the same framework of performance targets and weightings should be retained for the 2023 annual bonus award. Therefore, the financial measures will remain Trading Profit (40% weighting) and FCF (30%) weighting, together with an ESG scorecard of measures supporting our ambition to be the 'best managed company in the sector' (15%) and individual objectives (15%).

2023 LTIP

After consideration, the Committee determined that the performance framework for the 2023 LTIP should follow that applied in 2021 and 2022. As such, the 2023 LTIP will vest subject to aggregate EPS, average ROIC and relative TSR performance, together with Order Book and ESG performance over the three years ending 31 December 2025. Full details of the performance conditions and ESG scorecard applicable to the 2023 LTIP awards can be found on pages 159 to 160.

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 and that the views of our colleagues, as key stakeholders, are taken into account. While Serco has a unique and diverse workforce, information on pay policies and practices for the workforce is presented to the Committee at least twice a year, and available at all times for reference. The Committee and the Board also engage with the wider workforce throughout the year on remuneration and wider working conditions, including engagement on executive remuneration, through various mechanisms, including Colleague ConneXions – our approach for amplifying the voice of our people and exchanging their views directly with the Board. Dame Sue Owen is the Board's employee representative and works closely with the Company to ensure that the Board understands employee perspectives and issues. Through Colleague ConneXions, our executive pay policies and practices are shared with the wider workforce, and colleagues are able to offer any comments or questions on these through the various feedback mechanisms that are available.

Opportunities to hear from our people include, but are not limited to, virtual and face-to-face meetings between Non-Executive Directors and employees in each of our markets throughout the year; the annual regional conferences, which provide a great opportunity to meet the local teams and visit our contracts; 'all hands' calls discussing health and safety, diversity and other ESG issues; an annual meeting with our global HR and reward leadership teams to hear about challenges and how we're addressing those; and via our annual employee engagement survey.

In this survey, we include a section called 'Ask the Board', where employees are given the opportunity to raise issues for the Board's attention, with comments around pay (both relating to executive pay and that of the wider workforce) considered by the Committee.

Diversity and Inclusion (D&I) events and surveys are also run throughout the year in which Non-Executive Directors actively participate. These events are conducted virtually with the option to post comments and questions at any time. Our D&I networks also have a number of different channels for colleagues to interact and provide their thoughts such as via Yammer groups, Safe Space Sessions and Lived Experience Surveys which are summarised and presented to the CRC. There is also an 'Inclusion Hub' which can be used to express views. As well as all the information provided in our Annual Report, Directors' Remuneration Report, Annual People Report, CRC Report, pulse and life cycle surveys are carried out throughout the year where colleagues (when joining and leaving in particular) are given the opportunity through a variety of platforms to provide feedback to the Company.

As reported in our 2022 Gender Pay Gap Report (www.serco.com/esg/gender-pay-gap), our 2022 consolidated UK median gender pay gap reflects a sustained longer-term downward trend from 12.9% in 2017 to 8.11% in 2022. Our gender pay gap is a reflection of our wider talent gap with fewer women than men in senior leadership roles and fewer women in specialist and traditionally male dominated roles such as prison custody officers and engineers. We continue to make good progress in our priority areas with a focus on improving diversity in its broadest sense across our whole organisation, of which gender diversity is just one part.

Feedback from all sources is collated and shared with the Committee at least twice a year. These measures ensure that our decisions are fully informed by wider practices.

Stakeholder engagement

We have continued our programme of shareholder dialogue and we thank all those who take the time to consider and respond with their feedback on our Policy and its implementation. We wish this to continue as we welcome your input and are always prepared to listen and take on board suggestions that help the Company continue to grow and develop its services. In addition to direct engagement with shareholders, our Investor Relations team are in regular contact with our shareholders and share any feedback or queries on remuneration throughout the year so that we can maintain an ongoing dialogue.

Concluding comments

On behalf of my colleagues on the Committee, I wish to thank all our shareholders for their ongoing support. The Committee believes that the Policy decisions implemented in 2022 and our proposals for 2023 will continue to ensure the Executive Directors are fairly rewarded to deliver against the strategic goals of the Company and that all our colleagues continue to deliver the critical services needed to governments and citizens around the world. I hope you will all support the resolution to vote for this Report at the forthcoming AGM.

Lynne Peacock
Chair of the Remuneration Committee
27 February 2023

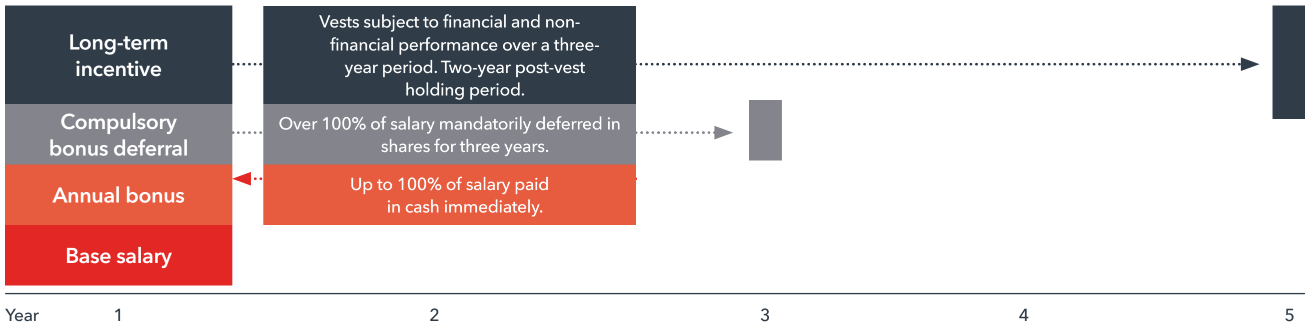
This Report has been prepared in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The Report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code relating to remuneration matters.

The Policy was approved for three years at the 2021 AGM held on 21 April 2021 with a 'for' vote of 94.55%. A summary of the approved Policy is available at the end of this Report on pages 162 to 169 for ease of reference. The full Policy can be found in our 2020 Directors' Remuneration Report which is available on the Company's website.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion within the approved Policy. This ability to apply discretion is highlighted where relevant in the Policy and the use of discretion will always be in the spirit of the Policy.

Implementation of the Policy for 2023 – Executive Directors

The pay structure which will apply in 2023 is summarised as follows:



Note: Chart is illustrative and is not to scale. Details of Executive Director remuneration for 2023 may be found below. A summary of the Policy for Executive Directors is set out for reference on pages 163 to 165.

This pay structure will be applied to the Executive Directors in 2023 as follows.

	CEO	CFO
Element	Mark Irwin	Nigel Crossley
Base salary from 1 January 2023[1]	£800,000	£480,000[1]
Pension[2]	8% of salary	8% of salary
Annual bonus	Max 175% of salary On-target 87.5% of salary Compulsory three-year deferral into Serco shares of bonus over 100% of salary.	Max 155% of salary On-target 77.5% of salary
Annual bonus measures[3,4]	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
LTI measures[4,5] **assessed over the three-year performance period**	For 2023, 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 guideline[6] **In-employment** **Post-employment**	200% of salary 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.	200% of salary
Malus and clawback	– 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 from grant respectively. – Clawback provisions apply to the annual bonus plan.	

Notes:
1. As set out in the Chair's letter, the CEO's salary applies from his appointment on 1 January 2023, and the revised CFO's base salary also applies with effect from 1 January 2023.
2. In line with the approved Policy, the pension opportunity for Mark Irwin, as new CEO, is aligned to that of the workforce.
3. 70% of the bonus will be measured by financial targets. The Committee deems the specific details of the performance targets to be commercially sensitive as they are intrinsically linked to the forward-looking strategic plans of the business. Full disclosure will be provided in the Annual Report on Remuneration for the year in which final performance is assessed, provided these details are no longer considered sensitive.
4. In light of the absolute importance of ESG measures to the short and long-term sustainable success of Serco, the Committee has continued to incorporate an ESG scorecard into both the 2023 annual bonus plan and LTIP. The use of scorecards recognises that ESG is not about a single action being taken, albeit specific measurable targets will be set for each measure. The measures used in the annual bonus plan are intended to support our ambition of being the 'best managed company in the sector', while for the LTIP, the ESG scorecard contains measures important to the long-term sustainability of Serco. Further details of the composition of the 2023 ESG scorecards are set out on pages 159 and 160.
5. The performance targets to apply to the 2023 LTIP awards are set out on pages 159 to 160.
6. Shareholding guidelines applied from the date of the Policy approval at the AGM held on 21 April 2021.

Annual Report on Remuneration

The Remuneration Committee

All members of the Committee are independent, Non-Executive Directors of the Company, initially appointed for a three-year term. That appointment may be terminated on three months' written notice.

Chair: Lynne Peacock

Committee Members: Kirsty Bashforth, Tim Lodge, John Rishton

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework that aligns the executive management team to shareholders' interests and is designed to reward and incentivise them appropriately for their contribution to Group performance. The Committee's primary focus is to ensure a clear link between reward and performance. This means ensuring that the Policy, structure and levels of remuneration for the Executive Directors and other senior executives reinforce the strategic aims of the business and are appropriate given the market context in which Serco operates and the reward strategy throughout the rest of the business.

The Committee's composition, responsibilities and operation comply with the principles of good governance as set out in the UK Corporate Governance Code, the Listing Rules and the Companies Act 2006. The Terms of Reference for the Committee are available on the Company's website.

The Committee met seven times during the year. Details of attendance at meetings are set out on page 119. Meetings of the Committee are normally attended by the Group CEO, 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 2022

The Remuneration Committee met seven times during the year. The principal agenda items were as follows:

Agenda item
2021 bonus calculation; 2022 LTIP framework; 2022 Executive Director objectives; review of the 2021 Report commentary and disclosure.
Shareholder consultation update; Employee Dashboard review on policy and workforce demographics; 2021 annual bonus achievement and 2022 bonus performance framework; 2019 LTIP vesting; Executive Director and Executive Committee 2021 annual incentive awards; ESG scorecards for 2022 annual bonus and 2022 LTIP framework; share award policy and update; Update on MyShareSave.
AGM voting results for the Policy and the 2021 Report; corporate governance and market practice update; Employee Dashboard and workforce remuneration update; Employee Voice update; review of approach to engagement with workforce on executive pay; share awards update; MyShareSave update.
MyShareSave implementation update for launch in UK in 2022
Corporate governance and market practice update; Employee Dashboard and workforce remuneration update; Employee Voice update including workforce engagement on executive pay; draft outline of the 2022 Report; shares award update; executive shareholding status; LTIP performance conditions review and range of financial targets; review of progress against 2022 bonus targets and delivery against individual objectives for Executive Directors; executive annual remuneration review and approach to benchmarking for 2023. A second meeting was held in September to approve the remuneration arrangements for the new Group CEO, and exit remuneration arrangements for the outgoing Group CEO, as well as proposals for other Executive Committee remuneration changes and remuneration for the Group CFO.
Base pay proposals for Executive Directors and Executive Committee members for 2023; update on 2022 bonus projections for Executive Directors and Executive Committee members; 2023 annual bonus performance framework; shares award update; share grant policy and LTIP framework for 2023; MyShareSave update; Employee Dashboard and Employee Voice update including feedback on executive remuneration in relation to provision 41 of the Corporate Governance Code; 2022 Gender Pay Gap analysis and report; 2022 Report; annual Committee programme of work for 2023.

External advisers

WTW provided advice to the Committee throughout the year. WTW is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Remuneration Consultants' Group Code of Conduct. The Committee is satisfied that WTW are providing robust and professional advice.

The fees in respect of 2022 paid to WTW (excluding VAT) are set out in the table:

Adviser	Appointed by	Services provided to the Committee	Fees for services provided to the Committee[1]	Other services provided to the Company
WTW	Remuneration Committee in 2020	Advice on market practice; governance; reward consultancy	£53,620	Reward and benefits consultancy; provision of benchmark data; DRR review

Note:
1. Fees are determined on a time spent basis.

The implementation of the Policy for year ended 31 December 2022

The Policy applied for the year ended 31 December 2022 was consistent with the Policy approved by shareholders at the AGM on 21 April 2021. The Committee has not deviated from the approved Policy in respect of any payments made during 2022.

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 2022 for each Executive Director, together with comparative figures for 2021. Details of Non-Executive Directors' fees are set out in the next section.

	Rupert Soames		Nigel Crossley[1]	
All figures in £	2022	2021	2022	2021
Salary	**850,000**	850,000	**436,450**	296,144
Taxable benefits[2]	**48,107**	49,195	**34,313**	17,022
Pension[3]	**170,000**	170,000	**34,916**	23,803
Total Fixed Remuneration	**1,068,107**	1,069,195	**505,679**	336,969
Bonus[4]	**1,309,000**	1,387,094	**535,750**	387,507
Long-Term Incentives[5, 6]	**1,999,769**	2,138,205	**215,413**	43,913
Total Variable Remuneration	**3,308,769**	3,525,299	**751,163**	431,420
Total	**4,376,876**	4,594,494	**1,256,842**	768,389

Notes:
1. Nigel Crossley was appointed to the Board as Chief Financial Officer following the AGM held on 21 April 2021 and hence his single total figure of remuneration for 2021 is pro-rated to reflect his qualifying service as an Executive Director from 21 April 2021 to 31 December 2021 inclusive. His 2019 and 2020 LTIP values are for the months of qualifying service in the three-year performance periods ending 31 December 2021 and 31 December 2022 respectively.
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), healthcare and private medical assessments, as well as taxable business expenses. Where Serco settles the PAYE and NIC liability in respect of benefits provided, the value of the benefit has been grossed up at the individual's marginal tax rate. The taxable benefits for 2022 include an individual benefit value of £25,819 in respect of Rupert Soames' company car in the year. In connection with their roles, Rupert and Nigel were on the Board of our US company, which requires them to make tax declarations in the US. They do not receive any additional compensation for these directorships, but the Company provides US tax support. No costs were paid during 2022 in respect of this support.
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. The pension opportunity for the incumbent Executive Directors was significantly reduced from 30% to 20% of salary from 1 April 2020 and was applied to Rupert for 2021. On his appointment to CFO, the pension opportunity applied to Nigel was 8% of salary, in line with the level available to most of the wider workforce. As previously disclosed, Rupert's pension opportunity was reduced further to 8% with effect from 1 January 2023.
4. Performance bonuses earned in the period under review and paid in the following financial year. For 2022, this figure includes £459,000 (35.1%) of Rupert Soames' and £97,150 (18.1%) of Nigel Crossley's 2022 bonuses which will be subject to mandatory deferral into Serco shares for a three-year period at the point the bonuses are paid in 2023.
5. This is the estimated or actual value of Long-Term Incentives for which the performance period ended in the year including dividend equivalents. The quantum of the 2022 LTI values for Rupert and Nigel attributable to share price appreciation is £416,608 and £44,877 respectively. Further details are provided on page 152.
6. The Long-Term Incentive values reported for 2021 have been restated to reflect the actual share price at the relevant vest dates for the awards (in respect of the 2019 LTIP Awards which vested on 6 June 2022: £1.8020).

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2022, the Executive Director bonus was based on achieving a mix of financial and non-financial objectives which were weighted 70:30 respectively. The financial measures were Trading Profit (40%) and FCF (30%). The non-financial elements comprised an ESG scorecard (weighted at 15%) to support the Company's ambition of being the 'best managed company in our sector', with the remaining 15% weighting attached to individual objectives aligned to the delivery of the Group's corporate strategy.

In line with the Policy, the 2022 target and maximum annual bonus opportunities for Rupert Soames (CEO) were 87.5% and 175% of salary respectively. For Nigel Crossley (CFO), the respective target and maximum bonus opportunities under the 2022 annual bonus were 70% and 140% of salary.

As set out in the Chair's letter and the business context for 2022, in determining the appropriate awards under the 2022 annual bonus plan, the Committee took into account the wider impact of what has been another excellent year for both the Company and its employees.

The Committee has also been concerned to ensure fair outcomes for all other employees in the annual bonus plan, with bonus payments taking into account overall Group and Divisional performance to ensure payments are reflective of the overall contribution and that no colleague is penalised for factors beyond their control.

Trading Profit of £241.2m was adjusted by the Committee to arrive at a figure for Trading Profit for bonus purposes. Shareholders were consulted on the principles behind these adjustments in early 2015, and the bonus outcome for 2015 to 2021 reflected these principles. The purpose of the principles is to ensure that management are measured against their in-year performance and are not given credit for gains which they have not materially influenced. The Committee has applied these established principles to 2022 in a consistent manner, which have historically resulted in both positive and negative adjustments.

The first adjustment made was to put Trading Profit into constant currency so that it was consistent with the targets set at the beginning of the year. This resulted in a £14.5m decrease. The Committee then considered items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of £4.9m should be deducted from Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes in 2022. This compares with +£1.9m which was added to Trading Profit in 2021.

All awards under the 2022 annual bonus plan were subject to a UTP affordability test of £192.8m at constant currency rates (after adjustment for in-year Onerous Contract Provisions (OCP) items).

After full consideration, the Committee determined that the annual bonus achievement for Executive Directors should not be adjusted for 2022. The tables below show the achievement determined by the Committee against the financial and non-financial measures, together with the overall bonus outcome for 2022.

Financial performance

Performance measure	Weighting for 2022 (% maximum bonus opportunity)	Threshold target (£m)	Target (£m)	Maximum target (£m)	Actual performance[1] (£m)	Achievement against measure (% maximum opportunity for this measure)
Trading Profit	40%	£192.8	£199.5	£212.1	£221.9	100%
Free Cash Flow	30%	£78.1	£98.8	£119.5	£159.1	100%

Note:
1. At constant currency.

£m	2022	2021	2020	2019	2018	2017	2016
Trading Profit	**241.2**	233.4	175.7	133.4	116.7	54.0	100.3
Constant currency adjustment	**(14.4)**	6.9	1.3	(4.1)	4.4	(6.8)	(5.7)
Trading Profit at constant currency	**226.8**	240.3	177.0	129.3	121.1	47.2	94.6
Adjustment for bonus purposes	**(4.9)**	1.9	(3.3)	(12.6)	(15.2)	23.6	(20.9)
Trading Profit for bonus purposes	**221.9**	242.2	173.7	116.7	105.9	70.8	73.7
Underlying Trading Profit at constant currency	**222.6**	235.8	164.5	116.5	97.1	63.4	73.4

Non-financial performance

ESG Scorecard

An ESG scorecard was introduced for the first time in the 2021 annual bonus plan (weighting 15%). As in 2021, the scorecard for 2022 focused on three key areas:

- maintain and continue to improve robust governance processes, including ensuring active and ongoing engagement with stakeholders (to include shareholders, governments and customers, and colleagues) setting out the progress in achieving strategic objectives (including ESG strategy and approach), as well as operating/financial performance;
- ensure a focus on health and safety within our operations through improvements in the Lost Time Injury Frequency Rate (LTIFR); and maintain a high level of colleague engagement as measured through our annual Group employee engagement score.

In its consideration of the governance component, the Committee looked at a number of factors, including:

- active management of stakeholder concerns from shareholder meetings, customer meetings, Cabinet Office reports and other government reports;
- Board and Executive Committee updates including reactions to regional specific issues such as Social Value in line with UK government expectations;
- discussion of operational, financial, HR and compliance matters as part of the Divisional Performance Reviews;
- continued transparency to the market and customers measured through feedback to the Company; and
- continued enhancement in assurance, internal controls and compliance (including regulatory compliance).

As part of its assessment of governance, the Committee also included specific actions agreed for Rupert and Nigel relating to the effective governance in operational and stakeholder relationships. Achievement against the ESG scorecard for the Executive Directors is shown in the table below:

Performance measure	Weighting for 2022 (% maximum bonus opportunity)	Threshold target	Target	Maximum target	Actual performance	Achievement against measure (% maximum opportunity for this measure)
Lost Time Injury Frequency Rate			–	4.64	5.72	0%
Colleague Engagement Score[1]			68	72	70	50%
Governance Processes[2] For both Rupert Soames and Nigel Crossley, actions specifically included supporting a suitable conclusion to the Deferred Prosecution Agreement (DPA).		Continued to improve and embed robust governance processes including ensuring an active and ongoing engagement with stakeholders (to include shareholders, governments, customers and colleagues) setting out the progress in achieving strategic objectives including those aligned to our ESG framework, as well as regular updates on operational and financial performance. Includes the hosting of investor and analyst events, enabling them to engage with the wider operational management team. Sharing of broader perspectives on our sectors and markets such as through the Serco Institute. Further enhancement of colleague engagement with the Board on all matters, including executive remuneration. All requirements under the DPA have been successfully completed without any further comments or conditions.				
Overall ESG Scorecard	15%					41.67%

Notes:
1. Group employee engagement score from Employee Voice survey run from 6 to 27 September 2022.
2. Committee decision reached on overview of activity for the year.

Individual objectives

Weighting for 2022 (% maximum opportunity)	15%

	Rupert Soames	Nigel Crossley
Achievement against measure (% maximum opportunity for this measure)	**78.3%**	**73.3%**

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Rupert Soames – consideration of personal performance in the year

Target	Achievements in year
Winning good business 1. Improve Business Development performance to deliver: a) A reported total pipeline of a minimum of £8,651m, target of £9,982m and a maximum achievement for £12,024m or more. b) New business wins of a minimum of £2,527m, target of £2,704m and maximum achievement of £3,537m or more. c) Total wins, including recompetes and extensions of a minimum of £4,027m target of £4,603m and maximum achievement of £5,448m or more. 2. Maintain and improve the relationship with major government customers.	a. Total reported pipeline for 2022 was £10,966m, which exceeds the target of £9,982m. b. New business wins amounted to £2,084m, below the threshold level of £2,527m. c. Total wins delivery was £4,082m, above the threshold of £4,027m. – The strength of relationships built up and maintained with governments is seen in the strong pipeline for 2022. Despite the economic challenges in 2022, governments around the world continued to engage and re-engage the Company to support them.
Executing brilliantly 3. Provide effective support to the Chairman and the Board in relation to Succession Planning. 4. Continue to build and where necessary invest in Serco's Cyber Resilience and Security. 5. Support the adoption of a new carbon reduction/ offsetting program in at least one Division.	– Successful appointment of Mark Irwin as CEO in January 2023, to replace Rupert Soames. – Regular talent and succession planning reviews of senior leaders provides a pipeline for critical Executive Committee roles to reduce the reliance on external appointments. This enabled the successful internal appointments of both Mark and Tom Watson (CEO Americas) in 2022 following robust recruitment processes involving both internal and external candidates. – Continued investment in cyber security tooling and security measures to protect Serco's information and personal data of its employees. – Launched 'Serco Goes Green' programme within every Division with particular focus on carbon reduction. Planted for sustainable purposes 12,000 trees.
A place people are proud to work 6. Manage the transition of CEO Americas and the change implications which will flow from it. 7. Continue to drive further improvements in the levels of diversity within the global leadership team (2020 vs. 2022).	– Successful appointment and transition of Tom Watson as CEO Americas in September 2022, to replace Dave Dacquino, and successful restructure of the Americas leadership team following the promotion of Tom to CEO. – Improved gender diversity in the global leadership team, which is 34.5% women in 2022 (up from 29% in 2020).
Profitable and sustainable 8. Drive further integration of acquisitions (WBB, FFA, Clemaco) and ensure any further acquisitions are complementary to the new five-year strategy. 9. Deliver against Financial Targets and City expectations while maintaining the reputation of Serco in the investment community.	– Integration of WBB, FFA and Clemaco continued in 2022. Integration of previous acquisitions progressed to completion, all of which have been margin accretive. Two bolt-on acquisitions completed in 2022 (Sapienza and ORS) to complement our existing strategy, expanding our offering in their respective areas and bring scale to our European business. – Strong delivery of financial targets in 2022. Substantial investment in maintaining and developing relationships in the investor community with issuing of regular trading updates in addition to the required reports of half and full year results. – Issuing 205 announcements throughout the year regarding contract awards, contract losses, changes to the Board, material shareholdings, refinancing and corporate transactions and share buy-back programme. – Regular engagement with analysts actively covering Serco and hosting other events. Inclusion of analyst consensus on the Serco website with the website regularly updated.

The Committee considered Rupert's performance against his stated objectives and deemed his overall performance in 2022 to be very strong, awarding him a personal performance outcome of 78%. Rupert continued to show highly effective and visible leadership throughout 2022, and over the course of the year delivered another strong year of performance despite the economic and geopolitical challenges faced by all in 2022, and despite the significant revenue losses as the Covid-related work came to an end. This was achieved while maintaining the trust built up with our customers, based on the strong foundations of good governance, and while continuing to ensure the engagement and wellbeing of all colleagues at Serco, all against the backdrop of successfully supporting all stakeholders (colleagues, shareholders and customers alike) through a change in Group CEO.

Nigel Crossley – consideration of personal performance in the year

Target	Achievements in year
Winning good business 1. Improve Business Development performance to deliver: a) A reported total pipeline of a minimum of £8,651m, target of £9,982m and a maximum achievement of £12,024m or more. b) New business wins of a minimum of £2,527m, target of £2,704m and maximum achievement of £3,537m or more. c) Total wins, including recompetes and extensions of a minimum of £4,027m target of £4,603m and maximum achievement of £5,448m or more.	a. Total reported pipeline for 2022 was £10,966m, which exceeds the target of £9,982m. b. New business wins amounted to £2,084m, below the threshold level of £2,527m. c. Total wins delivery was £4,082m, above the threshold of £4,027m.
Executing brilliantly 2. Provide effective support where necessary to the Board in relation to Succession Planning. 3. Manage the finance organisational changes across the Group, specifically enabling effective transitions in UK&E and AsPac.	– Supports with the regular talent and succession planning reviews of senior leaders providing a pipeline for critical Executive Committee roles to reduce the reliance on external appointments. This enabled the successful internal appointments of both Mark and Tom Watson (CEO Americas) in 2022 following robust recruitment processes involving both internal and external candidates. – Conducted an organisational design and development review as part of these transitions which, resulted in a number of changes being made and supported the successful induction of two Divisional CFO's, one internal promotion and one external appointment.
A place people are proud to work 4. Conduct an organisational design and capability review of the finance function as well as Internal Audit. 5. Support further improvements in the levels of diversity within the global leadership teams (2020 vs. 2022).	– Completed an organisational design and capability review of both the finance function and Internal Audit with improvements identified and implementation of these starting in 2022. – Improved gender diversity in the global leadership team, which is 34.5% women in 2022 (up from 29% in 2020).
Profitable and sustainable 6. Develop plan for additional financing to cover USPP's maturing within the period. 7. Deliver against Financial Targets and City expectations while maintaining the reputation of Serco in the investment community. 8. Develop and target prospective new shareholders with a plan for engagement agreed by the Board.	– Successful refinancing of our revolving credit facility for a five-year term increasing standby liquidity from £250m to £350m completed in 2022 supporting the assurance of adequate liquidity is available to meet the Group's funding requirements as they arise. – Strong delivery of financial targets in 2022. Substantial investment in maintaining and developing relationships in the investor community with issuing of regular trading updates in addition to the required reports of half and full year results. – Full support to the annual Chairman's Governance Investor Roadshow and to full year and half year results presentations and investor events. – Attendance at investor conferences. – Completed a shareholder review and developed a new plan to target prospective shareholders with a particular, but not exhaustive, focus on North American investors.

The Committee considered Nigel's performance against his stated objectives and deemed his overall performance in 2022 to be very strong, awarding him a personal performance outcome of 73%. Nigel had continued to show effective and highly visible leadership throughout 2022, delivering a strong performance, ensured good levels of liquidity going forward and maintained a strong balance sheet despite the economic and geopolitical challenges faced in 2022, and the significant revenue losses as the Covid-related work came to an end. This was achieved while maintaining the trust built up with our customers and the investment community, and while ensuring the ongoing engagement and wellbeing of all colleagues at Serco, all of which are critical to our longer-term success.

Overall 2022 bonus outcome

	Rupert Soames	Nigel Crossley
Total bonus payable as % of maximum	88.0%	87.3%
Bonus opportunity as % of salary	175%	140%
Bonus amount achieved as % of salary	154.0%	122.2%
Bonus amount earned[1]	£1,309,000	£535,750

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

Long-term incentives

LTIP

The 2022 single figure is comprised of the 2020 LTIP awards granted on 6 October 2020, which are due to vest on 6 April 2023 subject to TSR, EPS, ROIC, Order Book (measured as the book-to-bill ratio) and Employee Engagement performance in the three-year period to 31 December 2022. As disclosed in our 2020 Report, the grant of our 2020 LTIP was delayed, enabling us to set appropriate and meaningful targets during that unprecedented time. These targets were adjusted in 2021 (as disclosed in our 2021 Report) following the acquisition of WBB in order to maintain the level of performance required for vesting as originally intended. In determining the overall vesting for the 2020 LTIP, the Committee was mindful that the first two years of the performance period were subject to the impact of Covid-19. Careful consideration was given to the overall performance of the Group over the whole performance period. The Committee is satisfied that the overall vesting outcome is an appropriate reflection of the overall performance of the Group over the performance period, during which management successfully continued the journey of growth in Serco's corporate strategy. The Committee is satisfied that no adjustment to the vesting outcome is required in respect of windfall gains.

As set out in our 2021 DRR, the 2020 EPS and ROIC target ranges were retrospectively adjusted in 2021 for the WBB acquisition completed on 27 April 2021. The acquisition resulted in a small increase in EPS with a +1.25p adjustment and a very small dilution in the Group's ROIC. The adjustment made to the EPS and ROIC target range for the 2020 LTIP is shown in the table below:

Target	Previous target range	Adjusted target range	Adjustment variance
EPS	20.62p – 25.20p	21.87p – 26.45p	+ 1.25p
ROIC	16.4% – 20.0%	15.6% – 19.3%	- 0.7%

The performance and formulaic vesting outcome for each tranche of the 2020 LTIP is as follows:

Performance condition and relative weighting	Threshold[3] – 25% vesting	Maximum – 100%	Performance measured	Vesting (% of maximum)
Relative TSR[1] (28.33%)	Median ranking	Upper quartile ranking	Rank 49/159 Between median and upper quartile	83.9%
Aggregate EPS[2,3] (28.33%)	21.87p	26.45p	33.93p	100%
Average pre-tax ROIC[2,3] (28.33%)	15.6%	19.3%	21.9%	100%
Order Book[3] (7.5%)	N/A	105%	100%	50%
Employee Engagement in 2022[3] (7.5%)	N/A	72	Engagement score of 70	80%
Overall vesting outcome				90.18%

Notes
1. For the 2020 LTIP, the Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the three-year period ending 31 December 2022. The Company's TSR of 8.4% ranked between median (at which TSR was -12.3%) and upper quartile (at which TSR was 15.1%), giving a vesting outcome of 83.9%.
2. The 2020 EPS and ROIC performance targets are the adjusted targets following the WBB acquisition (as set out in our 2021 DRR and summarised above) 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.
3. Only the financial performance targets vest at 25% for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Order Book and Employee Engagement targets to be strategically critical to the longer-term success of the Company, and that there should be no vesting below target performance. The vesting level for on-target performance (being a book-to-bill ratio of 100%, or an Employee Engagement score of 67) is 50% of this element, rising on a straight-line basis to 100% for maximum performance.

Executive Director	2020 LTIP Tranche	No. of shares awarded	No. of shares vesting	Dividend equivalent shares	Value of vesting[2]	Value attributable to share price appreciation[3]
Rupert Soames	Relative TSR	375,891	315,372	10,277	£527,095	£109,809
	EPS	375,891	375,891	12,250	£628,245	£130,881
	ROIC	375,891	375,891	12,250	£628,245	£130,881
	Order Book	99,500	49,750	1,620	£83,147	£17,322
	Employee Engagement	99,500	79,600	2,592	£133,036	£27,715
Nigel Crossley[1]	Relative TSR	40,496	33,976	1,104	£56,780	£11,829
	EPS	40,496	40,496	1,316	£67,677	£14,099
	ROIC	40,496	40,496	1,316	£67,677	£14,099
	Order Book	10,720	5,360	172	£8,954	£1,865
	Employee Engagement	10,720	8,576	274	£14,325	£2,984

Notes:
1. Nigel Crossley was not a Director at the date of the 2020 LTIP awards on 6 October 2020 but was appointed to the Board as CFO on 21 April 2021. The awards were granted in respect of his former role, prior to his appointment to the Board. His 2020 LTIP award value is pro-rated for the months of qualifying service in the three-year performance period ending 31 December 2022.
2. As these awards are still to vest at the time of reporting, the share price used to determine the value of vesting for the 2022 single figure is the Q4 average closing share price to 31 December 2022 (£1.6186).
3. The value included in the single figure reflects an increase in the share price from that at grant (£1.2814) to the estimate of the share price at vest (based on the 2022 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and, therefore, did not make any discretionary adjustments to the vesting of these awards on this basis.

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

Non-Executive Directors' remuneration consists of cash fees paid monthly with increments for positions of additional responsibility. In addition, reasonable travel and related business expenses are paid. No bonuses are paid to Non-Executive Directors. Non-Executive Directors' fees are not performance related.

Non-Executive Directors are encouraged to hold shares in the Company but are not subject to a shareholding requirement.

	Fee-bearing Committee roles held in the year	Board fee (including Chairmanship fees) (£)		Taxable benefits[1] (£)		Total[2] (£)	
		2022	2021	2022	2021	2022	2021
John Rishton (Chairman)		280,000	222,576	5,865	1,994	285,865	224,570
Kirsty Bashforth	C R GR	76,494	75,500	7,292	1,363	83,786	76,863
Kru Desai	A C	63,994	11,278	–	–	63,994	11,278
Tim Lodge	A R GR	76,494	62,525	588	–	77,082	62,525
Ian El-Mokadem	A GR	71,494	70,500	–	–	71,494	70,500
Dame Sue Owen	C GR	63,994	63,000	235	–	64,229	63,000
Lynne Peacock (SID)	A R	86,494	80,955	450	446	86,944	81,401
Total		718,964	586,334	14,430	3,803	733,394	590,137

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. Taxable benefits in 2021 and 2022 relate to reimbursed taxable travel and subsistence business expenses.
2. Non-Executive Directors do not receive any variable pay so 'Total' is total fixed remuneration.

Pensions (audited information)

As at 31 December 2022, 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)

Rupert Soames stepped down as Group CEO and as an Executive Director of Serco Group plc on 31 December 2022. From 1 January 2023 Rupert moved into the role of Strategic Adviser to the Group and retains his role on the Board of Serco Inc., with these roles continuing until the end of his notice period (11 September 2023). This ensures a smooth transitional period for Mark Irwin as the incoming Group CEO.

Description	Details of payment
Salary and benefits	– Base salary of £850,000 until 11 September 2023. – Contractual benefits e.g. company car, life assurance, independent financial advice etc. until 11 September 2023. – Pension cash alternative payment of 8% of salary (£68,000) from 1 January 2023 until 11 September 2023.
Discretionary 2023 annual bonus award	– Rupert will be entitled to receive a pro-rata 2023 bonus subject to performance, payable in March 2024, in respect of his role as Strategic Adviser to the Group during 2023. – Award subject to malus and clawback provisions.
Equity Settled Bonus Plan (ESBP) for bonus earned above 100% of salary deferred into shares and vesting after three years. These awards are not subject to further performance conditions or pro-rated.	To be treated as 'good leaver' in respect of outstanding ESBP awards unvested at the date he ceases employment. The following awards will vest in full on the normal vesting dates: – 2020 ESBP award – 437,967 shares vesting on 28 April 2023. To vest in full prior to the end of his notice period. – 2021 ESBP award – 251,632 shares vesting on 26 March 2024. – 2022 ESBP award – 391,455 shares vesting on 28 March 2025. – 2023 ESBP award to be granted in 2023 in respect of his 2022 bonus, shares to vest in 2026. See note 4 to the single figure table on page 147. The total number of shares linked to the award will be increased for any dividend equivalents in connection with dividends paid during the vesting period. – Awards subject to malus and clawback provisions.
Holiday entitlement	All outstanding holiday entitlement to be taken by the end of the notice period.

Description	Details of payment
Share awards	– No awards to be made under the Company's LTIP in 2023. – Treatment as 'good leaver' for awards unvested at the end of the notice period (being awards made under the 2021 and 2022 LTIP). Outstanding unvested LTIP share awards will vest on the normal vesting dates subject to the satisfaction of the relevant performance conditions and on a time pro-rated basis. A post-vesting holding period, until the fifth anniversary of grant, will apply. – 2021 LTIP – 990,770 shares to be retained – vesting date 6 April 2024 – holding period expires 6 April 2026. – 2022 LTIP – 554,095 shares to be retained – vesting date 6 April 2025 – holding period expires 6 April 2027. The total number of shares linked to the awards will be increased for any dividend equivalents in connection with dividends paid during the vesting period. – Awards subject to malus and clawback provisions.

Angus Cockburn stepped down as Group CFO and as an Executive Director of Serco Group plc at the AGM held on 21 April 2021, and ceased employment with Serco on 31 December 2021. As set out in our 2021 Report, Angus was treated as a 'good leaver' in respect of his outstanding share awards at cessation. Further to the details previously disclosed, the following vested to him in 2022.

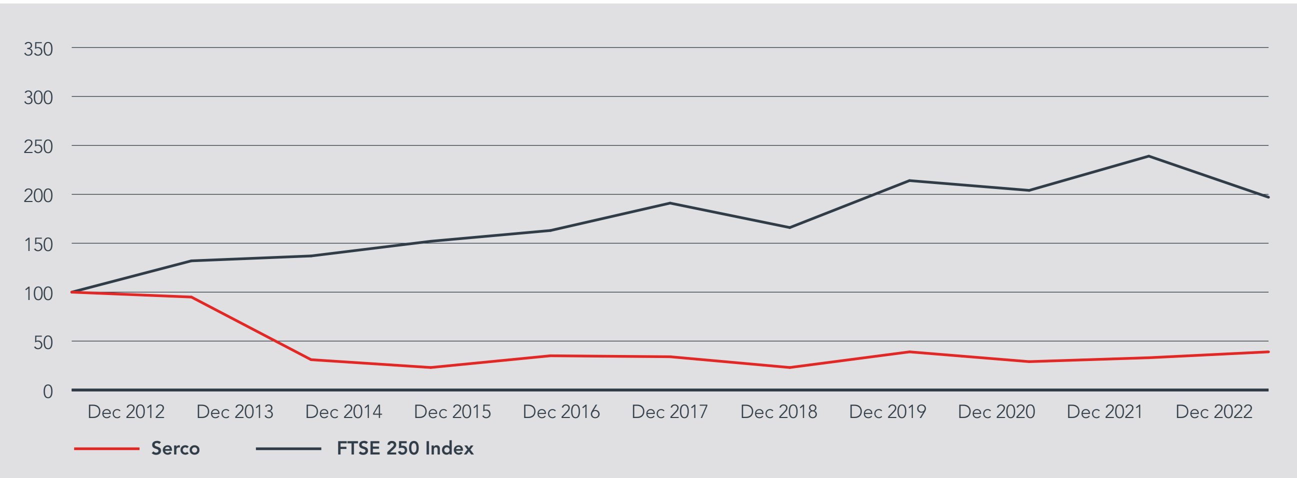
Description	Details of payment made in 2022
Equity Settled Bonus Plan (ESBP)	– 2019 ESBP award – 70,280 shares vested on 26 April 2022 at a share price of £1.5009. The total number of shares linked to the award was increased for dividend equivalents in connection with dividends paid during the vesting period. – Awards remain subject to malus and clawback provisions.
Share awards	– 2019 LTIP – in line with the performance outcome as disclosed in the 2021 Report, 525,464 shares vested on 6 June 2022 at a share price of £1.8020 per share. The post-vest holding period expires 6 June 2024. The total number of shares linked to the award was increased for dividend equivalents in connection with dividends paid during the vesting period. Full details of the vesting of this award were disclosed in our 2021 Report. – 2020 LTIP – in line with the performance outcome for the 2020 LTIP as disclosed in this, the 2022 Report, 643,868 shares will vest on 6 April 2023 (actual number of shares may increase due to any further dividend equivalents prior to vest). The post-vest holding period expires on 6 October 2025. – Awards remain subject to malus and clawback provisions.

There were no other payments made to past Directors in 2022.

Performance graph and table

This graph shows the value as at 31 December 2022, of a £100 investment in Serco on 31 December 2012 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 2022 single figure can be found on page 152.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Christopher Hyman	Ed Casey								
Group CEO	Ed Casey	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames
CEO single figure remuneration (£000)	893 295	1,605 748	2,255	2,217	3,681	5,176	5,201	5,219	4,011	4,377
Annual bonus outcome (as % of maximum opportunity)	N/A 74%	71% 0%	87%	82%	75%	77%	94%	80%	93%	88%
LTI vesting outcome (as % of maximum opportunity)	0%	0%	100%	24%	91%	73%	71%	99%	89%	90%

Percentage change in Directors' remuneration

The table below shows the percentage change in remuneration for all Directors who served during 2022 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 22,000 of the approximately 50,000 individuals Serco employs worldwide. Inflation and local pay practices form a key driver in the salary and benefits provided in each location, and as the Directors' pay is set against the UK market (with the Executive Directors based in the UK), we have chosen employees within the same country. Information will need to be shown for each Director in the relevant year on a rolling five-year basis. 2022 is the third year of disclosure.

		Executive Directors		Non-Executive Directors						
	UK employees	Rupert Soames	Nigel Crossley[4]	John Rishton	Kirsty Bashforth	Kru Desai[4]	Tim Lodge[4]	Ian El-Mokadem	Dame Sue Owen	Lynne Peacock
2022										
Salary/fees[1]	4.5%	0%	47%	26%	1%	467%	22%	1%	2%	7%
Benefits[2]	0%	-2%	102%	194%	435%	0%	100%	0%	100%	1%
Bonus[3]	-13%	-6%	38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2021										
Salary/fees[1]	2.1%	0%	N/A	146%	0%	N/A	N/A	8%	140%	15%
Benefits[2]	2%	-8%	N/A	128%	114%	N/A	N/A	0%	0%	0%
Bonus[3]	21%	17%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2020										
Salary/fees[1]	1.9%	0%	N/A	0%	2%	N/A	N/A	4%	N/A	0%
Benefits[2]	-3%	20%	N/A	-51%	-81%	N/A	N/A	0%	N/A	0%
Bonus[3]	20%	-15%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes:
1. The average salary change for UK employees for 2020 represents the average pay increase applied in the corporate annual pay review effective 1 April 2020. From 2021, the average salary change for UK employees represents the average level salary change recorded over the relevant financial year, excluding role changes or promotions, to better reflect our wider workforce pay rates, including those parts of our workforce subject to collective bargaining agreements, customer-set pay structures, or trade union negotiations. Changes in NED fees reflect changes in each individual's role on the Board and its Committees, in addition to the April 2022 fee uplift which was disclosed in the 2021 Report.
2. The nature of taxable benefits provided to all Directors and employees in 2022 remains the same as in prior years.
3. The bonus element is shown for those employees eligible for such payments. The figures shown here relate to a calculation of the bonus earned, but not yet paid, related to performance in 2022 compared to the 2021 bonuses paid in March 2022. The Executive Directors' 2022 bonuses over 100% of salary are subject to compulsory deferral for three years into shares. NEDs do not receive bonus pay.
4. The percentage change in 2022 for Nigel Crossley, Kru Desai and Tim Lodge reflects that their single figures in 2021 were for a partial year of service (with each Director being appointed during 2021).

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
2022 (Option B)	25th	£29,904	£31,117	1:141
	Median	£32,728	£34,007	1:129
	75th	£33,154	£43,301	1:101
2021 (Option B)	25th	£22,351	£23,816	1:168
	Median	£26,785	£28,801	1:139
	75th	£28,675	£32,992	1:122
2020 (Option B)	25th	£24,964	£26,611	1:186
	Median	£30,597	£33,127	1:149
	75th	£32,486	£34,709	1:142
2019 (Option B)	25th	£24,859	£26,066	1:219
	Median	£27,026	£30,072	1:190
	75th	£32,429	£34,420	1:166

Notes:

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.

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 2021 to 2022 is primarily driven by the change in the distribution of our colleagues across pay levels within Serco. As shown in the above table, there has been an increase in the salary and total compensation for colleagues across our workforce (seen in the increase vs. 2021 at the 25th, median and 75th percentiles). While there will always be some changes to the distribution of our colleagues as contracts move in and out of the organisation, in 2022 this increase is also due to the actions taken by the Company to support colleagues during the cost-of-living crisis, such as the higher pay increases delivered in 2022.

Consistent with our approach in prior years, we have used our 2022 Gender Pay Gap data to identify employee representatives at each pay quartile of our UK employee population. Employees were ranked by hourly pay and, where possible, full-time colleagues at the quartile points fulfilling common roles within the UK employee population were selected as the representatives for comparison. Given our diverse workforce and large number of UK employees across many contracts and payrolls, this is considered to be the most appropriate method of identifying employees who are representative of our workforce. The single figures for each representative employee (all of whom were full-time) were calculated in respect of the financial year to 31 December 2022. The single figures have been calculated taking into consideration regular salary and allowances (e.g. shift allowances), employer pension contributions, taxable benefits and bonuses (which for 2022 included the ex gratia awards made to around 50,000 of our global colleagues to recognise the pressure many people, particularly the lower paid, are under at this time) 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 quartiles vary year on year, reflecting the fluctuation in the size and make-up of our workforce as contracts move in and out of the organisation and as we respond to the needs of our customers. This impacts the roles captured as representative of our lower, median and upper quartiles compared to prior years.

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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.

	2022 vs 2021	2022	2021
Distributions to shareholders (via dividends and share buyback)	81%	£121.3m	£67.0m
Overall expenditure on wages and salaries	7.8%	£2,140.2m	£1,984.7m

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

Awards made in 2022

Equity settled bonus plan (ESBP) (audited information)

In line with the approved Policy, in connection with the compulsory deferral of the 2021 bonus in excess of 100% of salary, Rupert Soames and Nigel Crossley were granted the following ESBP awards on 28 March 2022 in the form of conditional share awards. ESBP awards granted in 2022 vest on the third anniversary of grant on 28 March 2025.

Directors	Face value (£)[1]	Grant date	Market price at award (£)[2]	Number of shares[3]
Rupert Soames	537,094	28 March 2022	1.3942	385,234
Nigel Crossley	126,850	28 March 2022	1.3942	90,984

Notes:
1. Calculated as the value of the Executive Directors' 2021 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 2022, the CEO received LTIP awards equivalent to 200% of salary, and the CFO received awards equivalent to 150% of salary. All awards were in the form of conditional share awards.

The LTIP awards will normally vest on 6 April 2025, 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 2024.

Performance measure	Weighting of measure	Performance target
Aggregate EPS	25%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 28.41p (threshold, 25% vesting) to 34.72p (maximum, 100% vesting), measured as an aggregate over the three-year performance period.
Relative TSR	25%	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.
Average ROIC	25%	Pre-tax Return on Invested Capital (ROIC) of 17.3% (threshold, 25% vesting) to 21.2% (maximum, 100% vesting), measured as an average over the three-year performance period.
Order Book	10%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as an average over the three-year performance period.
ESG scorecard	15%	Scorecard made up of three components: – employee engagement score of 70 for target and 72+ for maximum performance measured via the Serco Employee Engagement Survey as an average across the three-year performance period; – colleague diversity improvement assessed against a scorecard of factors including reviewing progress on activities which support diversity as well as reviewing qualitative metrics such as the percentage of women and colleagues of diverse ethnic backgrounds who hold senior global leadership roles; and – improvement in environmental risks assessment measured by externally issued environment/climate rate changes.

The structure for vesting of the EPS, TSR and ROIC conditions is straight-line vesting between threshold and target, and target and maximum, and no shares vest where performance is below threshold. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance of these elements, therefore, delivers a 0% vesting outcome. The vesting level for on-target performance is 50%, with straight-line vesting between target and maximum. This is a more stringent approach than required under the approved Policy.

In determining the extent to which these LTIP awards will vest, the Committee will consider the Group's underlying performance (with input from the Group Audit and Risk Committees, as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

Each element of the LTIP award is subject to a post-vesting holding requirement that takes the total term of the LTIP award (i.e. performance period plus holding period) to a minimum of five years. Pre-vesting malus and post-vesting clawback are also applicable to these LTIP awards.

Directors	Basis of award (% salary)	Face value (£)	Grant date	Market price at award (£)[1]	Number of shares[2]	Percentage vesting at threshold performance[3]	Performance period end date
Rupert Soames	200%	1,700,000	6 April 2022	1.4488	1,173,384	18.75%	31 December 2024
Nigel Crossley	150%	657,900	6 April 2022	1.4488	454,099	18.75%	31 December 2024

Notes:
1. Average closing share price on the five trading days immediately prior to the date of grant.
2. Calculated using the average share price used to determine the number of shares awarded.
3. 75% of the awards that are subject to financial performance conditions vest at 25% for threshold performance. 25% of the awards that relate to Order Book and ESG performance conditions vest at 0% for threshold performance and only begin to vest when at least target performance is achieved.

MyShareSave 2022 (audited information)

As noted in the Chair's letter, Serco launched a new all-employee Save As You Earn (SAYE) plan (MyShareSave) in 2022. In line with the approved Policy, and HMRC's requirements relating to SAYE, the Executive Directors were invited to participate in the 2022 scheme on the same terms as all other eligible employees. In respect of his enrolment in the 2022 scheme, the CFO received a grant of discounted share options as set out below. These options were granted at a 20% discount (in line with HMRC's requirements relating to SAYE plans). The 2022 MyShareSave options will mature from 1 December 2025 following the completion of the associated 36-month savings contract and if the Executive Director is still in Serco employment.

Directors	Face value (£)[1]	Grant date	Market price for award (£)[2]	SAYE exercise price (£)[3]	Number of shares[4]
Nigel Crossley	6,697	28 October 2022	1.5630	1.2600	4,285

Notes:
1. Calculated as the value of the shares under option taking the market price for the options used to determine the exercise price.
2. Mid-market price on the option pricing date, 30 September 2022.
3. Being a 20% discount to the mid-market price on the option pricing date.
4. The number of shares under option based on the total savings under the savings contract and the exercise price.

Implementation of the Policy in 2023

Executive Directors

Salary increases for the year ending 31 December 2023

The base salary for Mark Irwin (CEO) was set by the Committee on appointment at £800,000 p.a. As set out in the Chair's letter, the Committee reviewed the base salary for the CFO and determined that with effect from 1 January 2023, this should be increased to £480,000 p.a.

Pension

The pension opportunities for Mark Irwin and Nigel Crossley were aligned to the wider workforce (8% of salary) from the date of their appointments as CEO and CFO on 1 January 2023 and 21 April 2021 respectively, and will remain at this level for 2023.

As previously communicated, although no longer an Executive Director in 2023, Rupert Soames' pension opportunity will be reduced from 20% to 8% of salary with effect from 1 January 2023. This reduction follows the previous change from 30% to 20% of salary which took effect 1 April 2020.

Annual bonus and LTIP

The annual bonus and LTIP opportunities for Mark Irwin were set by the Committee on his appointment on 1 January 2023. As set out in the Chair's letter, the remuneration for the CFO was reviewed in 2022 and the Committee determined that, in line with the approved Policy, his maximum annual bonus and LTIP opportunity should increase to 155% (from 140%) and 175% (from 150%) of salary respectively. Details of structure and opportunity under the 2023 annual bonus and LTIP for each Executive Director are set out on page 145. Further details of the performance framework to apply in 2023 are provided below.

Details of the performance measures to apply to the 2023 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 2023 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. TSR aligns variable pay with value created for shareholders. The Committee takes a robust approach to target setting, informed by internal budget and long-term plans, analyst forecasts and strategic objectives.

Recognising the importance of our ESG commitments to both the short- and long-term success of Serco, as was the case in 2021 and 2022, an ESG scorecard for both our annual bonus and LTIP will continue to be incorporated into each incentive. The ESG scorecard components have been chosen taking into consideration our current maturity across this space, our ability to set and measure performance that is relevant and meaningful to Serco, and the current strategic priorities as articulated in our Corporate Responsibility and People Reports. As our ESG strategy continues to evolve over time, and the priorities for Serco change, we would expect the scorecard components to also change. For 2023, the Committee decided to retain the same framework of ESG scorecard measures as they continue to be the most appropriate for our strategic direction for 2023.

Determination of the amount payable under the 2023 annual bonus plan will also take into consideration the wider performance of the Group as well as the affordability of the bonuses so determined. In determining the vesting of the 2023 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.

2023 bonus performance measures

The performance measures to apply to the 2023 annual bonus plan continue the focus on profit growth and cash, as well as to incorporate a strategically aligned ESG scorecard to support our ambition of being the best managed company in our sector. The 2023 performance measures will be aligned to core KPIs as follows:

Core KPIs

Financial (70%)		Non-financial (30%)	
40%	Trading Profit	15%	Personal objectives aligned to the delivery of the Group's corporate strategy
30%	Free Cash Flow	15%	ESG scorecard aligned to being the 'best managed company in our sector'

Components of the 2023 annual bonus ESG scorecard (15% weighting)

The 2023 annual bonus ESG scorecard will focus on two key areas:

- ensure a focus on health and safety within our operations; and
- maintain a high level of colleague engagement as measured through our annual Group employee engagement score.

The specific financial targets for the 2023 annual bonus plan are deemed to be commercially sensitive. Full disclosure of the targets set will be made in the 2023 Report following the end of the current financial year to the extent these are no longer considered commercially sensitive.

2023 LTIP performance measures

The table below provides details of the performance measures and targets to apply to the 2023 LTIP awards. Targets have been set taking into account our longer-term business forecasts and strategy, as well as analyst consensus.

Performance measure		Weighting of measure	Performance target	Threshold 25% vesting[1]	Maximum 100% vesting
Financial performance	Relative TSR	25%	Total Shareholder Return (TSR) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.	Median ranking	Upper quartile ranking
	Average ROIC	25%	Pre-tax Return on Invested Capital (ROIC) measured as an average over the three-year performance period.	18.3%	22.4%
	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.	34.64p	42.34p
Non-financial strategic performance	Order Book[1]	10%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as the cumulative average over the three-year performance period.	N/A	105% or above
	ESG scorecard	15%	The components of the 2023 LTIP ESG scorecard (set out below) have been selected as being important to the long-term sustainability of Serco.	N/A	See ESG table below

Note:
1. Only the financial performance targets vest at 25% for threshold performance, rising on a straight-line basis to 100% vesting at maximum performance. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. The vesting level for on-target performance (being a book-to-bill ratio of between 100% to 105%) is 50% of this element, rising on a straight-line basis to 100% for maximum performance.

Components of the 2023 LTIP ESG scorecard (15% weighting)

Performance measure	Performance target
Employee engagement	Average annual Group employee engagement score over the three-year performance period at or above 70 for on-target performance, and at or above 72 for maximum performance.
Improvement in colleague diversity	Performance will be assessed against a scorecard of factors relating to the improvement in colleague diversity. This will include reviewing progress on activities which support diversity, such as: – commitment to diversity charters, where appropriate, such as the UK Race at Work charter, and progress shown against the commitments made; – the continued implementation of policies to promote diversity in recruitment and candidate pools; – wider and better targeted participation in learning and career development; and – active management of a talent pipeline and progression within the organisation which will, in time, result in a more diverse leadership cadre. To track progress, the Committee will also review quantitative metrics such as the percentage of women and colleagues of diverse ethnic backgrounds holding senior global leadership roles.
Improvement in our understanding, management and disclosure of Serco's environmental risks	Demonstrate improvements in environmental performance and management of environmental risks, through actions taken in line with our environmental strategy and improvements in externally issued environment/ climate change ratings such as CPD Climate Change Scores.

In each case, the performance will be assessed over the three-year period ending 31 December 2025. The structure for vesting of the EPS, TSR, ROIC and ESG conditions will be straight-line vesting between threshold and target, and between target and maximum, and no shares will vest where performance is below threshold. The Committee views the Order Book and ESG targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance will, therefore, deliver a 0% vesting outcome. The vesting level for on-target performance will be 50%, with straight-line vesting between target and maximum. This is a more stringent approach than that required under the Policy. In determining the final vesting of these awards, the Committee will also give consideration to the Group's underlying performance (with input from the Group Audit and Risk Committees as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

Non-Executive Directors

Following the annual review of Non-Executive Director fees, the Committee (in respect of the Chairman's fee) and the Board (in respect of all other Non-Executive Director fees) determined that the Chairman's fee, basic Board fee and additional fees for acting as Chair of a committee and membership of a committee would be increased by 4% from 1 April 2023 in line with the average percentage increase awarded to the wider UK workforce. No fee increase will be applied for the role of Senior Independent Director. In recognition of the significant time and expertise given by the Designated Non-Executive Director for Workforce Engagement, it was also agreed that a fee be introduced from 1 April 2023 for this role, aligned to the fees payable for membership of a committee. In line with the approved Policy, the fees to apply in 2023 will be as follows:

	Base fee to apply from 1 April 2023 £	Base fee 1 April 2022 £	Change £
Element – Annual Board and Committee fees			
Chairman	291,200	280,000	11,200
Senior Independent Director	15,000	15,000	0
Board fees	56,498	54,325	2,173
Chairmanship of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	13,000	12,500	500
Membership of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	5,200	5,000	200
Designated Non-Executive Director	5,200	N/A	5,200

No additional fee is payable for the Chair or membership of the Nomination Committee. The Chairman does not receive any additional fees for his Committee memberships nor do the Executive Directors where they sit on Board Committees.

Voting outcomes

At the previous AGMs, votes on remuneration matters were cast as follows:

	Year of AGM	For %	Against %	Number withheld[1]
2021 Annual Report on Remuneration	2022	85.33%	14.67%	9,760,163
2020 Remuneration Policy	2021	94.55%	5.45%	1,633,113

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 until 28 February 2022, and a member of the Audit, Nomination and Remuneration Committees until he retired from the Board of D S Smith on 6 September 2022; in aggregate he received fees in 2022 of £44,162. Nigel Crossley did not hold any external appointments in the year.

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 £1.5540 per share at 30 December 2022 (being the last trading day of the financial year).

Executive Directors

				Share awards		Share options		
Name	Share ownership requirements (% of salary)[1]	Number of shares owned outright at 31 December 2022[2]	Value invested[3] (£)	Subject to performance conditions[4]	Not subject to performance conditions[5]	Not subject to performance conditions[6]	Exercised during the year[7]	Total share interests at 31 December 2022[2]
Rupert Soames	200%	2,759,287	£2,701,490	3,832,238	1,081,054	0	0	7,672,579
Nigel Crossley	200%	278,721	£404,125	1,196,253	92,452	4,285	0	1,571,711

Notes:
1. Nigel Crossley was appointed to the Board as Group CFO on 21 April 2021. It is anticipated that it will take him up to five years from appointment to meet his shareholding commitment.
2. Includes shares owned by connected persons. There were no changes in Executive Directors' interests in the period between 1 January 2023 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 2022 by the Executive Director and/or their connected persons.
4. Includes awards made to Rupert Soames and Nigel Crossley under the LTIP. All awards are in the form of conditional share awards.
5. These are awards made under the ESBP in connection with the compulsory deferral of bonus into shares. Awards are in the form of conditional share awards and have not yet vested.
6. Options over shares pursuant to participation in MyShareSave. These are options granted under a UK SAYE plan subject to an exercise price at a maximum discount of 20% of the share price at grant. There are no unvested share options held which are subject to performance conditions.
7. There are no share options that are vested but unexercised.

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 2022[1,2]
John Rishton	43,086
Kirsty Bashforth	10,000
Kru Desai	0
Tim Lodge	40,000
Ian El-Mokadem	50,000
Dame Sue Owen	10,000
Lynne Peacock	15,000

Notes:
1. Includes shares owned by connected persons. There were no changes in Non-Executive Directors' interests in the period between 1 January 2023 and the date of this report.
2. Non-Executive Directors do not have shareholding guidelines and there are no interests in shares held by Non-Executive Directors where the individual does not own those shares outright.

Other shareholding information

Shareholder dilution

Awards granted under the Company share plans are met either by the issue of new shares or by shares held in trust when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Investment Association (formerly the ABI) in respect of all share plans is 10% in any rolling ten-year period and in respect of discretionary share plans is 5% in any rolling ten-year period.

Dilution against these 5% and 10% limits is regularly reviewed. Based on the Company's issued share capital as at 31 December 2022, the Company had headroom of 1.7% and 6.7% respectively so our dilution level was within these limits.

The Group has an employee share ownership trust which is administered by an independent trustee and which holds ordinary shares in the Company to meet various obligations under the share plans.

The Trust held 11,605,185 and 9,144,275 ordinary shares at 1 January 2022 and 31 December 2022 respectively.

Summary of the approved Remuneration Policy

The Policy took effect following shareholder approval at the 2021 Annual General Meeting (held on 21 April 2021). A summary of the Policy is provided below. This summary does not replace or override the full approved Policy which is available on our website within the 2020 Annual Report and Accounts.

Remuneration principles

Serco's Policy supports the achievement of the Group's long-term strategic objectives. Serco's approach to executive remuneration is designed to:

- support Serco's long-term future growth, strategy and values;
- align the financial interests of executives and shareholders;
- provide market-competitive reward opportunities for performance in line with expectations and deliver significant financial rewards for sustained out-performance;
- enable Serco to recruit and retain the best executives with the required skills and experience in all our chosen markets;
- be based on a clear rationale which participants, shareholders and other stakeholders are able to understand and support.

In considering the structure and framework for the Policy, the Committee carefully considered the linkage of remuneration to the Company's strategy to ensure that the arrangements support the strategy and promote the long-term sustainable success of Serco. We approach Executive Directors' remuneration on a total reward basis to provide the Remuneration Committee with a holistic view of total remuneration rather than just the competitiveness of the individual elements. Analysis is conducted by looking at each of the different elements of remuneration (including salary, annual bonus, long-term incentive plan and pension) in this context. This ensures that in applying the Policy, executive pay is sufficient to achieve the goals of the Policy without paying more than is necessary. The balance of fixed to variable pay also ensures that significant reward is only delivered for exceptional performance.

This remuneration framework is echoed throughout the organisation with the approach to pay for the wider workforce reflecting these core principles.

The Policy table for Executive Directors below sets out how each element of the 2021 Policy aligns with, and supports, our strategic objectives.

Base salary

Purpose	To recognise an individual's experience, responsibility and performance of the role, and by providing the basis for a competitive remuneration package; to help recruit and retain executives of the necessary calibre to execute Serco's strategic objectives.
Operation	Salaries are normally reviewed annually, and any changes are usually effective from 1 April. Salary reviews take account of the individual's performance and contribution to the Company during the year. Salary levels are set by reference to the: – role, performance and experience of the individual; – wider economic environment; – compensation of similar roles at companies in an appropriate peer group; and – salary increases across the Group. In some circumstances an Executive Director may start on a lower salary than would be competitive in the market, with a phased increase applying depending on performance in role and individual ability.
Opportunity	While there is no prescribed, formulaic maximum, over the Policy period base salaries for Executive Directors will be set at an appropriate level within the peer group and will normally increase at no more than salary increases made to the general workforce in the jurisdiction in which the Executive Director is based. Higher increases may be made in exceptional circumstances. Such cases would include where there has been a significant change in role size or complexity, which has resulted in the salary falling below a market competitive level given the enhanced responsibilities of the role. Full disclosure of the rationale would be included in the relevant Report.
Performance framework	Review takes account of individual performance and contribution to the Company during the year.

Benefits

Purpose	To provide a competitive level of benefits.
Operation	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. 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. Benefits are reviewed annually against market practice and are designed to be competitive.
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: – 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.
Opportunity	Maximum annual award of up to 200% of base salary for the CEO and 175% for other Executive Directors.
Performance framework	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. The maximum vesting for threshold performance is 25% of the total award, and 100% vesting for maximum performance. 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.

Shareholding guidelines

Purpose	To support long-term commitment to the Company and the alignment of Executive interests with those of shareholders.
Operation	The Committee reviews the shareholding guidelines with the Policy review to ensure the guidelines remain in line with market and best practice. Unvested awards that are subject to performance conditions are not 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. 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.
Opportunity	**In-employment guideline** The in-employment shareholding guideline is 200% of salary. **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. The Committee has the discretion to increase the shareholding guidelines of the Executive Directors.
Performance framework	None

Remuneration Policy for the Chairman and Non-Executive Directors

Base fees

Purpose	To attract Non-Executive Directors with the necessary experience and ability to make a substantial contribution to the Group's affairs.
Operation	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. 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 or chair of a Board Committee. Fees are typically reviewed on an annual basis against a relevant peer group and taking into consideration market practice.
Opportunity	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. The base fees or fees for specific Non-Executive Directors' roles may be reviewed at any time based on anticipated responsibility and time commitment involved. Current fee levels are shown on page 160.
Performance framework	Non-Executive Directors fees are not performance related.

Benefits and expenses

Purpose	To cover the cost of reasonable expenses in connection with carrying out the duties of the role.
Operation	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. In addition, all reasonable travel and business-related expenses incurred in connection with carrying out their duties are reimbursed.
Opportunity	The maximum travel allowance is £5,000 per occasion requiring intercontinental travel.
Performance framework	None

Non-Executive Directors are not entitled to receive incentives and pension. Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding guideline.

Malus and clawback

Malus and clawback provisions apply to awards under the annual bonus and long-term incentive. Under the Policy, the Committee, at its discretion, may reduce, cancel or recover some or all of the awards granted to Executive Directors in certain circumstances. Under the malus and clawback provisions, the Company may reduce or prevent vesting of unvested share awards, or clawback against vested or paid awards, in circumstances including but not limited to material misstatement of the Group's audited financial results; material or misleading results announcement prior to vesting; a clear and material contravention of Serco's Codes of Practice or Values; a serious failure of risk management; or an event that leads to serious reputational damage or corporate failure. Clawback may be invoked in the most serious of these circumstances and must be implemented within five years of the grant of the relevant long-term incentive or deferred bonus share award, and within two years in respect of the bonus awards paid in cash.

Use of discretion
The Committee will operate the annual bonus plan and LTIP according to their respective rules, as approved by shareholders, and in accordance with the Listing Rules, where applicable. The Committee retains discretion, consistent with market practice, in a number of areas with regard to the operation and administration of these plans. These include, but are not limited to:

- the participants;
- the timing of grant of an award;
- the vehicle of an award;
- the size of an award;
- the determination of vesting or bonus payment;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weighting, and determining the performance measures for the awards granted from year to year.

In relation to the long-term incentive and bonus, the Committee retains the ability, in exceptional circumstances, to change performance measures, targets and/or the relative weighting of performance measures part-way through a performance period if there is a significant event (such as a major transaction or, in the case of the bonus only, a transition in role) which causes the Committee to believe the original performance conditions are no longer appropriate. In exercising this discretion, the Committee will determine that the original conditions are no longer appropriate, and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. In exceptional circumstances, the Committee also has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group. Any use of the above discretions would, where relevant, be explained in the Remuneration Report.

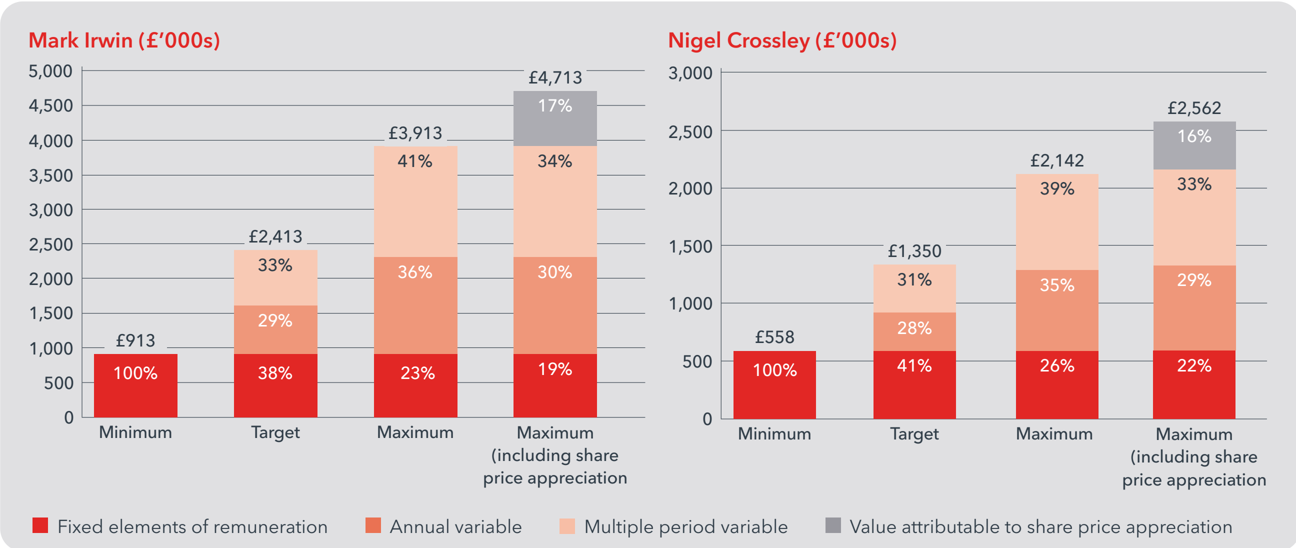
Consideration of employment conditions elsewhere in the Group
When setting remuneration for Executive Directors, the Committee considers contextual information about pay and conditions within the Group, including salary increases and bonus awards for the wider workforce. The Committee signs off all reward decisions applicable to the Executive Committee Members. More broadly, the Committee receives regular updates from Management in relation to employee feedback, and on pay and employment conditions elsewhere in the Group. Further details of how this and the colleague voice is considered are provided in the Chair's letter. The Committee believes that the structure of management reward at Serco should be linked to Serco's strategy and performance, and that reward throughout the whole organisation should follow the same philosophy and underlying principles. The table below provides an overview of how the Policy cascades throughout the organisation.

Element	Cascade of the Executive Director Remuneration Policy
Base salary	Salary levels throughout the Group, as far as possible, are set using the same principles applicable to the Executive Directors. Salary increases for Executive Directors will not normally exceed the average increase of the wider workforce.
Benefits	Market-aligned benefits are provided for all employees.
Pension	The Group operates a large number of different pension/retirement benefit arrangements globally, in line with local market practice. Cash allowance alternatives are offered where applicable, e.g. where pension tax allowances would otherwise be exceeded.
Annual bonus	Approximately 1,400 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 has launched an all employee share plan, MyShareSave, enabling all colleagues to share in Serco's longer-term success.

Consideration of shareholder views
The Committee believe it is important to continue to maintain effective channels of communication with our shareholders. The Committee takes the views of shareholders very seriously and these views have been influential in shaping our policy and practice.

Illustration of remuneration opportunity for 2023

The following charts illustrate the value that may be delivered to Executive Directors in 2023 under the Policy.



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration:
  - Base salary as applicable from 1 January 2023.
  - Estimated value of benefits to be provided in 2023 in line with the Policy.
  - Pension contribution/cash supplement equal to 8% for Mark Irwin and Nigel Crossley in line with the Policy applicable in 2023.
- Annual bonus and LTIP participation as set out in the Policy table. In all cases, target performance results in delivery of 50% of maximum opportunity. The LTIP values reflect the 'face value' at grant of shares that could be received for target and maximum performance. The LTIP value under the maximum scenario is also shown assuming 50% share price appreciation over the performance period.

Approach to recruitment remuneration

Our approach to recruitment remuneration follows our overarching remuneration principles – that is that we seek to offer a package that is sufficient to attract, retain and motivate while aiming to pay no more than is necessary. We take into account that, as a complex global business, Serco operates in diverse markets and geographies and many of its competitors for talent are outside the UK.

The remuneration package for a new Executive Director is aligned to the elements set out in the summary Policy table on pages 163 to 165. Base salary is set by the Committee taking into account all factors it considers relevant, including the Executive Director's experience and calibre, current total remuneration, levels of remuneration for companies in the Committee's chosen peer group, and the remuneration required to attract the best candidate for Serco. The Committee will seek to ensure that the arrangement is in the best interests of the Company and its shareholders without paying more than is necessary. New promotees or recruits to the Board may on occasion have their salaries set below the targeted policy level while they become established in their role. In such cases, salary increases may be higher than inflation or the wider workforce increase until the targeted market positioning is achieved.

The recruitment policy also includes the additional provision of benefits in kind, pensions and other allowances such as relocation, education and tax equalisation in line with Serco policies as may be required in order to achieve a successful recruitment. The policy for recruitment also includes benefits that are either not significant in value or are required by legislation. Any new UK-based Executive Director would be offered either a pension contribution and/or a pension allowance aligned to the maximum opportunity available to the wider UK workforce (currently 8% of salary). For a newly appointed Executive Director based outside the UK, their maximum pension opportunity will align with that available to the wider workforce for the jurisdiction in which they are based.

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

Element of remuneration	Maximum percentage of salary
Maximum variable pay:	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 169.

Provision for Executive Directors	Detailed terms
Notice period	– 12 months' notice from the Company – 12 months' notice from the Director

Termination payment	– Payment in lieu of notice comprising:
	  – Base salary
	  – Pension allowance
	  – Selected 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]	– 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.

Provision for Executive Directors	Detailed terms
Treatment of unvested awards granted under the LTIP[1]	– All awards lapse except for 'good leavers' for whom vesting is pro-rated on a time basis, unless the Committee determines otherwise, and is dependent on the achieved performance over the performance period. Awards typically vest on the normal vesting date although the Committee retains discretion to accelerate the vesting in exceptional circumstances. – The Committee has the discretion to vary the level of vesting to reflect 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	– As set out in the Policy table on page 165, post-employment shareholding requirements apply for two years following the cessation of employment of an Executive Director.
Change of control	– 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	– 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	– 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	– No compensation or other benefits are payable on early termination.

Dates of Directors' service contracts/letters of appointment

Directors who served on the Board during the financial year ended 31 December 2022:

Director	Date of appointment to the Board
John Rishton	13 September 2016
Rupert Soames[1]	8 May 2014
Nigel Crossley	21 April 2021
Kirsty Bashforth	15 September 2017
Kru Desai	21 October 2021
Tim Lodge	21 February 2021
Ian El-Mokadem	1 July 2017
Dame Sue Owen	3 August 2020
Lynne Peacock	1 July 2017

1. Rupert Soames resigned from the Board on 31 December 2022.

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

Directors' Report

Annual Report and Accounts
The Directors present the Annual Report and Accounts of the Group for the year ended 31 December 2022. Comparative figures used in this report are for the year ended 31 December 2021 unless otherwise stated. The Corporate Governance Report, set out on page 111 to 141 and the Corporate Governance Statement, on page 260 and 261, form part of the Directors' Report.

The Chairman's Statement on pages 4 and 5 and the Chief Executive's Review and Divisional Reviews on pages 15 to 35 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 31 to the Consolidated Financial Statements.

The powers of the Directors to issue or buy back shares are restricted to those approved at the Company's Annual General Meeting.

At the Annual General Meeting in April 2022, 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 2023 Annual General Meeting, at which a revised resolution following the resolution template issued by the Pre-Emption Group in November 2022 will be proposed for approval by shareholders, or, if earlier, 30 June 2023.

Rights attaching to shares
Each ordinary share of the Company carries one vote at general meetings of the Company. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law.

The Company is not aware of any agreement between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Authority for the purchase of shares
At the Annual General Meeting in April 2022, the Company was granted authority by shareholders to purchase up to 121,800,878 ordinary shares (10% of the Company's issued ordinary share capital as at 7 March 2022). This authority will expire at the conclusion of the 2023 Annual General Meeting, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2023.

As announced on 24 February 2022, the Company undertook a programme to purchase its own shares with a value of up to £90 million. During the year, the Company purchased a total of 55,506,704 shares with a nominal value of £1,110,135 (representing 4.56% of the Company's issued share capital (including those repurchased and held in treasury) on 9 December 2022, the date the repurchase programme was completed) at a total cost of £91.2 million. The shares purchased are currently held in treasury and will be cancelled during Q1 2023.

The Board has agreed a further share purchase up to the value of £90 million which it is intended will be completed in 2023.

Dividends
The Directors recommend that a final dividend of 1.92pence be paid in respect of the year ended 31 December 2022 (2021: 1.61pence). An interim dividend of 0.94pence per share was paid during the year (2021: 0.8pence).

Subject to approval by shareholders at the Annual General Meeting to be held on 27 April 2023, the final dividend will be paid on 9 June 2023 to shareholders on the register at the close of business on 12 May 2023.

Directors
Details of the current members of the Board, all of whom served throughout the year, with the exception of Mark Irwin, who was appointed on 1 January 2023 are set out on pages 115 to 117.

Rupert Soames resigned as a Director with effect from 31 December 2022.

Mark Irwin, having been appointed as a Director since the previous Annual General Meeting, will resign and offer himself for election at the Annual General Meeting on 27 April 2023 in accordance with the Articles of Association.

In accordance with the UK Corporate Governance Code, all other Directors will stand for re-election at the Annual General Meeting.

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

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 2022 are set out in the Directors' Remuneration Report on page 161.

Between 1 January 2023 and the date of this report there were no changes in the Directors' interests in ordinary shares and options over ordinary shares.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles of Association and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary of the Company in respect of their positions as officers of the Company as a supplement to this insurance cover. The indemnities, which constitute a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary of the Company.

Branch offices

The Group operates through branches of subsidiary companies in the following jurisdictions: Abu Dhabi, Afghanistan, Bahrain, Belgium, Dubai, France, Germany, Iraq, Italy, Luxembourg, Netherlands, Qatar, Ras Al Khaimah, Saudi Arabia, Sharjah and Singapore.

Significant agreements that take effect, alter or terminate upon a change of control

Given the business-to-government nature of many of the services provided by the Company and its subsidiaries, many agreements contain provisions entitling the other parties to terminate them in the event of a change of control, including a takeover of the Company. The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate if the Company is subject to a change of control:

Material contracts

Clarence Correctional Centre: On 14 June 2017, NorthernPathways Project Trust (of which Serco Australia Pty Limited was a member at the time) entered into a project deed with the Australian State of New South Wales to design, construct and operate a new build prison named the New Grafton Correctional Centre, the name of which has subsequently been changed to Clarence Correctional Centre. Also, on 14 June 2017, Serco Australia Pty Limited entered into an operator sub-contract with NorthernPathways, pursuant to which Serco was awarded the rights to operate the prison. The prison entered operations on 1 July 2020, following acceptance of the completed Clarence Correctional Centre by the State ("Commencement Date"). The operator sub-contract will run for 20 years from the Commencement Date. Both the project deed and the operator subcontract contain change of control provisions that provide that any change of control to an unrelated third-party that has not been approved by the State of New South Wales would be a major default. A major default under either the project deed or operator sub-contract, if not cured, could result in a termination of that contract.

Australian Immigration Services: On 11 December 2014, Serco Australia Pty Limited entered into a contract with the Commonwealth of Australia (acting through the Department of Immigration and Border Protection) for the provision of detention services at all onshore immigration facilities in Australia. The contract has an initial five-year term, with two two-year extension options. The first option was exercised by the client in late 2019 and the second option was exercised in 2021, so the current term will run until December 2023. In the event of a change in control or ownership of Serco Australia Pty Limited, which in the reasonable opinion of the Commonwealth adversely affects the Company's ability to perform the services, the contract may be terminated by the Commonwealth.

Subcontract relating to the provision of ADF Health Services by Bupa Health Services Pty (Bupa) to the Commonwealth of Australia, Department of Defence (NGHS Contract): On 4 February 2019 Serco Australia Pty Limited entered into a Subcontract with Bupa for the provision of national garrison health services to the Commonwealth of Australia, Department of Defence. The contract had a services commencement date of 1 July 2019, with an initial six-year term. The NGHS Contract includes a change of control provision that provides that a change of control of the ultimate holding company, Serco Group plc, requires Bupa's prior written consent. If the change is as a result of market transactions, then Bupa is to be notified as soon as possible and consent sought after the event.

On request, details of the change and its impact on Serco Australia Pty Limited's obligations under the NGHS Contract are to be provided to Bupa. Bupa may provide consent to the change subject to conditions. If Bupa does not consent to the change of control, Bupa may terminate the NGHS Contract for default.

Special Security Agreement: In order to bid and perform on certain classified contracts involving US national security, Serco Inc. was required to mitigate its foreign ownership through a Special Security Agreement (SSA) between the US Government, Serco Inc. and Serco Group plc. The effective date of the SSA is 7 October 2019. The U.S. Department of Defense may terminate Serco's SSA in the event of the sale of the Corporation to a company or person not under Foreign Ownership, Control or Influence (FOCI).

CMS Eligibility Support Services: In June 2018, Serco Inc. was awarded a follow-on contract with the United States of America (acting through the Centers for Medicare and Medicaid Services (CMS)) for the provision of support for the Exchanges implemented to provide affordable health insurance and insurance affordability programmes. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.

Anti-Terrorism/Force Protection (AT/FP) Ashore Program Global Sustainment Contract: In February 2021, Serco Inc. was awarded a contract with the United States of America (acting through the Naval Facilities Engineering Systems Command) to provide sustainment services for electronic anti-terrorism and force protection systems at U.S. Navy installations around the world. The contract has an initial base term of five years, with one option for an additional three years. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.

Federal Emergency Management Agency (FEMA) Recovery Directorate, Public Assistance Division Technical Assistance Contracts IV ("PA TAC IV"): In December 2017, Serco Inc. was awarded an indefinite-delivery/indefinite-quantity (IDIQ) contract with the United States of America (acting through the Federal Emergency Management Agency) to provide professional and non-professional services, in an advisory and assistance capacity, in support of FEMA responses to major disasters and emergencies. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.

Directors' Report continued

Asylum Accommodation and Support Services Contract ("AASC"): On 8 January 2019 Serco Limited entered into contracts with the Secretary of State for the Home Department (acting through its UK Home Office Visas and Immigration department) for two AASC regions, being the North West of England and the Midlands & East of England. Under AASC, Serco is responsible for the provision of properties for initial and dispersed accommodation requirements, for transportation to and from properties, and for a range of other services to support the welfare of asylum seekers. The AASC contracts became operational on 1 September 2019. The contracts are for a ten-year term. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which in the reasonable opinion of the Authority adversely affects Serco's ability to perform the services, the contracts may be terminated by the Authority.

Agreement relating to the provision of Prisoner Escort and Custodial Services (Generation 4) ("PECS IV"): On 30 October 2019 Serco Limited entered into a ten-year contract with the Secretary of State for Justice to provide prisoner escort services to the South of England. Under the PECS IV contract Serco is responsible for provision of prisoner escort and custody services, including the escort and custody of young people in the criminal justice system. The PECS IV contract became operational on 28 August 2020. In the event of a change of control or ownership of Serco Limited or Serco Group plc, which the Authority reasonably believes will negatively affect either Serco's ability to perform the services or the Authority's reputation, the contract may be terminated by the Authority.

Future Defence Infrastructure Services (FDIS) programme: Serco Holdings Limited is a 50% shareholder in VIVO Defence Services Limited ("the VIVO JV"). Serco Holdings Limited's joint venture partner and the other shareholder in the VIVO JV is a UK subsidiary company of EQUANS SAS (EQUANS Holding UK Limited) which is now part of the Bouygues Group (following its acquisition of EQUANS from Engie). The VIVO JV performs facilities management services pursuant to call-off contracts procured by the UK Defence Infrastructure Organisation (DIO) part of the UK Ministry of Defence (MoD) under a Crown Commercial Services Framework Agreement for the provision of Workplace Services (RM6089) ("the CCS Framework") as part of the Future Defence Infrastructure Services (FDIS) programme. On 14 June 2021 VIVO entered into two call-off contracts (one for the Central Region and one for the South West Region) for Lot 3 contracts under the CCS Framework for a seven-year term (with the possibility of extension for further periods of up to three years) ("the Lot 3 Contracts"). The Lot 3 Contracts became operational on 1 February 2022. On 24 June 2021, VIVO entered into two further call-off contracts (one for the South East and one for the South West Region) for Regional Accommodation Maintenance Services (RAMS) under Lot 2b for an initial seven-year term (with the possibility of extension for further periods of up to three-years) ("the Lot 2b Contacts"). The Lot 2b Contracts become operational on 1 March 2022. Under the terms of the CCS Framework, in the event of a change of control of VIVO without the prior approval of the MoD, the Lot 2b Contracts and Lot 3 Contracts may be terminated by the MoD. In the event that there is a change of control of Serco Holdings Limited, it is required to transfer its entire shareholding in the VIVO JV to Serco Group plc or another wholly owned subsidiary of Serco Group plc prior to such change of control. In the event that there is a change of control of Serco Holdings Limited without its entire shareholding in the VIVO JV first being transferred to another member of the Serco Group or if there is a change of control of Serco Group plc then, unless the prior approval of the other shareholder in the VIVO JV is given, the other shareholder in the VIVO JV is entitled to purchase the VIVO JV shares and loans held by Serco Holdings Limited and any other member of Serco Group plc at fair market value determined by an expert.

Financing facilities

Revolving credit facility: The Company has a £350,000,000 revolving credit facility dated 18 November 2022 with a syndicate of banks. The facility provides funds for general corporate and working capital purposes and bonds to support the Group's business needs. The facility agreement provides that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it and cancel its commitments under the facility.

US notes: The Company has notes outstanding under three US Private Placement Note Purchase Agreements ("the USPP Agreements") dated 20 October 2011, 13 May 2013 and 8 October 2020 respectively. The total amount of the notes outstanding under the three USPP Agreements was $320,753,135 at 31 December 2022, and their maturity is between October 2023 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.

Share plans

The Company's plans contain provisions in relation to a change of control. Outstanding options and awards may vest and become exercisable on a change of control of the Company, in accordance with the rules of the plans.

Annual General Meeting 2022

The 2022 Annual General Meeting was held on Thursday 28 April 2022 at Enterprise House, 11 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9XB.

Annual General Meeting 2023

The 2023 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 Thursday 27 April 2023 at 11.00 am.

Financial risk policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out in note 29 on pages 233 to 237.

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, while subject to Group-wide policies and principles.

Diversity

The Group is committed to ensuring equal opportunity, honouring the rights of the individual, and fostering partnership and trust in every working relationship. Policies and procedures for recruitment, training and career development promote diversity, respect for human rights and equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

The Group promotes diversity and inclusion so that every employee is able to be successful. The Group gives full consideration to applications for employment, career development and promotion from persons of disability, and offers employment when suitable opportunities arise. Wherever practicable adjustments will be made for persons of disability to continue with employment and training.

Human rights

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

We have zero tolerance for any activities that break any law relating to human rights, either directly or indirectly, anywhere in the world. Recognising all applicable modern slavery legislation, we will not engage in any form of human trafficking or use forced, bonded, illegal or child labour, nor knowingly work with anyone who does. We consider international human rights standards as a framework to assess, monitor, mitigate and remedy any actual or potential adverse human rights impacts that may affect our business.

We provide guidance and support to our employees to help them identify, manage and respond to any risk or issue, and maintain confidential reporting resources for anyone concerned about violations of our Values, policies or Code of Conduct, while ensuring there is no need for them to fear the consequences of doing so.

Our commitment to human rights is defined within our Business Conduct and Ethics Policy Statement, supporting standards (including our Group Standard for Human Rights) and related operating procedures (including our Human Rights Decision Tree). Our human rights policies are guided by international human rights principles encompassed in the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact and the United Nations Guiding Principles on Business and Human Rights.

Further information is available in our human rights supplement on our website.

Employee engagement

The Group is proud of its record of managing employee relations and believes that the structure of individual and collective consultation and negotiation is best developed at a local level. Over the years, the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as in employment terms and conditions. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

The Group has been proactive in providing employees with information on matters of concern to them as employees and in taking their views on board. Effective leadership and line management are our principal means of engagement and employee feedback is invited through Viewpoint, our employee engagement survey; Speak Up, our global ethics helpline and investigation process; Yammer, our internal social media platform; and Colleague ConneXions, our approach to amplifying employee voice and strengthening dialogue between the Board and employees.

These mechanisms ensure employees' views are considered in decision-making and that they have a common awareness of Group strategy, matters of concern to them and the financial and economic factors affecting the performance of the Company.

Participation by staff in the success of the Group is encouraged by the availability of long-term incentive arrangements for senior management, which effectively aligns their interests with those of shareholders by requiring that Company-level financial performance criteria are achieved as a condition of vesting.

We have also continued to strengthen our global benefits offerings and created further opportunities for colleagues to share in the success of the Company. Shareholders approved the Rules for an all employee, global share plan which was launched in 2022, offering our employees an annual opportunity to contribute to the plan over a three-year term to build affordable savings out of which they can acquire shares in the Company at the expiry of each savings contract.

Further information is contained in the People Report which is available on the Company's website.

Corporate responsibility

We have been committed to delivering and communicating our position and performance across environmental, social and governance (ESG) criteria for many years. We recognise the deep strategic relevance of all that we do in those areas and ESG factors are embedded in how we deliver our strategy, defined and driven through our ESG Framework. Our framework brings all our strategic ESG priorities together in one model, structured around our key stakeholder groups. It is considered in strategy development and firmly embedded in how we manage our business, driven through the Serco Management System with appropriate Board and Executive oversight and dedicated leadership at both Group and Divisional levels.

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

Further information can be found in the Strategic Report on pages 36 to 109.

Directors' Report continued

Political donations

During the year neither the Company nor the Group made political donations and they intend to continue with this policy. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, a resolution will therefore be proposed that the authority granted at the Annual General Meeting in April 2022 regarding political donations be renewed in order to avoid inadvertent contravention of UK legislation. Details will be included in the Notice of Annual General Meeting.

Within the US business there exists a Political Action Committee (PAC), which is funded entirely by employees. The Serco PAC and its contributions are administered in strict accordance with regulatory requirements. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Some office space was provided free of charge between August 2021 and November 2022 for the use of the local constituency MP in our Hook office facility. It was agreed that there would be no need for Serco to declare any political donation as the team's work was not political and the local political party office was located elsewhere. It was been recorded under Serco's Community Investment.

Financial statements

At the date of this report, as far as each Director is aware, there is no relevant audit information of which the Group's Auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Auditor

Following a tender process undertaken in 2016, KPMG LLP were appointed by the Board in 2017 as the Company's external auditor for the 2016 audit and have served as the Company's auditor for seven years.

The Audit Committee has considered the reappointment of KPMG LLP as auditor and recommended it to the Board. The Board recommends the reappointment of KPMG LLP to shareholders at the Annual General Meeting to be held on Thursday 27 April 2023.

Going concern and Viability Statement

The Company's Going Concern and Viability Statement can be found on pages 109 and 110.

Interests in voting rights

At 31 December 2022, 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.	80,152,202	6.80	Indirect
	2,542,081	0.21	Securities lending
	36,001,763	3.05	Contract for difference
	118,696,046	**10.06**	**Total**
FIL Limited	115,866,890	9.94	Indirect
	1,400,560	0.12	Contract for difference
	117,267,450	**10.06**	**Total**
Marathon Asset Management LLP	58,929,884	4.93	Indirect
Majedie Asset Management Limited	59,024,599	4.86	Direct
Slater Investments Limited	59,808,863	4.91%	Indirect
	1,100,000	0.09%	Direct
	60,908,863	5.0%	Total

Notes:
1. The above interests may have changed since the date of notification to an interest not requiring further notification under Rule 5.
2. On 24 February 2023, Blackrock Inc. notified the Company that its interests in voting rights had decreased to 9.90% (115,288,785 shares).

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 (*).

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

David Eveleigh
Group General Counsel and Company Secretary
27 February 2023

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Mark Irwin
Group Chief Executive
27 February 2023

Nigel Crossley
Group Chief Financial Officer
27 February 2023

Financial Statements

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 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheet, Consolidated Cash Flow Statement and the related notes, including the accounting policies in note 2 for the Group financial statements and the accounting policies in note 38 for the Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 27 May 2016. The period of total uninterrupted engagement is for the 7 financial years ended 31 December 2022.

We have fulfilled our ethical responsibilities and remain independent of the Group in accordance with UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities.

Apart from the matters noted below, we have not performed any non-audit services during the year ended 31 December 2022 or subsequently which are prohibited by the FRC Ethical Standard.

During 2023, we identified that certain KPMG member firms had provided preparation of local financial statement services and foreign language translation services over the period 2017 to 2022. The entities to which the services were provided were not material to the group and no audit procedures were performed on these entities for the purpose of the group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work in each case was undertaken after the group audit opinion was signed by KPMG LLP for each of the impacted financial years and had no direct or indirect effect on Serco Group plc's consolidated financial statements.

In our professional judgment, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of this service would not impair our integrity or objectivity for any of the impacted financial years. The audit committee have concurred with this view.

2 Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Revenue and margin recognition
Revenue £4,534.0m (2021: £4,424.6m), Onerous Contract Provisions of £11.6m (2021: £14.2m) and Contract Assets £345.0m (2021: £319.0m)

Assessment of risk vs. prior year: Unchanged
Refer to page 132 (Audit Committee Report), pages 196 to 197 and 203 (accounting policy), pages 203 to 205 (key sources of estimation uncertainty), pages 213 to 214 (revenue from contracts with customers note in the financial statements), pages 226 to 227 (contract assets, trade and other receivables note in the financial statements) and pages 230 to 231 (provisions note in the financial statements).

The risk

Accounting application

The many and sometimes unique contractual arrangements that underpin the measurement and recognition of revenue by the group can be complex, particularly in relation to variable revenue, with judgement involved in the assessment of current and future financial performance. The key judgements impacting the recognition of revenue and resulting operating profit include:

- Interpretations of terms and conditions in relation to the required service obligations in accordance with contractual arrangements;
- The allocation of revenue and costs to performance obligations where multiple deliverables exist;
- Assessment of stage of completion and cost to complete, where percentage completion accounting is used;
- Consideration of the Group's performance against contractual obligations and the impact on revenue and costs of delivery; and The recognition and recoverability assessments of contract related assets

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 variable 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.

In the current year, we have identified that a lower level of judgement is required relating to revenue recognition on the portfolio of contracts in the Americas division. As a result of the nature of these contracts, the Americas division is not considered a significant audit risk but remains part of the key audit matter due to the level of resources and efforts of the engagement team required to perform the related audit procedures.

Our response

We performed the tests below rather than seeking to rely on any of the group's controls because the contractual arrangements that underpin the measurement and recognition of revenue and onerous contract provisions by the group can be complex, with significant judgement involved in the assessment of current and future financial performance. This meant that detailed testing is inherently the most effective means of obtaining audit evidence.

Our audit procedures included:

Contracts were selected for substantive audit procedures based on qualitative factors, such as commercial complexity, and quantitative factors, such as financial significance and profitability that we considered to be indicative of risk. Our audit testing for the contracts selected included the following:

Assessing policy application

We inspected customer contracts to assess the method of revenue recognition to determine whether it was in accordance with the Group's accounting policy and relevant accounting standards, including the appropriate recognition of revenue as the performance obligation is satisfied on service contracts.

Accounting analysis

We inspected and challenged accounting papers prepared by the Group to explain the positions taken in respect of key contract judgements including contract modifications. We also challenged whether it is highly probable that the variable revenue recognised will not be reversed in future periods as required by the application of the revenue constraint in accordance with the Group's accounting policy and relevant accounting standards.

2 Key audit matters: our assessment of risks of material misstatement continued

Tests of details
To assess whether the revenue recognition was appropriately applied in accordance with the Group's accounting policy and relevant accounting standards, for each contract selected for substantive procedures:

- we agreed a sample of revenue to documents such as invoices or purchase orders, or customer agreements for the work performed, as well as cash receipts;
- we inspected a sample of customer contracts to identify any KPI obligations and assessed the contract's operational performance against those obligations; and
- we inspected a sample of customer contracts to identify contractual variations and claims and where these arose, obtained evidence of correspondence with customers and third parties.

Site visits
- For all divisions we attended a selection of monthly Divisional and Business Unit Performance Reviews used to assess business performance in order to inform our assessment of operational and financial performance of the contracts; and
- we performed a selection of physical 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 contract related assets:

Assessing application
We assessed whether contract related assets had been recognised in accordance with the Group's accounting policy and relevant accounting standards.

For onerous and potentially onerous contracts identified through our risk assessment procedures, our procedures to address the subjective estimate risk included:

Benchmarking assumptions
We compared contract level forecast revenues and costs to the Group's annual budgets and longer-term forecasts approved by the directors. We challenged key assumptions made by the Group in preparing these forecasts, including those in relation to revenue growth and cost reductions, by comparing them to external evidence (for example customer correspondence) where possible, and assessing against business plans.

Our sector experience
We assessed the contractual terms and conditions to identify the key obligations of the contract and compared these with common industry risk factors to inform our challenge of completeness of forecast costs.

Historical comparisons
We compared the contract forecasts to historic and in year performance to assess the historical accuracy of the forecasts.

Tests of details
We compared the allocation of central functional costs to the group's policy and challenged the underlying assumptions using our understanding of the contract operations.

We performed an assessment of whether an over/understatement of onerous contract provisions identified through these procedures was material.

Assessing transparency
We also assessed whether the Group's disclosures about the estimates and judgements applied reflect the risks related to the estimation of onerous contracts, and the recognition of revenue and contract assets.

Our findings
We found no material errors in the group's application of its revenue accounting policy (2021: no material errors). We found the resulting estimate of onerous contract provision to be balanced (2021: balanced).

Recoverability of group goodwill and of parent's investment in subsidiary
Group: £945.0m (2021: £852.7m); parent Company: £2,052.5m (2021: £2,041.7m)

Assessment of risk vs. prior year: Increased
Refer to page133 (Audit Committee Report), page 199 (Goodwill accounting policy), pages 204 to 205 (key sources of estimation uncertainty relating to impairment of Goodwill), pages 221 to 222 (Goodwill note in the consolidated financial statements),page 252 (Investments held as fixed assets note in the Company financial statements) and page 252 (Fixed Asset Investments accounting policy in the Company financial statements),

The risk
Goodwill in the group is significant and at risk of irrecoverability due to estimation uncertainty in valuing the recoverable amounts of the Group's cash generating units.

The parent's investment in subsidiary is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Parent company financial statements, this is considered to be the Key Audit Matter that had the greatest effect on our overall Parent company audit.

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 as well as determining a terminal growth rate.

This year, 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, Americas CGU and Middle East CGU (2021: AsPAC and Middle East CGUs). As at year end 31 December 2022, the AsPac CGU was estimated to have headroom of £281.0m, the Americas CGU has headroom of £360.9m and Middle East has headroom of £119.5m.

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use of the relevant CGUs had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we concluded that reasonably possible changes to the value in use of the Americas and Middle East CGUs would not be expected to result in a material impairment. The financial statements (Note 17) disclose the sensitivity for goodwill estimated by the Group.

Our response
We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balances is such that detailed testing is inherently the most effective means of obtaining audit evidence.

Our audit procedures over goodwill and investment in subsidiary included:

Benchmarking assumptions: With the assistance of our valuation specialists, we challenged the implied growth rate and discount rate used in the value in use calculation by comparing the Group's assumptions to externally derived market data. We challenged the implied cumulative annual growth rate within the five year forecasts and assessed this against past performance, and the terminal growth rate. We challenged forecast assumptions around new contract wins or extensions, contract attrition, as well as margin assumptions on existing contracts.

Historical comparisons
We compared current year actual cash flows to historic forecasts to assess the historical accuracy of the forecasts used in the impairment models.

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.

Comparing valuations
We considered whether the forecast cash flow assumptions used in the value in use calculation were consistent with the assumptions used to calculate the expected loss on onerous contract provisions, the recognition of deferred tax assets and the Directors' assessment of going concern and viability.

We compared the results of discounted cash flows against the Group's market capitalisation, after adjusting for its net debt to assess the reasonableness of the value in use calculations.

Assessing transparency
We also assessed whether the Group's disclosure about the sensitivity of outcomes, particularly in the ASPAC CGU, reflects the risks inherent in the valuation of goodwill.

Additionally, substantive audit procedures over recoverability of the Parent company's investment in subsidiary included:

- Comparing the carrying amount of the investment with the subsidiary's draft balance sheet to identify whether its net assets, being an approximation of the minimum recoverable amount, are in excess of the carrying amount and assessing whether the subsidiary's group has historically been profit-making.
- We compared the carrying amount of the investment to the market capitalisation for the Group (after adjusting for net debt).

2 Key audit matters: our assessment of risks of material misstatement continued

Our findings:
We found the Group's assessment that there is no impairment of the carrying amount of Group's goodwill and of parent company's investment in subsidiary to be balanced (2021: balanced) and the related goodwill sensitivity disclosures to be proportionate (2021: proportionate).

Changes to our Key Audit Matters:
We continue to perform procedures over deferred tax assets. However, there has been no new recognition of deferred tax assets during the period and 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.

3 Our application of materiality and an overview of the scope of our audit
Materiality for the Group financial statements as a whole was set at £9m (2021: £7m), determined with reference to a benchmark of group profit before tax, of which it represents 4.57% (2021: 3.6%).

Materiality for the parent company financial statements as a whole was set at £8.1m (2021: £6.3m), determined with reference to a benchmark of parent company total assets, of which it represents 0.3% (2021: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £6.75m (2021: £5.3m) for the group and £6.0m (2021: £4.7m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.45m (2021: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit
Of the Group's 6 (2021: 6) reporting components, we subjected 5 (2021: 6) to full scope audits for Group purposes and 1 (2021: 0) to specified risk-focussed procedures over a number of accounts such as revenue and onerous contract provisions. The latter was not financially significant enough to require a full scope audit for group purposes this year but did present specific individual risks that needed to be addressed. In addition, all component teams performed procedures over the underlying forecasted cash flows to assist the group audit team in performing work over the recoverability of goodwill.

The components within the scope of our work accounted for the following percentages of the group's results

	Number of components	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	5	95%	91%	97%
Specified risk-focussed audit procedures	1	5%	9%	3%
Total	6	100%	100%	100%
Total (2021)	6	100%	100%	100%

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality levels, which ranged from £3.2m to £7.0m (2021: £2.4m to £5.5m) having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 6 components (2021: 4 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team visited all (2021: virtual meetings held with all component auditors) component locations. Video and telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The Group operates a shared service centre in India, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The shared service centre is subject to specified risk-focused audit procedures by the group audit team, principally the testing of transaction processing controls.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

4 The impact of climate change on our audit
In planning our audit, we considered the impacts of climate change on the Group's business and its financial statements.

The Group has made a commitment to be net zero and to support its clients to meeting this target by 2050. Further information has been provided in the Group's Strategic Report on page 36. The Group's climate related disclosures as recommended by the Task Force on Climate Related Financial Disclosure ("TCFD") are included on pages 74 to 82 of the Annual Report.

As part of our audit, we made enquiries of the directors to understand the extent of the potential impact of climate change risk on the Group's financial statements. We have performed a risk assessment of how climate risks facing the Group and the Group's strategy to mitigate these risks may affect the financial statements and our audit. In addition, we held discussions with our own climate change professionals to challenge our risk assessment.

The potential impacts of these matters relate to forward looking estimates, which includes cost projections for long-term contracts and impairment assessments for goodwill. Taking into account our risk assessment procedures, the headroom on goodwill and the nature and duration of the group's contracts, we have assessed that there is not a significant risk to balances in the 2022 financial statements as a result of climate change. There was therefore no impact from climate change on our key audit matters.

We read the disclosure of climate related information in the front half of the Annual Report and considered consistency with the financial statements and our audit knowledge.

5 Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- Significant deterioration of contractual performance impacting on profit margins across the Group;
- Significant deterioration in the Group's ability to win new contracts, and successfully retain existing contracts which are being 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 possible impact of major contractual or other claims which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics, in particular in relation to profitability of existing contracts, and win rates assumed for future pipeline, by comparing to the group's approved budgets, growth and economic forecasts and our knowledge of the entity and the sector in which it operates.
- Challenging whether the break-points in the Group's reverse-stress test analysis were not plausible to occur by comparing these scenarios with the Group's previous experience, assessing the working capital assumptions by comparing the forecasts to actual recent experience and existing supplier/customer arrangements.
- Assessing the conversion of past budgets to actual results to assess the directors' track record of budgeting accurately.
- We inspected the confirmation from the lender of the level of committed financing, and the associated covenant requirements.
- We made inquiries to understand the group's insurance arrangements in respect of certain items and obtained copies of key insurance policies to corroborate the assertions made.

5 Going concern continued

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on pages 194 to 195 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, internal legal counsel, external legal counsel and the Group's Ethics & Compliance function and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes including minutes of board committees such as the audit committee and risk committee.
- Considering remuneration incentive schemes and performance targets for directors and management including the Revenue, Trading Profit and Free Cash Flow / Days Sales Outstanding targets for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic subject matter experts to assist us in identifying fraud risks based on discussions of the circumstances of the Group.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to all component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that variable revenue is inappropriately recognised,
- the risk that Group and component management may be in a position to make inappropriate accounting entries, and
- the risk of bias in accounting estimates and judgements such as assessing whether long-term contracts are onerous, determining whether provisions for disputes and litigation are adequate and the assumptions and data used when testing for impairment of goodwill.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all components and at the Group consolidation level based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unexpected account combinations.
- Assessing significant accounting estimates for bias.

We read the disclosures in the Annual Report related to the Company's obligations under the Deferred Prosecution Agreement with the UK Serious Fraud Office and considered consistency with the financial statements and our audit knowledge.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of certain of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to all component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related Companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the Group's operations,
- anti-bribery and corruption, recognising the Governmental nature of many of the Group's customers,
- employment law, due to the significant number of employees the Group employs,
- Data protection laws, such as the General Data Protection Regulations in Europe due to the number of employees and the services performed for customers in Europe, and
- Single source procurement regulations in the UK, due to the contracting environment.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We read the disclosures in the front end related to the Company's obligations under the Deferred Prosecution Agreement with the UK Serious Fraud Office and considered consistency with the financial statements and our audit knowledge.

For the claims discussed in note 28 we assessed disclosures against our understanding from legal correspondence.

6 Fraud and breaches of laws and regulations – ability to detect continued

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within Risk management on pages 96 to 97 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 109 to 110 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report

To the members of Serco Group plc continued

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 176, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

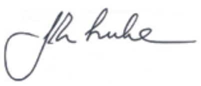
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square, London, E14 5GL

27 February 2023

Consolidated Income Statement
For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Revenue	8	**4,534.0**	4,424.6
Cost of sales		**(4,040.5)**	(3,956.6)
Gross profit		**493.5**	468.0
Administrative expenses		**(264.3)**	(243.3)
Exceptional operating items	9	**(2.4)**	(1.2)
Other expenses – amortisation and impairment of intangibles arising on acquisition	18	**(21.6)**	(16.0)
Share of profits in joint ventures and associates, net of interest and tax	6	**12.0**	8.7
Operating profit		**217.2**	216.2
Operating profit before exceptional items		**219.6**	217.4
Investment revenue	12	**4.7**	2.4
Finance costs	13	**(25.1)**	(26.4)
Total net finance costs		**(20.4)**	(24.0)
Profit before tax		**196.8**	192.2
Profit before tax and exceptional items		**199.2**	193.4
Tax on profit before exceptional items	14	**(42.1)**	111.9
Exceptional tax	9,14	**0.3**	(0.2)
Tax (charge)/credit		**(41.8)**	111.7
Profit for the year		**155.0**	303.9
Attributable to:			
Equity owners of the Company		**155.4**	303.9
Non-controlling interest		**(0.4)**	–
Earnings per share (EPS)			
Basic EPS	16	**13.03p**	24.86p
Diluted EPS	16	**12.79p**	24.43p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Profit for the year		**155.0**	303.9
Other comprehensive (loss)/income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit obligations[1]	30	**(93.8)**	66.8
Actuarial loss on reimbursable rights[1]	30	**(12.3)**	(0.5)
Income tax relating to components of other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss	14	**27.1**	(21.7)
Share of other comprehensive income in joint ventures and associates	6	**2.9**	3.3
Items that may be reclassified subsequently to profit or loss:			
Net exchange gain/(loss) on translation of foreign operations[2]		**60.2**	(11.6)
Fair value gain on cash flow hedges during the year[2]		**0.6**	0.2
Income statement items reclassified		**–**	0.1
Tax relating to items that may be reclassified[2]	14	**(0.1)**	4.0
Total other comprehensive (loss)/income for the year		**(15.4)**	40.6
Total comprehensive income for the year		**139.6**	344.5
Attributable to:			
Equity owners of the Company		**139.8**	344.5
Non-controlling interest		**(0.2)**	–

1 Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.
2 Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves[1] £m	Total shareholders' equity £m	Non-controlling interest £m
At 1 January 2021	24.7	463.1	302.4	(76.9)	713.3	1.7
Total comprehensive income for the year	–	–	307.3	37.2	344.5	–
Income statement items reclassified	–	–	–	0.1	0.1	–
Dividends paid	–	–	(26.5)	–	(26.5)	–
Shares purchased and held in treasury	–	–	–	(40.7)	(40.7)	–
Cancellation of shares held in treasury	(0.3)	–	(20.4)	20.7	–	–
Shares transferred from treasury to own shares reserves	–	–	(20.0)	20.0	–	–
Shares transferred to award holders on exercise of share awards	–	–	–	0.2	0.2	–
Expense in relation to share based payments	–	–	–	15.8	15.8	–
At 1 January 2022	**24.4**	**463.1**	**542.8**	**(23.6)**	**1,006.7**	**1.7**
Total comprehensive income/(loss) for the year	**-**	**-**	**158.1**	**(18.3)**	**139.8**	**(0.2)**
Dividends paid	**-**	**-**	**(30.3)**	**-**	**(30.3)**	**-**
Shares purchased and held in own share reserve	**-**	**-**	**-**	**(15.9)**	**(15.9)**	**-**
Shares purchased and held in treasury	**-**	**-**	**-**	**(91.2)**	**(91.2)**	**-**
Shares transferred to award holders on exercise of share awards	**-**	**-**	**-**	**0.1**	**0.1**	**-**
Expense in relation to share based payments	**-**	**-**	**-**	**15.6**	**15.6**	**-**
Tax credit on items taken directly to equity	**-**	**-**	**-**	**3.4**	**3.4**	**-**
At 31 December 2022	**24.4**	**463.1**	**670.6**	**(129.9)**	**1,028.2**	**1.5**

1 An analysis of other reserves is presented as part of note 33 Reserves.

The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	At 31 December 2022 £m	At 31 December 2021 £m
Non-current assets			
Goodwill	17	**945.0**	852.7
Other intangible assets	18	**158.0**	144.0
Property, plant and equipment	19	**48.1**	55.5
Right of use assets	19	**434.2**	416.7
Interests in joint ventures and associates	6	**23.3**	17.6
Loan to joint ventures	6	**10.0**	–
Contract assets	21	**–**	2.6
Trade and other receivables	21	**16.1**	13.6
Derivative financial instruments	29	**0.3**	–
Deferred tax assets	15	**244.2**	214.3
Retirement benefit assets	30	**57.0**	166.2
		1,936.2	1,883.2
Current assets			
Inventories	20	**22.4**	19.6
Contract assets	21	**345.0**	319.0
Trade and other receivables	21	**374.6**	305.7
Current tax assets		**11.5**	5.5
Cash and cash equivalents	22	**57.2**	198.4
Derivative financial instruments	29	**3.3**	2.6
		814.0	850.8
Total assets		**2,750.2**	2,734.0
Current liabilities			
Contract liabilities	23	**(60.5)**	(61.3)
Trade and other payables	23	**(622.8)**	(526.0)
Derivative financial instruments	29	**(1.1)**	(2.0)
Current tax liabilities		**(16.0)**	(17.2)
Provisions	26	**(134.9)**	(79.6)
Lease obligations	24	**(144.4)**	(126.3)
Loans	25	**(44.5)**	(64.9)
		(1,024.2)	(877.3)
Non-current liabilities			
Contract liabilities	23	**(36.3)**	(48.6)
Trade and other payables	23	**(6.5)**	(7.3)
Deferred tax liabilities	15	**(53.8)**	(40.3)
Provisions	26	**(73.5)**	(118.0)
Lease obligations	24	**(301.6)**	(304.0)
Loans	25	**(218.4)**	(312.1)
Retirement benefit obligations	30	**(6.2)**	(18.0)
		(696.3)	(848.3)
Total liabilities		**(1,720.5)**	(1,725.6)
Net assets		**1,029.7**	1,008.4
Equity			
Share capital	31	**24.4**	24.4
Share premium account	32	**463.1**	463.1
Retained earnings		**670.6**	542.8
Other reserves	33	**(129.9)**	(23.6)
Equity attributable to owners of the Company		**1,028.2**	1,006.7
Non-controlling interest		**1.5**	1.7
Total equity		**1,029.7**	1,008.4

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 27 February 2023 and signed on its behalf by:

Mark Irwin
Group Chief Executive Officer

Nigel Crossley
Group Chief Financial Officer

Consolidated Cash Flow Statement
For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Net cash inflow from operating activities before exceptional items		**330.1**	357.4
Exceptional items		**(2.9)**	(7.5)
Net cash inflow from operating activities	36	**327.2**	349.9
Investing activities			
Interest received		**1.9**	0.6
Dividends received from joint ventures and associates		**9.1**	13.5
Other dividends received		**–**	0.6
Loan to pension scheme relating to collateral calls	30	**(60.0)**	–
Repayment from pension scheme of loan relating to collateral calls	30	**60.0**	–
Loan to joint venture	6	**(10.0)**	–
Purchase of other intangible assets	18	**(7.0)**	(8.2)
Purchase of property, plant and equipment	19	**(12.4)**	(23.9)
Proceeds from disposal of property, plant and equipment		**0.7**	7.0
Acquisition of subsidiaries, net of cash acquired	7	**(19.2)**	(234.9)
Other investing activities		**1.6**	–
Exceptional sale of other investments		**–**	13.0
Net cash outflow from investing activities		**(35.3)**	(232.3)
Financing activities			
Interest paid		**(24.4)**	(24.9)
Capitalised finance costs paid		**(2.6)**	(0.6)
Advances of loans	25	**205.0**	110.0
Repayments of loans	25	**(354.3)**	(139.7)
Capital element of lease repayments	25	**(120.5)**	(111.3)
Cash movements on hedging instruments		**(2.7)**	(16.6)
Dividends paid to shareholders		**(30.3)**	(26.5)
Purchase of own shares by the Employee Share Ownership Trust		**(15.9)**	–
Own shares repurchased		**(91.2)**	(40.7)
Proceeds received from exercise of share options		**0.1**	0.2
Net cash outflow from financing activities		**(436.8)**	(250.1)
Net decrease in cash and cash equivalents		**(144.9)**	(132.5)
Cash and cash equivalents at beginning of year		**198.4**	335.7
Net exchange gain/(loss)	25	**3.7**	(4.8)
Cash and cash equivalents at end of year	22	**57.2**	198.4

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

The Consolidated Financial Statements on pages 189 to 249 have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as stated below.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company up to 31 December each year. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect the returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest represents the portion of profits or losses and net assets in subsidiaries that are not held by the Group and are presented within equity in the Consolidated Balance Sheet, separate from equity of shareholders of Serco Group plc.

Going concern

In assessing the basis of preparation of the financial statements for the year ended 31 December 2022, 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 2022, the Group's principal debt facilities comprised a £350m revolving credit facility (of which £nil was drawn) and £266m of US private placement notes, giving £616m of committed credit facilities and committed headroom of £402m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility and are outlined on page 93. As at 31 December 2022, the Group's primary restricting covenant, its leverage ratio, is below the covenant of 3.5x and is below the Group's target range of 1x-2x at 0.78x.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on the Group's future performance. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved budget which is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions.

Owing to the unprecedented levels of inflation driven by geopolitical factors, the Directors have considered the Group's resilience to rising costs. Due to the nature of the Group's operations, almost all of the revenue base has some form of inflationary protection, whether it be through contractual indexation mechanisms, cost plus billing or being short term in nature. Though the timing of such protections becoming effective may, in the short term, differ from the impact of cost pressures, it is expected that the current inflation levels will not have a material impact on the Group's profitability.

The Directors believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for bids and extensions, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test assumes that the US private placement loan of £45m due to mature during the assessment period is repaid and no additional refinancing occurs. On this basis the Group can afford to be unsuccessful on 80% of its bids and extensions and suffer a reduction in profit margin of 80 basis points below the Group's forecast, while still retaining sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants.

In respect of win rates, rebids and extensions have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions by volume over the last two years, therefore a reduction of 80% or more to the budgeted bid and extensions rates is not considered plausible. The Group does not generally bid for contracts at margins below its target range.

In respect 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 80bps versus the Group's budget is not considered plausible within the assessment period combined with an 80% reduction in bid and extensions rates.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Adoption of new and revised standards

There have been no new accounting standards implemented by the Group during the year and no revisions to accounting standards that have had a material impact on the Group's Financial Statements.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020 the International Accounting Standards Board (IASB) issued amendments to IFRS 3 *Business Combinations* which updated a reference in IFRS 3 to the conceptual framework for financial reporting without changing the accounting requirements for business combinations and therefore had no impact on the Group.

Annual Improvements to IFRS Standards

In May 2020 the IASB issued amendments to IFRS 1 *First-time Adoption of IFRS*, IFRS 9, *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*. None of these amendments had a material impact on the Group.

Property, Plant and Equipment: Proceeds before Intended Use

In May 2020 the IASB issued amendments to IAS 16 *Property, Plant and Equipment* which prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in its income statement. The Group has no material amounts received from selling items produced while the Group is preparing any assets for their intended use.

Onerous Contracts – Cost of Fulfilling a Contract

In May 2020 the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs a company includes when assessing whether a contract will be loss-making. The Group's accounting policy for the costs used in assessing whether a contract will be loss-making remain compliant with the new specifications set out in the amendment.

New standards, amendments and interpretations not yet adopted

The following accounting standards, amendments to accounting standards and interpretations that are not mandatory for 31 December 2022 reporting periods have not been early adopted by the Group. These are effective for annual reporting periods beginning on or after the date indicated:

	Effective Date
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts[1]	01 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	01 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	01 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)	01 January 2023
Initial Application of IFRS 17 and IFRS 9 – Comparative Information	01 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)[2]	01 January 2024
Lease Liability in a Sale and Leaseback Amendments to IFRS 16[2]	01 January 2024
Non-current Liabilities with Covenants (Amendments to IAS 1)[2]	01 January 2024

1 Though expected to primarily impact the insurance sector, IFRS 17 *Insurance Contracts* will apply more widely than contracts issued by traditional insurance entities. Management is considering whether any of its contracts and obligations should be classified as insurance contracts and will assess any further interpretations issued.

2 The effective date is based on the standard or amendment issued by the IASB and are still subject to adoption by the UK Endorsement Board.

The standards, amendments or interpretations listed above are not expected to have a material impact on the Group.

2. Significant accounting policies continued

Changes in accounting policies
There have been no changes to the Group's accounting policies during the year ended 31 December 2022.

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date, regardless of whether that price is directly observable or is estimated using another valuation technique. There are certain transactions in these financial statements which are similar to fair value but are determined by the treatment set out in their respective standards. These are share based payment transactions that are within the scope of IFRS 2 *Share Based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, the calculation of net realisable value under IAS 2 *Inventories* and value in use under IAS 36 *Impairment of Assets*.

Revenue
The Group recognises revenue based on the principles set out in IFRS 15 *Revenue from Contracts with Customers* and is recognised in any period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

For all contracts, the Group determines whether each arrangement meets the definition of a contract under IFRS 15 and creates enforceable rights and obligations.

Contracts are combined if they are entered into at or near the same time and one or more of the following criteria are met:

- They are negotiated as a package with a single commercial objective.
- Consideration receivable in one contract depends on the other contract.
- Goods or services are a single performance obligation.

For contracts with multiple components, Management applies judgement to consider whether those promised goods and services are:

- A deliverable (i.e. a good or a service) that is distinct; or
- A series of distinct deliverables that are substantially the same and that have the same pattern of transfer to the customer (transferred over time using the same measure of progress).

At contract inception, the transaction price is the total amount of consideration to which the Group expects to be entitled to exchange for transferring goods or services to a customer.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. Where there is only one performance obligation, no allocation is necessary as the full transaction price is allocated to the single performance obligation.

Where there is more than one performance obligation, the Group looks at each performance obligation separately to see if there is an observable price available, however due to the bespoke nature of the services provided by the Group there is normally no observable stand-alone selling price and the expected cost-plus margin approach is used. All bid models for new contracts are built up and negotiated with the customers on a cost-plus margin basis and therefore this approach most accurately reflects the commercial reality and the value of the benefits transferred to the customer.

The Group enters into contracts which contain extension periods where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised bid and phase-in costs are expensed.

Further details on revenue recognition for specific contract types is shown below.

Revenue recognition: Repeat service-based contracts
The majority of the Group's contracts are repeat service-based contracts where value is transferred to the customer over time as the core services are delivered. Therefore, in most cases revenue will be recognised on the output basis, based on direct measurements of the value to the customer of the services transferred to date relative to the remaining services under the contract. This is a faithful depiction of the transfer of services since the service delivered to the customer is unchanged. Where the output method is used, the Group often uses a method of time elapsed which requires minimal estimation. Certain repeat service-based contracts use output methods based upon user numbers; service activity levels; or fees collected. Where any price reductions within output-based contracts are contractual, but the level of service is not decreasing, revenue will be deferred from initial years to subsequent years in order for revenue to be recognised on a consistent basis.

There are certain contracts where a separate performance obligation has been identified for services where the pattern of delivery differs to the core services and which are capable of being distinct, such as asset construction or asset maintenance. In these instances, where the transfer of control is most closely aligned to our efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. In limited circumstances, other methods are used to measure progress under the input method, including resources consumed, time elapsed or labour hours expended. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

Where deemed appropriate, the Group will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

Under IFRS 15, unless upfront fees received from customers including transition payments can be clearly attributable to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

In general, the timing of satisfaction of performance obligations is consistent with when payment becomes due, other than in instances where up-front win fees or transition payments are received, where in most instances these are deferred.

Any changes to the enforceable rights and obligations with customers and/or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Group's policies.

Revenue recognition: Variable revenue

The Group has a number of contracts where at least an element of the revenue generated is variable in nature. Variability in revenue recognised can arise from a number of factors, including usage-related volumes, graduated performance against contractual performance indicators, indexation-linked pricing, profit sharing elements and customer decisions related to the provision of goods or services. Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur.

Revenue recognition: Long-term project-based contracts

The Group has a limited number of project-based long-term contracts. Revenue associated with these contracts is recognised at the point in time when control over the deliverable is passed to the customer.

Revenue recognition: Contract modifications

When a modification to an existing contract is approved, the Group first assesses whether it adds distinct goods or services to the existing contract that are priced commensurate with the stand-alone selling prices for those goods or services. If this is the case, then the modification is accounted for prospectively as a separate contract. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are not distinct from those in the original contract, then this is considered to form part of the original contract. Pricing is updated for the entirety of the revised contract and any historic adjustments recorded as a result are recognised as a cumulative adjustment to revenue in the period of the modification. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are distinct from those in the original contract, then this is considered to represent the termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification.

Revenue recognition: Other

Sales of goods are recognised when goods are delivered, and title has passed.

The Group has a limited number of pass-through arrangements in respect of goods or services procured by the Group on behalf of customers where it assesses whether it is acting as a principal or as an agent. The Group is acting as principal if it is in control of a good or a service prior to transferring to the customer and gross revenue and costs are recognised. More commonly, the Group is acting as agent where it is arranging for those goods or services to be provided to the customer without obtaining control, for example, where the Group is engaged to manage operations for a customer but procures goods or services on behalf of the customer in order to deliver the operation. When acting as an agent, only the fee or commission is recognised as revenue and the costs represent only the direct costs of facilitating the transaction.

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Group has no material exposure to returns or refunds.

Government grants

The majority of the Group's customers are governments. Any income that arises from a contractual agreement for the delivery of goods or services, or a specific modification to such a contract, is treated as revenue. Income from governments is only considered to be a government grant if it is not related to the supply of goods or services under a contractual arrangement.

Government grants are recognised where there is reasonable assurance that the grant will be received. Grants that compensate the Group for expenses incurred are recognised in the income statement as a reduction to the corresponding expenses on a systematic basis in the periods in which the expenses are recognised. There were no material government grants received during the current or prior year.

Contract costs

Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Bid costs are amortised over the duration of the contract to which they relate in equal annual instalments. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.

2. Significant accounting policies continued

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.

The Group uses a monthly approximation for transactions during the period. If exchange rates fluctuate significantly during a period, the use of approximate rates are reviewed to ensure they are still appropriate.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders. Dividend income is recognised on receipt.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. Where acquisition and transition costs for successful acquisitions are material, they are disclosed as exceptional costs within note 9.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (which is subject to a maximum of one year). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant accounting standards.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) *Business Combinations* are recognised at their fair value at the acquisition date, except where a different treatment is mandated by another standard.

Investments in joint ventures and associates

A joint venture is an arrangement whereby the owning parties have joint control and rights over the net assets of the arrangement. The Group's investments in joint ventures are incorporated using the equity method of accounting.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the Consolidated Balance Sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying value amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Determining whether joint control exists requires a level of judgement based upon specific facts and circumstances which exist at the year-end. Details of the unconsolidated joint ventures are provided in notes 5 and 6.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The results and assets and liabilities of associates are also incorporated in these financial statements using the equity method of accounting.

Goodwill

Goodwill is measured as the excess of the fair value of purchase consideration over the fair value of the net assets acquired and is recognised as an intangible asset when control is achieved. Negative goodwill is recognised immediately in the income statement. Fair value measurements are based on provisional estimates and may be subject to amendment within one year of the acquisition, resulting in an adjustment to goodwill.

Goodwill itself does not generate independent cash flows and therefore, in order to perform required tests for impairment, it is allocated at inception to the specific cash generating unit (CGU) or groups of CGUs which are expected to benefit from the acquisition.

On the disposal of a business which includes all or part of a CGU, any attributable goodwill is included in the determination of the profit or loss on disposal. Where part of a CGU with goodwill is sold, the attributable amount is calculated based on the future discounted cash flows leaving the Group as a proportion of the total CGU's future discounted cash flows.

The fair values associated with material business combinations are valued by external advisers and any amount of consideration which is contingent in nature is evaluated at the end of each reporting period, based on internal forecasts.

Other intangible assets

Material intangible assets are grouped into classes of similar nature and use and separately disclosed. Other intangible assets are amortised from the date of completion.

Customer relationships can arise on the acquisition of subsidiaries and represent the incremental value expected to be gained as a result of existing contracts in the purchased business and identifiable technology-based assets in the purchased business. These assets are amortised over the average length of the related contracts or estimated useful life of any technology-based assets.

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%
Leasehold improvements	The higher of 10% or the rate produced by the lease term
Machinery	15% – 20%
Vehicles	10% – 50%
Furniture	10%
Office equipment	20% – 33%
Right of use assets	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Given that there is limited history of material gains or losses on disposal of fixed assets, the level of judgement involved in determining the depreciation rates is not considered to be significant.

2. Significant accounting policies continued

Asset impairment

The Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) at each reporting period, together with any other assets under the scope of IAS 36 *Impairment of Assets*, in order to assess whether there is any indication that those assets have suffered an impairment loss. As the impairment of assets has been identified as both a key source of estimation uncertainty and a critical accounting judgement, further details around the specific judgements and estimates can be seen in note 3.

If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine if there is any impairment loss. Goodwill is assessed for impairment annually, irrespective of whether there are any indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value with reference to pre-tax discount rates that reflect the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is estimated to be less than the carrying amount of the asset, the carrying amount is impaired to its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss which led to the impairment has decreased or no longer exists. Where an impairment loss is subsequently reversed, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years.

Impairment losses and reversals are recognised immediately within expenses in the income statement unless it is considered to be an exceptional item when the Group's criteria are met.

Retirement benefit costs

Payments to defined contribution pension schemes are charged as an expense as they fall due.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of comprehensive income.

Both current and past service costs are the amounts recognised in the income statement, reflecting the expense associated with the individuals. Current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period. Past service cost is recognised immediately. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds (which is only recognised to the extent that the Group has an unconditional right to receive it) and reductions in future contributions to the scheme. To the extent that an economic benefit is available as a reduction in future contributions and there is a minimum funding requirement required of the Group, the economic benefit available as a reduction in contributions is calculated as the present value of the estimated future service cost in each year, less the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Calculation of the amounts recognised in the Consolidated Financial Statements in respect of defined benefit pension schemes requires a high level of judgement, as further explained in note 3.

Defined benefit obligations arising from contractual obligations

Where the Group takes on a contract which has employees in scope for the Railway Pension Scheme, it 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 and this results in the Group having no further obligation once the contract has ceased. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised in the Statement of Comprehensive Income (SOCI).

End of contract provisions

Where the Group has a legal or constructive obligation to compensate employees at the end of a contract term and these employees cannot be relocated within the Group, a provision is recognised to reflect the expected outflow of economic benefits at the end of the contract. The obligation is reassessed at each reporting date. The amount calculated assumes the tenure of the employee base, expected turnover, and salary.

Derivative financial instruments and hedging activities

The Group may enter into a variety of derivative financial instruments to manage the exposure to interest rate, foreign exchange risk and price risk, including currency swaps, foreign exchange forward contracts, interest rate swaps and commodity future contracts. Further details of derivative financial instruments are given in note 29.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges), hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Both at the inception of the hedge and on a periodic basis, the Group assesses whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Derivatives, which mature within 12 months, are presented as current assets or current liabilities.

Details of the fair values of the derivative instruments used for hedging purposes and movements in the hedging and translation reserve in equity are detailed in the Statement of Comprehensive Income and described in note 29.

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 is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

2. Significant accounting policies continued

Tax continued

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Group intends to settle its current tax assets and liabilities on a net basis.

Share based payment

Where the fair value of share options or shares under award requires the use of a valuation model, fair value is measured by use of Binomial Lattice, Black-Scholes or Monte Carlo Simulation models depending on the type of scheme, as set out in note 34. The expected life used in the models has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Where relevant, the value of the option or award has also been adjusted to take account of market conditions applicable to the option or award.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise service spares, supplies and consumables used in the rendering of services to our customers. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Trade receivables

Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any credit notes, provision for impairment and expected credit losses, to ensure that amounts recognised represent the recoverable amount.

Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. A provision for impairment arises where there is evidence that the Group will not be able to collect amounts due for reasons other than customer default, which is achieved by creating an allowance for doubtful debts recognised in the income statement within expenses. When a trade receivable is expected to be uncollectible for reasons other than credit-related losses, it is provided for within the allowance. Subsequent recoveries of amounts previously provided for or written off are credited against expenses.

The majority of contracts entered into by the Group are with government organisations and therefore historic levels of default are relatively low and as a result, the risks associated with this judgement are not considered to be significant. An expected credit loss is recorded where there is evidence that a counterparty is at risk of default due to their credit worthiness. If the loss was material, the amount would be presented separately in the Consolidated Income Statement, however the Group's customer base is predominantly government or government-backed and as a result, the Group's expected credit loss at a given point in time across the entirety of the customer base is typically immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions which are readily convertible to known amounts of cash, subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the Consolidated Cash Flow Statement.

Leases

The Group uses leases in the delivery of a number of contracts and in other centralised functions. Most notably, the Group uses accommodation leases in the delivery of the Asylum Accommodation and Support Services contract, vehicle leases in the Prisoner Escorting and Custodial Services contract and to deliver its UK vehicle fleet and support offices, amongst others. Where leases are utilised in the delivery of contracts, the Group aims to limit the duration of any non-cancellable periods of leases to be no longer than the duration of the underlying contract. For non-contract related leases, the Group has set policies on lease duration and purpose to ensure their appropriate use.

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and, simultaneously, a right of use asset is created representing the right conferred to control the manner of use of the leased asset. The Group typically uses an appropriate incremental borrowing rate, based on the lease location and duration, as it typically does not have access to the interest rate implicit in the lease.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised, and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered.

Where, on inception, the term of a lease is less than 12 months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the income statement on a straight-line basis over the term of the relevant lease.

Loans

Loans are stated at amortised cost using the effective interest-rate method. Accrued interest is recorded separately from the associated borrowings within current liabilities.

Loans are described as non-recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has an obligation to make a cash outflow as a result of a past event. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date when settlement is considered to be likely.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except when this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of the termination costs payable for an early exit and the best estimate of net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms. Further details of the judgements can be seen in note 3.

Net investments in foreign operations

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are initially recognised in equity and accumulated in the hedging and translation reserve and reclassified from equity to profit or loss on disposal of the net investment. When monetary items no longer form part of a hedging relationship, the exchange differences that arose during the time that the hedge was in place remain in the hedging translation reserve until such time as the net investment is disposed of.

Dividends payable

Dividends are recorded in the Group's Consolidated Financial Statements in the period in which they are declared, appropriately authorised and no longer at the discretion of the Company.

Segmental information

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess their performance. The CODM is considered to be the Board of Directors as a body.

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment including right of use assets, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit assets. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 above, Management has made the following judgements that have the most significant effect on the amounts recognised in the Consolidated Financial Statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates, there is a significant risk that there could be a material adjustment to the carrying amounts of onerous contract provisions within the next financial reporting period. This includes the potential recognition of onerous contract provisions for contracts which Management has assessed do not require a provision as at 31 December 2022.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

Provisions for onerous contracts continued

Major sources of uncertainty which could result in a material adjustment within the next financial year, are:

- the ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels;
- volume driven revenue and costs being within the expected ranges;
- the outcome of open claims made by or against a customer regarding contractual performance or contractual negotiations taking place where there is expected to be a positive outcome from the Group's perspective; and
- the ability of suppliers to deliver their contractual obligations on time and on budget.

In the current year, there has been an overall net release of new and existing OCPs within Trading Profit of £1.2m. Revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates, Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements.

The future range of possible outcomes in respect of those assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of onerous contract provisions in the next financial year. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts.

The individual provisions are discounted where the impact is assessed to be significant. When used, discount rates are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities & Contingent Assets*. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top-down assessment which assumes that, while the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. As at 31 December 2022, the provision recognised in respect of this portfolio of contracts is £8.1m (2021: £9.7m).

Onerous contract provisions totalling £3.5m are estimated for individual contracts, based on the specific characteristics of the contract including possible contract variations, estimates of transaction price such as variable revenues and forecast costs to fulfil those contracts. As noted above, the Group also holds a balance of £8.1m in respect of the portfolio risk associated with operating a large number of long-term contracts, giving a total onerous contract provision of £11.6m (see note 26). Management has considered the nature of the estimate for onerous contract provisions and concluded that it is reasonably possible that outcomes within the next financial year may be different from Management's assumptions and could, in aggregate, require a material adjustment to the onerous contract provision. However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and Management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the financial statements.

While the focus of the judgement is to determine whether the Group is required to record an onerous contract provision, Management also inherently assess whether any assets dedicated to the contract are required to be impaired where contracts are forecast to make sustainable losses in the future. In accordance with IAS 37, the Group will impair assets dedicated to the contract before the recognition of an onerous contract provision.

Impairment of goodwill

A key area of focus for the Group is the recoverability of goodwill. At each reporting period an assessment is performed in order to determine whether there are any indicators of impairment, which involves considering the performance of our business and any significant changes to the markets in which we operate.

Determining whether goodwill requires an actual impairment involves an estimation of the expected value in use of the asset (or cash generating unit (CGU) to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates and terminal growth rates, all of which involve considerable judgement. The future cash flows are derived from latest approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Known and anticipated impacts of inflation have been included in Management's forecasts underpinning the cash flows used in assessing the value in use of assets.

Discount rates and terminal growth rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. The calculation of discount rates is performed based on a risk-free rate of interest appropriate to the geographic location of the cash flows related to the CGU being tested, which is subsequently adjusted to factor in local market risks and risks specific to the Group. During 2022, there has been a significant increase in market interest rates in response to rising global inflation. As such there has been a corresponding rise in risk-free rates impacting discount rates. For the purpose of impairment testing in accordance with IAS 36 *Impairment of Assets*, the Group estimates pre-tax discount rates based on the post-tax weighted average cost of capital which is used for internal purposes.

Despite the significant rise in discount rates, which is the primary driver for the material reduction in headroom, there continues to be headroom across all CGUs, as detailed in note 17. Sufficient headroom remains even when reasonably possible changes to discount rates and terminal growth rates occur. However, an impairment in the CGU with the lowest headroom as a proportion of its value in use occurs when combining these changes with no growth in the outer period of 2025 to 2027 as detailed in note 17. A high degree of judgement remains in estimating future cash flows, particularly those relating to the terminal year of the value in use calculation.

Retirement benefit obligations

Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme. The Group's retirement benefit obligations are covered in note 30.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

In accounting for the defined benefit schemes, the Group has applied the principle that the asset recognised for the Serco Pension and Life Assurance Scheme (SPLAS) and the shared cost section of the Railways Pension Scheme is equal to the full surplus that will ultimately be available to the Group as a future refund.

No pension assets are invested in the Group's own financial instruments or property.

Pension assets held by insurance companies including the annuity policies in SPLAS are valued at the equal and opposite of the defined benefit obligations that they insure.

The SPLAS pension scheme invests into private debt funds which do not have an observable market price and are remeasured to fair value at each reporting date. The valuation methodology relied upon the Net Asset Value provided by the fund administrator at 30 September adjusted for actual cash flows in the period to 31 December. The Group has undertaken a risk assessment to assess whether this industry standard valuation methodology remains the Group's best estimate at 31 December 2022 following the significant market volatility experienced in the third quarter of the year. The Group has concluded that although there is heightened estimation uncertainty, this methodology provides the most accurate valuation and estimate for Management.

Critical accounting judgements

Deferred tax

Deferred tax assets are recognised on tax deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Significant Management judgement is required to determine the amount of the deferred tax asset that should be recognised, based upon the likely timing, geography and level of future taxable profits. Since a significant portion of the deducible temporary differences relate to historic tax losses, there has been historic evidence that future taxable profits may not be available.

A £186.9m, UK tax asset is recognised on the Group's balance sheet at 31 December 2022 (2021 £162.8m) on the basis that structural changes in the underlying UK business indicate a sustained return to profitability which will enable future tax deductions within the UK to be utilised. The return to profitability is as a result of onerous contracts ending, being replaced by profitable long-term contracts as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business.

Further details on deferred taxes are disclosed in note 15.

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS 1 *Presentation of Financial Statements* requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. Management considers items which are material and outside of the normal operating practice of the Company to be suitable for separate presentation. There is a level of judgement required in determining which items are exceptional on a consistent basis and require separate disclosure. Further details can be seen in note 9.

The segmental analysis in note 4 includes the additional performance measure of Trading Profit on operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those Management consider to be outside of normal operations and are material to the results of the Group by virtue of their size or nature, and are suitable for separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgements about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice. The Group's Chief Operating Decision Maker (CODM) reviews the segmental analysis during the year.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Critical accounting judgements continued

Climate risk

Risks arising from climate change may have future adverse effects on the Group's business activities. These risks include:

- major physical risks such as extreme weather events, impacting assets, operations and employee wellbeing;
- major transitional risks including policy and legal changes such as increasing reporting and contractual requirements and increasing carbon taxes and levies;
- technology risks including costs to transition to lower emission options; and
- reputational risks such as investor and stakeholder concerns on not transitioning quickly enough to Net Zero.

As an outsourcing organisation operating across multiple sectors and geographies, the ways in which climate change may impact the Group's and its customers' assets (where the Group delivers the majority of its services), supply chains and operations is diverse.

In preparing the Group financial statements Management has considered the impact of climate-related matters but have not identified significant risks induced by climate changes that could negatively and materially affect the Group's financial statements. In arriving at this conclusion, Management has considered the areas of the Groups financial statements where climate-related matters could reasonably impact measurement and disclosure including key estimates and judgements.

When undertaking the Goodwill impairment review, the Group's latest approved forecast is used to estimate the value in use of its CGUs. Climate assumptions are built into the contract level budgets to the extent that contractual commitments exist. However, Management's current assessment shows that there are no such material contractual obligations. In addition, Group-wide strategic commitments, such as those made as part of the Net Zero targets and planning, are not material in the short term for inclusion in the Group's forecast. The forecast is underpinned by a number of assumptions, and it represents the Group's best estimate of future business performance. Management cannot reliably predict how climate changes will impact the forecast particularly in areas such as carbon levies and the cost of insurance. As such, Management has presented sensitivity analysis to demonstrate the Group's ability to withstand changes to the forecast before recording an impairment (see note 17). The forecast used in the goodwill impairment review is also used in the assessment of deferred tax assets and the Group's ability to continue as a going concern.

The Group also continuously reviews the property, plant, and equipment under its control to identify opportunities to reduce its carbon impact. Primarily there has been a transition to electric and hybrid vehicles, both in the company car fleet as well as vehicles required to operate contracts. For example, electric light commercial vehicles are beginning to replace the diesel fleet in certain geographies. The transition is currently being undertaken where assets are identified as nearing the end of their useful economic life (UEL) and therefore there has been no revision to the UEL related to motor vehicles.

Other areas considered include retirement benefit obligations, namely the valuation of assets, share based payments linked to ESG targets and those critical accounting judgements and sources of estimation uncertainty not noted above (see note 3).

Management continuously assesses the impact of climate-related matters. Assumptions will likely change in the future in response to the Group's understanding of risks and opportunities maturing, forthcoming environmental regulations, climate change impacts, new commitments taken and increasing customer Net Zero requirements. These changes, if not anticipated and continually assessed, could have an impact on the Group's future cash flows, financial performance, and financial position.

Claim for losses in respect of the 2013 share price reduction

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

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2022 under IFRS 8 *Operating Segment*s are as set out below:

Reportable operating segments	Sectors
UK & Europe	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management, Justice & Immigration and Transport delivered to UK Government, UK devolved authorities and other public sector customers in the UK and Europe
Americas	Services for sectors including Citizen Services, Defence and Transport delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government
AsPac	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management, Justice & Immigration and Transport in the Asia Pacific region including Australia, New Zealand and Hong Kong
Middle East	Services for sectors including Citizen Services, Defence, Health & Other Facilities Management and Transport in the Middle East region
Corporate	Central and head office costs

Each reportable operating segment is focused on a narrow group of customers in a specific geographic region and is run by a local Management team which reports directly to the Group's Chief Operating Decision Maker (CODM) on a regular basis. As a result of this focus, the sectors in each region have similar economic characteristics and are aggregated at the reportable operating segment level in these financial statements.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 2.

Information about major customers

The Group has three major governmental customers which each represent more than 5% of Group revenues in the current year. The customers' revenues were £1,716.9m (2021: £1,814.4m) for the UK Government within the UK & Europe segment; £1,109.6m (2021: £993.0m) for the US Government within the Americas segment; and £880.5m (2021: £836.4m) for the Australian Government within the AsPac segment. These customers do not act in a unified way in making purchase decisions, and in general, the Group engages directly with the various departments of these customers in respect of the services it provides.

Segmental information

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each reportable operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment including right of use assets, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit asset. Segment liabilities comprise trade and other payables, lease liabilities, provisions and retirement benefit obligations.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable operating segment:

Year ended 31 December 2022	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	**2,100.2**	**1,269.8**	**954.6**	**209.4**	**–**	**4,534.0**
Result						
Trading profit/(loss)[1]	**76.2**	**136.7**	**56.9**	**16.0**	**(44.6)**	**241.2**
Amortisation and impairment of intangibles arising on acquisition	**(1.5)**	**(16.5)**	**(3.6)**	**–**	**–**	**(21.6)**
Exceptional operating items[2]	**(1.2)**	**(1.2)**	**–**	**–**	**–**	**(2.4)**
Operating profit/(loss)	**73.5**	**119.0**	**53.3**	**16.0**	**(44.6)**	**217.2**
Finance cost						**(20.4)**
Profit before tax						**196.8**
Tax charge						**(42.1)**
Tax credit on exceptional items						**0.3**
Profit for the year						**155.0**
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	**12.0**	**–**	**–**	**–**	**–**	**12.0**
Total depreciation and impairment of plant, property and equipment and right of use assets	**(86.4)**	**(26.7)**	**(12.6)**	**(1.9)**	**(12.9)**	**(140.5)**
Amortisation and impairment of other intangible assets	**(1.3)**	**(1.0)**	**(2.1)**	**(0.1)**	**(5.6)**	**(10.1)**

1 Trading Profit/(Loss) is defined as Operating Profit/(Loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
2 Included within exceptional operating items are total acquisition related costs of £2.4m.

4. Segmental information continued

Segmental information continued

Year ended 31 December 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	2,131.6	1,120.0	908.4	264.6	–	4,424.6
Result						
Trading profit/(loss)[1]	99.8	117.8	52.0	13.7	(49.9)	233.4
Amortisation and impairment of intangibles arising on acquisition	(0.8)	(11.7)	(3.5)	–	–	(16.0)
Exceptional operating items[2]	0.4	(4.1)	3.4	–	(0.9)	(1.2)
Operating profit/(loss)	99.4	102.0	51.9	13.7	(50.8)	216.2
Finance cost						(24.0)
Profit before tax						192.2
Tax credit						111.9
Tax on exceptional items						(0.2)
Profit for the year						303.9
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	8.7	–	–	–	–	8.7
Total depreciation and impairment of plant, property and equipment and right of use assets	(77.9)	(23.4)	(12.5)	(5.2)	(9.9)	(128.9)
Amortisation of other intangible assets	(1.2)	(0.5)	(2.9)	(0.1)	(6.6)	(11.3)

1 Trading Profit/(Loss) is defined as Operating Profit/(Loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.
2 Included within exceptional operating items are total acquisition related costs of £4.9m.

As at 31 December 2022	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	**22.9**	**–**	**–**	**0.4**	**–**	**23.3**
Other segment assets[1]	**960.8**	**948.0**	**309.6**	**68.7**	**123.3**	**2,410.4**
Total segment assets	**983.7**	**948.0**	**309.6**	**69.1**	**123.3**	**2,433.7**
Unallocated assets[2]						**316.5**
Consolidated total assets						**2,750.2**
Segment liabilities						
Segment liabilities[1]	**(720.2)**	**(178.3)**	**(248.1)**	**(61.1)**	**(179.0)**	**(1,386.7)**
Unallocated liabilities[2]						**(333.8)**
Consolidated total liabilities						**(1,720.5)**
Supplementary information						
Additions to non-current assets[3]	**173.7**	**14.5**	**7.4**	**3.0**	**12.1**	**210.7**
Segment non-current assets	**701.1**	**718.6**	**177.1**	**14.1**	**80.8**	**1,691.7**
Unallocated non-current assets						**244.5**

1 The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.
2 Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.
3 Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant & equipment and right of use assets.

Year ended 31 December 2021	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures and associates	17.1	–	0.1	0.4	–	17.6
Other segment assets[1]	782.5	911.6	313.2	60.8	227.5	2,295.6
Total segment assets	799.6	911.6	313.3	61.2	227.5	2,313.2
Unallocated assets[2]						420.8
Consolidated total assets						2,734.0
Segment liabilities						
Segment liabilities[1]	(641.2)	(187.7)	(224.7)	(53.2)	(182.3)	(1,289.1)
Unallocated liabilities[2]						(436.5)
Consolidated total liabilities						(1,725.6)
Supplementary information						
Additions to non-current assets[3]	146.3	227.4	64.6	0.3	20.5	459.1
Segment non-current assets	570.1	700.8	179.0	11.7	207.3	1,668.9
Unallocated non-current assets						214.3

1 The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.
2 Unallocated assets and liabilities include deferred tax, cash and cash equivalents, derivative financial instruments and loans.
3 Additions to non-current assets reflects additions and amounts arising on acquisition for goodwill, other intangible assets, property plant & equipment and right of use assets.

5. List of principal undertakings

The following are considered to be the principal undertakings of the Group as at the year-end:

Principal subsidiaries		2022	2021
United Kingdom	Serco Limited	**100%**	100%
Australia	Serco Australia Pty Limited	**100%**	100%
USA	Serco Inc.	**100%**	100%

Principal joint ventures and associates		2022	2021
United Kingdom	Merseyrail Services Holding Company Limited	**50%**	50%
United Kingdom	Vivo Defence Services Limited	**50%**	50%

A full list of subsidiaries and related undertakings is included in the Appendix on pages 256 to 259 which form part of the financial statements.

6. Joint ventures and associates

The principal joint ventures Merseyrail Services Holding Company (MSHCL) Limited and Vivo Defence Services Limited (VIVO) were the only equity accounted entities which were material to the Group during the year. Dividends of £7.3m (2021: £nil) and £nil (2021: £nil), respectively, were received from these companies in the year. The increased dividends received in respect of MSHCL were due to returning passenger volumes following reduced travel during the Covid-19 pandemic.

The 2021 result included AWE Management Limited (AWEML). As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its option to terminate services provided by the Group through AWEML on 30 June 2021. During 2022 a final dividend of £1.8m (2021: £13.5m) was received from AWEML. Following the termination of services provided by the Group through AWEML, it is no longer considered a principal associate and is therefore classified within the Group portion of other joint ventures and associates in the table below for 2022.

Notes to the Consolidated Financial Statements

continued

6. Joint ventures and associates continued

Summarised financial information of MSHCL and VIVO, and an aggregation of the other equity accounted entities in which the Group has an interest in is as follows:

31 December 2022

Summarised financial information	MSHCL (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint ventures and associates[1] £m	Total £m
Revenue	**185.0**	**327.0**	**236.8**	**1.1**	**237.9**
Operating profit/(loss)	**12.0**	**17.6**	**14.4**	**(0.1)**	**14.3**
Net (finance costs)/investment revenue	**(0.4)**	**(0.6)**	**(0.4)**	**0.1**	**(0.3)**
Income tax (charge)/credit	**(1.0)**	**(3.2)**	**(2.1)**	**0.1**	**(2.0)**
Profit from operations	**10.6**	**13.8**	**11.9**	**0.1**	**12.0**
Other comprehensive income	**5.8**	–	**2.9**	–	**2.9**
Total comprehensive income	**16.4**	**13.8**	**14.8**	**0.1**	**14.9**
Non-current assets	**36.1**	**5.9**	**21.0**	**0.3**	**21.3**
Current assets	**51.2**	**129.9**	**90.5**	**1.5**	**92.0**
Current liabilities	**(29.6)**	**(91.7)**	**(60.6)**	**(0.8)**	**(61.4)**
Non-current liabilities	**(26.5)**	**(31.1)**	**(28.6)**	–	**(28.6)**
Net assets	**31.2**	**13.0**	**22.3**	**1.0**	**23.3**
Proportion of Group ownership	**50.0%**	**50.0%**			
Carrying amount of investment	**15.6**	**6.5**	**22.3**	**1.0**	**23.3**

1 For MSHCL, these are the total results of the entity multiplied by the proportion of Group ownership. For VIVO, although the equity ownership is 50%, the share of profits from contracts operated by VIVO is either 25% or 50%. Therefore the Group portion of material joint ventures will not represent exactly 50% of their income and net assets.

	MSHCL (100% of results) £m	VIVO (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint venture arrangements and associates[1] £m	Total £m
Cash and cash equivalents	**33.2**	**18.0**	**25.6**	**0.6**	**26.2**
Current financial liabilities excluding trade and other payables and provisions	**(7.1)**	**(3.2)**	**(5.1)**	**(0.3)**	**(5.4)**
Non-current financial liabilities excluding intercompany loans, trade and other payables and provisions	**(25.8)**	**(13.6)**	**(18.4)**	–	**(18.4)**
Non-current joint venture loans liability	–	**(20.0)**	**(10.0)**	–	**(10.0)**
Depreciation and amortisation	**(5.0)**	**(1.3)**	**(3.2)**	**(0.1)**	**(3.3)**
Interest income	**0.1**	–	**0.1**	–	**0.1**
Interest expense	**(0.4)**	**(0.2)**	**(0.3)**	**(0.1)**	**(0.4)**

1 Total results of the entity multiplied by the respective proportion of Group ownership.

The Group's share of liabilities within joint ventures and associates is £90.0m (2021: £21.1m) which include £5.1m of lease obligations (2021: £3.9m) and £10.0m in joint venture loan liabilities (2021: £nil). The balance is trade and other payables which arise as part of the day-to-day operations carried out by those entities. Other than liabilities associated with leases, the Group has no material exposure to third party debt or other financing arrangements within any of its joint ventures and associates.

VIVO's funding requirement is agreed by both shareholders and based on the strategic business plan. At 31 December 2022 the funding provided was £10m from each shareholder. In the future, distributions of net profits will be returned to the Group once VIVO has sufficient reserves.

31 December 2021

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates[1] £m	Group portion of other joint venture arrangements and associates[1] £m	Total £m
Revenue	638.7	161.0	237.0	1.4	238.4
Operating profit/(loss)	49.6	(0.8)	11.8	(0.3)	11.5
Net finance costs	–	(0.1)	(0.1)	–	(0.1)
Income tax (charge)/credit	(12.0)	0.3	(2.8)	0.1	(2.7)
Profit/(loss) from operations	37.6	(0.6)	8.9	(0.2)	8.7
Other comprehensive income	–	6.6	3.3	–	3.3
Total comprehensive income/(expense)	37.6	6.0	12.2	(0.2)	12.0
Non-current assets	–	13.9	7.0	0.2	7.2
Current assets	8.5	43.4	23.8	7.7	31.5
Current liabilities	(1.7)	(23.6)	(12.2)	(3.9)	(16.1)
Non-current liabilities	–	(4.0)	(2.0)	(3.0)	(5.0)
Net assets	6.8	29.7	16.6	1.0	17.6
Proportion of Group ownership	24.5%	50.0%			
Carrying amount of investment	1.7	14.9	16.6	1.0	17.6

1 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[1] £m	Group portion of other joint venture arrangements and associates[1] £m	Total £m
Cash and cash equivalents	8.5	28.9	16.5	4.7	21.2
Current financial liabilities excluding trade and other payables and provisions	(0.3)	(5.3)	(2.7)	–	(2.7)
Non-current financial liabilities excluding trade and other payables and provisions	–	(2.9)	(1.5)	–	(1.5)
Depreciation and amortisation	–	(5.8)	(2.9)	–	(2.9)
Interest income	–	–	–	–	–
Interest expense	–	(0.2)	(0.1)	–	(0.1)

1 Total results of the entity multiplied by the respective proportion of Group ownership.

7. Acquisitions

On 12 July 2022, the Group acquired 100% of the issued share capital of Sapienza Consulting Holdings BV (Sapienza), a provider of consulting, talent acquisition and digital solutions to European space and defence institutions for consideration of €3.3m (£2.8m) in cash, subject to standard working capital and completion adjustments. The acquired net assets included €1.9m (£1.6m) of cash resulting in a net cash outflow on acquisition of €1.4m (£1.2m). The operating results, assets and liabilities have been recognised effective 12 July 2022.

Sapienza contributed £6.5m of revenue and £0.3m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2022.

7. Acquisitions continued

On 1 September 2022, the Group acquired 100% of the issued share capital of OXZ Holdings AG (ORS), a specialist provider of immigration services to public sector customers in Switzerland, Germany, Austria and Italy, for consideration of CHF19.2m (£16.9m) subject to standard working capital and completion adjustments. CHF6.4m (£5.7m) was paid in cash and the remaining CHF12.8m (£11.2m) is contingent consideration. At the same time, the Group transferred CHF19.2m (£16.9m) to acquire shareholder loans of ORS. The acquired net assets included CHF5.2m (£4.6m) of cash resulting in a net cash outflow on acquisition of CHF20.4m (£18.0m). Including the balance of contingent consideration payable the total expected cash outflow for the acquisition, net of cash acquired, is CHF33.2m (£29.2m). Post completion there was a further cash outflow of CHF7.4m (£6.7m) to settle the bank loan acquired. The acquisition included net pension obligation of CHF5.7m (£5.0m). The operating results, assets and liabilities have been recognised effective 1 September 2022.

ORS contributed £62.4m of revenue and £1.6m of operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, to the Group's results during the year to 31 December 2022.

Based on estimates made of the full-year impact of the acquisition of Sapienza and ORS, had the acquisitions taken place on 1 January 2022, Group revenue and operating profit before exceptional items for the period would have increased by approximately £94.3m and £4.5m respectively, taking total Group revenue to £4,628.3m and total Group operating profit before exceptional items to £224.1m.

The provisional fair values of the two acquisitions undertaken during the year and the update to provisional fair values of the prior year acquisition of Whitney, Bradley & Brown, Inc. are summarised below:

	Update to provisional fair values WBB[1] £m	Provisional fair values Sapienza £m	Provisional fair values ORS £m	Total £m
Goodwill[2]	1.5	2.1	17.3	20.9
Other intangible assets	(0.7)	1.2	25.9	26.4
Property, plant and equipment	–	–	1.1	1.1
Right of use assets	–	0.4	12.7	13.1
Retirement benefit assets	–	–	46.7	46.7
Inventories	–	–	0.6	0.6
Deferred tax asset	–	–	0.1	0.1
Trade and other receivables	(0.3)	2.7	50.3	52.7
Cash and cash equivalents	–	1.6	4.6	6.2
Trade and other payables	–	(4.6)	(48.6)	(53.2)
Provisions	(0.4)	–	–	(0.4)
Retirement benefit obligations	–	–	(51.7)	(51.7)
Bank loans	–	–	(6.5)	(6.5)
Other loans	–	–	(16.9)	(16.9)
Corporation tax liabilities	–	–	(0.7)	(0.7)
Deferred tax liabilities	(0.1)	(0.2)	(5.3)	(5.6)
Lease obligations	–	(0.4)	(12.7)	(13.1)
Acquisition date fair value of consideration transferred	–	2.8	16.9	19.7
Satisfied by:				
Cash consideration	–	2.8	5.7	8.5
Contingent consideration	–	–	11.2	11.2
Total consideration	–	2.8	16.9	19.7

1 WBB goodwill increased by £1.5m following the completion of the fair value assessment of the acquisition during the measurement period.
2 No goodwill is deductible for tax purposes.

The fair values for Sapienza and ORS are prepared on a provisional basis in accordance with IFRS 3. During the measurement period, expected to be 12 months from acquisition date, the Group may amend the fair value. The following items reflect the key consideration in measuring the fair value:

- Goodwill on the acquisitions of Sapienza and ORS represents the premium associated with expanding the Group's capabilities in the relevant sectors and geographical locations in which the acquired companies operate.
- The acquisition related intangibles represent the fair value of customer relationships which have been valued using our best estimate of forecast cash flows discounted to present value and, in the case of ORS, certain software-related assets and the brand names associated with them.

- The right of use assets and lease obligations are measured as the present value of the remaining lease payments as if the acquired lease was a new lease at the acquisition date.
- The retirement benefit assets and obligations were measured in accordance with IAS 19 at the acquisition date.
- Deferred tax assets and liabilities are measured based on the provisional fair values at the acquisition date.
- The best estimate at acquisition date of trade and other receivables are the gross contractual amounts as there are no cash flows that are not expected to be collected.

Contingent consideration recognised on acquisition of ORS was CHF12.8m (£11.2m) and reflects the fair value of the earn-out and overperformance payments based on a range of targets for the full year 2022 EBITDA. The maximum earn-out and overperformance payments are CHF10.0m and CHF4.0m respectively. The contingent consideration is expected to be settled in April 2023.

The total impact of acquisitions to the Group's cash flow position in the period was as follows:

	£m
Cash consideration in respect of current period acquisitions	**8.5**
Cash acquired on acquisition of businesses	**(6.2)**
Cash to acquire existing debt balances	**16.9**
Net cash outflow in relation to acquisitions	**19.2**
Exceptional acquisition related costs	**2.4**
Net cash impact in the year on acquisitions	**21.6**

Costs associated with the acquisitions of ORS and the prior year acquisition of Whitney, Bradley & Brown, Inc are shown as exceptional costs in the Consolidated Income Statement. The total transaction and implementation costs recognised in exceptional items for the year ended 31 December 2022 was £2.4m. There were no material costs associated with the acquisition of Sapienza during the year.

8. Revenue from contracts with customers

Revenue

Information regarding the Group's major customers and a segmental analysis of revenue is provided in note 4.

An analysis of the Group's revenue from its key market sectors, together with the timing of revenue recognition across the Group's revenue from contracts with customers, is as follows:

Year ended 31 December 2022	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	**315.8**	**863.0**	**147.9**	**30.5**	**1,357.2**
Justice & Immigration	**798.9**	**–**	**412.9**	**–**	**1,211.8**
Transport	**173.9**	**95.9**	**9.8**	**70.0**	**349.6**
Health & Other Facilities Management	**264.4**	**–**	**225.3**	**103.0**	**592.7**
Citizen Services	**547.2**	**310.9**	**158.7**	**5.9**	**1,022.7**
	2,100.2	**1,269.8**	**954.6**	**209.4**	**4,534.0**
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	**5.8**	**–**	**0.8**	**–**	**6.6**
Revenue recognised at a point in time	**21.9**	**–**	**5.5**	**–**	**27.4**
Products and services transferred over time	**2,072.5**	**1,269.8**	**948.3**	**209.4**	**4,500.0**
	2,100.2	**1,269.8**	**954.6**	**209.4**	**4,534.0**

8. Revenue from contracts with customers continued

Year ended 31 December 2021 (restated[1])	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	280.6	764.6	145.6	31.4	1,222.2
Justice & Immigration	468.9	–	374.2	–	843.1
Transport	149.3	79.9	7.3	135.6	372.1
Health & Other Facilities Management	260.9	–	220.3	94.4	575.6
Citizen Services	971.9	275.5	161.0	3.2	1,411.6
	2,131.6	1,120.0	908.4	264.6	4,424.6
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	2.5	–	6.6	–	9.1
Revenue recognised at a point in time	17.3	–	8.4	–	25.7
Products and services transferred over time	2,111.8	1,120.0	893.4	264.6	4,389.8
	2,131.6	1,120.0	908.4	264.6	4,424.6

1 The prior period balances have been restated to ensure consistent application of the sector definitions used for the current period. This follows a review in 2021 of the Group's sector definitions to align with the strategic objectives of the Group. The change has no impact to the income statement or the balance sheet of the Group.

Transaction price allocated to remaining performance obligations

The following table shows the transaction price allocated to remaining performance obligations. This represents revenue expected to be recognised in subsequent periods arising on existing contractual arrangements.

In assessing the future transaction price, the judgements of most relevance are the future term over which the transaction price is calculated and the estimation of variable revenue to be included.

Where a contract with a customer includes within the term of the committed contract provisions for price-rebasing or a provision for market testing, revenue beyond these is included to the extent that there are no indicators which suggest that the contract will not continue past this point, and it is highly probable that a significant reduction will not occur. Where there is a requirement for the Group, or a customer, to enter into to a new contract, rather than continuing an existing contract, such an extension is not included for the purposes of calculating future transaction price.

Additionally, the Group has a small subset of contracts that contain a termination for convenience clause, for example due to national security considerations, which are assumed by the Group not to be without cause. These contracts are considered to run for the full intended term for the purpose of calculating the transaction price allocated to remaining performance obligations, other than instances where the Group believes that termination will occur before the original contract end date.

Under the terms of certain contracts which the Group has with its customers, the Group's compensation for providing those services is based on volumes or other drivers of variable activity, such as additional activities awarded under existing contracts. These volumes are not guaranteed, however based on historic volumes and the nature of the contracts in operation, such as the provision of asylum seeker accommodation or passenger transport, Management is able to prepare a sufficiently reliable estimate of the minimum level of variable revenue that is likely to be earned. As a result, variable revenue is included only to the level at which Management remains confident that a significant reduction will not occur.

As part of the considerations around variable revenue, Management considers the impact that factors such as contractual performance, anticipated demand and pricing (including indexation) may have on future revenue recognised. Management also considers whether there are possible impacts from climate change and other environmental related risks, with certain sectors considered to be more at risk than others, however no significant adjustments were identified in relation to the future revenue forecasts of existing contracts.

	UK&E £m	Americas[1] £m	AsPac £m	Middle East £m	Total £m
Within 1 year (2023)	**1,878.2**	**780.0**	**832.5**	**165.0**	**3,655.7**
Between 2 – 5 years (2024 – 2027)	**5,207.8**	**256.9**	**1,209.5**	**144.1**	**6,818.3**
5 years and beyond (2028+)	**2,740.0**	**135.7**	**1,339.6**	**118.4**	**4,333.7**
	9,826.0	**1,172.6**	**3,381.6**	**427.5**	**14,807.7**

1 Due to the nature contracting environment in the Americas division the transaction price allocated to remaining performance obligations is primarily within 1 year and the future years are therefore inherently lower than other segments.

9. Exceptional items

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

For the year ended 31 December	2022 £m	2021 £m
Restructuring costs	–	0.1
Increase in onerous lease provision	–	(0.6)
Costs associated with successful acquisitions	**(2.4)**	(4.9)
Profit on sale of investments	–	4.2
Exceptional operating items	**(2.4)**	(1.2)
Exceptional tax	**0.3**	(0.2)
Total exceptional operating items net of tax	**(2.1)**	(1.4)

The exceptional charge in 2022 relates to the successful acquisitions of OXZ Holdings AG (ORS) in 2022 and Whitney, Bradley & Brown, Inc (WBB) in 2021. The combined transaction and implementation costs incurred during the year ended 31 December 2022 of £2.4m have been treated as exceptional costs in line with the Group's accounting policy and the treatment of similar costs during the year ended 31 December 2021.

Exceptional tax

Exceptional tax for the year was a credit of £0.3m (2021: £0.2m charge) which arises on exceptional items within operating profit.

The tax credit on exceptional items arises in relation to acquisition and integration costs incurred overseas on the WBB acquisition. Costs associated with the ORS Group acquisition did not give rise to a tax credit as they were either treated as capital, and therefore not tax deductible, or augmented non-valued deferred tax.

10. Operating profit

Operating profit is stated after charging/(crediting):

Year ended 31 December	2022 £m	2021 £m
Research and development costs	**2.6**	1.2
Profit on disposal of property, plant and equipment	**(0.5)**	(0.2)
Profit on early termination of leases	**(0.2)**	(0.6)
Loss on disposal of intangible assets	**0.4**	1.6
Depreciation and impairment of property, plant and equipment	**23.0**	19.9
Depreciation and impairment of right of use assets	**117.5**	109.0
Amortisation and impairment of intangible assets – arising on acquisition	**21.6**	16.0
Amortisation, write down and impairment of intangible assets – other	**10.1**	11.3
Staff costs (note 11)	**2,155.8**	2,000.5
Allowance for doubtful debts charged to income statement	**(0.4)**	0.4
Net foreign exchange charge	**(0.1)**	0.5
Movement on non-designated hedges and reclassified cash flow hedges	**(0.8)**	–
Lease payments recognised through operating profit[1]	**4.2**	2.8
Operating lease income from sub-leases	**(1.8)**	(1.5)

1 The lease payments recognised in operating profit are those which have not been recorded in accordance with the permissible exemptions in IFRS 16 *Leases* for short-term or low-value leases.

10. Operating profit continued

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	2022 £m	2021 £m
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	**2.6**	1.7
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– audit of the Company's subsidiaries pursuant to legislation	**1.3**	0.6
Total audit fees	**3.9**	2.3
– Audit-related assurance services	**0.1**	0.1
– Other non-audit services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2

Fees payable to the Company's Auditor for non-audit services to the Company are not required to be disclosed separately because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded, are set out in the Audit Committee Report on page 135. No services were provided pursuant to contingent fee arrangements.

11. Staff costs

The average number of persons employed by the Group (including Executive Directors) was:

Year ended 31 December	2022 number	2021 number
UK & Europe	**23,855**	22,377
Americas	**8,960**	8,693
AsPac	**14,024**	15,438
Middle East	**2,122**	3,518
Unallocated	**999**	858
	49,960	50,884

The average number of persons employed includes all individuals employed under contracts of service by the Group. This comprises permanent, part-time, and casual employees and those with fixed term contracts. It excludes self-employed contractors and other casual workers.

Aggregate remuneration of all employees based on the average number of employees reported above was:

Year ended 31 December	2022 £m	2021 £m
Wages and salaries	**1,889.1**	1,759.7
Social security costs	**148.3**	127.4
Other pension costs (note 30)	**102.8**	97.6
	2,140.2	1,984.7
Share based payment expense (note 34)	**15.6**	15.8
	2,155.8	2,000.5

12. Investment revenue

Year ended 31 December	2022 £m	2021 £m
Interest receivable on other loans and deposits	**1.9**	0.6
Net interest receivable on retirement benefit obligations (note 30)	**2.7**	1.1
Other dividends received	**-**	0.6
Movement in discount on other debtors	**0.1**	0.1
	4.7	2.4

13. Finance costs

Year ended 31 December	2022 £m	2021 £m
Interest payable on lease liabilities	**7.9**	7.8
Interest payable on other loans	**15.2**	15.6
Facility fees and other charges	**2.4**	2.4
	25.5	25.8
Foreign exchange on financing activities	**(0.4)**	0.6
	25.1	26.4

14. Tax

14 (a) Income tax recognised in the income statement

Year ended 31 December	Before exceptional items 2022 £m	Exceptional items 2022 £m	Total 2022 £m	Before exceptional items 2021 £m	Exceptional items 2021 £m	Total 2021 £m
Current income tax						
Current income tax charge/(credit)	**38.0**	**(0.3)**	**37.7**	34.6	0.8	35.4
Adjustments in respect of prior years	**3.5**	**-**	**3.5**	1.3	–	1.3
Deferred tax						
Current year charge/(credit)	**5.5**	**-**	**5.5**	(146.5)	(0.6)	(147.1)
Adjustments in respect of prior years	**(4.9)**	**-**	**(4.9)**	(1.3)	–	(1.3)
	42.1	**(0.3)**	**41.8**	(111.9)	0.2	(111.7)

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 2022 £m	Exceptional items 2022 £m	Total 2022 £m	Before exceptional items 2021 £m	Exceptional items 2021 £m	Total 2021 £m
Profit before tax	**199.2**	**(2.4)**	**196.8**	193.4	(1.2)	192.2
Tax calculated at a rate of 19.00% (2021: 19.00%)	**37.8**	**(0.5)**	**37.3**	36.7	(0.2)	36.5
Expenses not deductible for tax purposes[1]	**2.0**	**0.2**	**2.2**	1.8	0.6	2.4
UK unprovided deferred tax[2]	**0.3**	**-**	**0.3**	–	–	–
Other unprovided deferred tax	**2.5**	**0.1**	**2.6**	2.2	–	2.2
Effect of the use of unrecognised tax losses	**(1.1)**	**-**	**(1.1)**	(0.4)	(0.3)	(0.7)
Additional recognition of UK deferred tax asset[3]	**-**	**-**	**-**	(146.4)	–	(146.4)
Impact of changes in statutory tax rates on current income tax	**(0.8)**	**-**	**(0.8)**	–	–	–
Overseas rate differences	**10.5**	**(0.1)**	**10.4**	11.2	0.1	11.3
Other non-taxable income	**(5.5)**	**-**	**(5.5)**	(4.6)	–	(4.6)
Adjustments in respect of prior years[4]	**(1.4)**	**-**	**(1.4)**	–	–	–
R&D expenditure credit (RDEC)	**0.1**	**-**	**0.1**	–	–	–
Impact of revaluing brought forward UK provided deferred tax from 19% to 25%	**-**	**-**	**-**	(10.8)	–	(10.8)
Adjustments in respect of equity accounted investments	**(2.3)**	**-**	**(2.3)**	(1.6)	–	(1.6)
Tax charge/(credit)	**42.1**	**(0.3)**	**41.8**	(111.9)	0.2	(111.7)

1 Relates to costs that are not allowable for tax deduction under local tax law.
2 Arises due to timing differences between when an amount is recognised in the income statement and when the amount is subject to UK tax.
3 In the prior year, the Group brought onto the balance sheet a previously unrecognised UK deferred tax asset of £144.8m at 1 January 2021. This asset was revalued during the prior year giving a net adjustment of £146.4m.
4 Included within adjustments in respect of prior years for the year ended 31 December 2022, is a credit of £0.9m in relation to the finalisation of the prior year position on share based payments and a credit of £0.7m reflecting the utilisation of the R&D expenditure credit, previously written off to deferred tax, against the 2021 current tax liability.

The corporate income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 19.00% (2021: 19.00%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

14. Tax continued

14 (b) Income tax recognised in the SOCI

Year ended 31 December	2022 £m	2021 £m
Current tax		
Taken to retirement benefit obligations reserve	**2.0**	0.8
Deferred tax		
Relating to cash flow hedges	**(0.1)**	–
Relating to net investment hedge	**–**	4.0
Taken to retirement benefit obligations reserve	**25.1**	(22.5)
	27.0	(17.7)

14 (c) Tax on items taken directly to equity

Year ended 31 December	2022 £m	2021 £m
Current tax		
Recorded in share based payment reserve	**2.2**	(0.7)
Deferred tax		
Recorded in share based payment reserve	**1.2**	0.7
	3.4	–

15. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using local substantively enacted tax rates.

The movement in net deferred tax (assets)/liabilities during the year was as follows:

	2022 £m	2021 £m
At 1 January – asset	**(174.0)**	(56.3)
Income statement charge/(credit)	**0.6**	(148.4)
R&D expenditure credit transferred to current tax	**0.7**	–
Items recognised in equity and in other comprehensive income	**(26.2)**	17.8
Arising on acquisition	**5.5**	9.9
Exchange differences	**3.0**	3.0
At 31 December – asset	**(190.4)**	(174.0)

The movement in deferred tax (assets)/liabilities during the year was as follows:

	Temporary differences on assets/ intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	Onerous contract provisions £m	Derivative financial instruments £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2022	**19.9**	**(34.5)**	**36.2**	**(0.8)**	**–**	**(166.0)**	**(28.8)**	**(174.0)**
Charged/(credited) to income statement (note 14a)	**1.7**	**(0.5)**	**0.2**	**0.1**	**–**	**0.8**	**(1.7)**	**0.6**
R&D expenditure credit transferred to current tax	**–**	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Arising on acquisition of a subsidiary	**5.5**	**–**	**0.1**	**–**	**–**	**(0.1)**	**–**	**5.5**
Items recognised in equity and in other comprehensive income (notes 14b and 14c)	**–**	**(1.2)**	**(25.1)**	**–**	**0.1**	**–**	**–**	**(26.2)**
Exchange differences	**5.7**	**(1.8)**	**(0.2)**	**(0.1)**	**–**	**(0.3)**	**(0.3)**	**3.0**
At 31 December 2022	**32.8**	**(38.0)**	**11.2**	**(0.8)**	**0.1**	**(165.6)**	**(30.1)**	**(190.4)**

Other temporary differences include amounts such as provisions and accruals which, under certain tax laws, are only allowable when expended.

The movement in deferred tax (assets)/liabilities during the previous year was as follows:

	Temporary differences on assets/ intangibles £m	Share based payment and employee benefits £m	Retirement benefit schemes £m	Onerous contract provisions £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2021	25.5	(24.7)	14.8	(0.5)	(31.1)	(40.3)	(56.3)
Credited to income statement (note 14a)	(11.7)	(7.6)	(0.8)	(0.3)	(127.3)	(0.7)	(148.4)
Arising on acquisition of a subsidiary.	5.6	(2.4)	(0.4)	–	(3.3)	10.4	9.9
Items recognised in equity and in other comprehensive income (notes 14b and 14c)	–	(0.7)	22.5	–	(4.0)	–	17.8
Exchange differences	0.5	0.9	0.1	–	(0.3)	1.8	3.0
At 31 December 2021	19.9	(34.5)	36.2	(0.8)	(166.0)	(28.8)	(174.0)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following analysis shows the deferred tax balances (after offset) for financial reporting purposes:

	2022 £m	2021 £m
Deferred tax liabilities	**53.8**	40.3
Deferred tax assets	**(244.2)**	(214.3)
	(190.4)	(174.0)

15. Deferred tax continued

As at the balance sheet date, the UK has a potential deferred tax asset of £253.6m (2021: £234.3m) available for offset against future profits. A UK deferred tax asset has currently been recognised of £186.9m (2021: £162.8m). Recognition has been based on the improved performance in the underlying UK business indicating a sustained return to profitability which will enable accumulated tax losses within the UK to be utilised. The return to profitability is as a result of onerous contracts ending and new profitable long-term contracts being entered into, as well as a significant reduction in exceptional restructuring spend following the strategy review in 2015, which also reduced the level of overhead spend within the UK business. No deferred tax asset has been recognised in respect of the remaining asset (net £66.7m) as they are more restricted in their use either due to their nature, such as capital losses, or the period and entity in which they arose, as revenue losses made before April 2017 are more restricted in their use. On 24 May 2021 legislation which increases the UK tax rate from 19% to 25% from April 2023 was substantively enacted. These measures increase the Group's future current tax charge accordingly. The deferred tax balance at 31 December 2022 has been calculated reflecting the increased rate of 25% where the balance is expected to be realised after April 2023.

Outside of the UK, there is a further £39.5m (2021: £37.5m) of deferred tax assets which have not been recognised. £38.8m (2021: £37.0m) of this relates to revenue losses where current forecasts do not support recognition.

On 9 December 2022 the Ministry of Finance in UAE published tax law under which certain Serco operations in UAE will pay tax from January 2024. We are continuing to work with local advisers to ascertain the implications on filing requirements and tax payment, but our current expectation is that the introduction of this new tax will not have a material impact on our Group tax liability.

In October 2021 over 130 countries in the Organisation for Economic Cooperation and Development (OECD) jointly released a framework to introduce a global minimum tax rate of 15% in order to address concerns about uneven profit distributions and tax contributions of large multinationals. In June 2022 the UK government published draft legislation to bring this framework into UK law from January 2024. Management is closely monitoring the progress of this legislation, but initial work undertaken to date suggests that the introduction of this minimum tax will also not have a material impact on the Group tax liability.

Losses of £1.6m (2021: £1.3m) expire within 5 years, losses of £4.1m (2021: £0.1m) expire within 6–10 years, losses of £11.8m (2021: £nil) expire within 20 years and losses of £1,072.6m (2021 £1,077.4m) may be carried forward indefinitely.

16. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS 33 *Earnings per Share*.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	2022 millions	2021 millions
Weighted average number of ordinary shares for the purpose of basic EPS	**1,192.2**	1,222.6
Effect of dilutive potential ordinary shares: Shares under award	**22.6**	21.4
Weighted average number of ordinary shares for the purpose of diluted EPS	**1,214.8**	1,244.0

Earnings per share

Basic EPS	Earnings 2022 £m	Per share amount 2022 pence	Earnings 2021 £m	Per share amount 2021 pence
Earnings for the purpose of basic EPS	**155.4**	**13.03**	303.9	24.86
Effect of dilutive potential ordinary shares	**–**	**(0.24)**	–	(0.43)
Diluted EPS	**155.4**	**12.79**	303.9	24.43

Basic EPS excluding exceptional items	Earnings 2022 £m	Per share amount 2022 pence	Earnings 2021 £m	Per share amount 2021 pence
Earnings for the purpose of basic EPS	**155.4**	**13.03**	303.9	24.86
Add back exceptional items	**2.4**	**0.21**	1.2	0.10
Add back tax on exceptional items	**(0.3)**	**(0.03)**	0.2	0.01
Earnings excluding exceptional items for the purpose of basic EPS	**157.5**	**13.21**	305.3	24.97
Effect of dilutive potential ordinary shares	**–**	**(0.24)**	–	(0.43)
Excluding exceptional items, diluted	**157.5**	**12.97**	305.3	24.54

17. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2021	994.4	(324.8)	669.6
Acquisitions	178.8	–	178.8
Exchange differences	7.0	(2.7)	4.3
At 31 December 2021	**1,180.2**	**(327.5)**	**852.7**
Acquisitions	**20.9**	**–**	**20.9**
Exchange differences	**97.8**	**(26.4)**	**71.4**
At 31 December 2022	**1,298.9**	**(353.9)**	**945.0**

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 1 January 2022 £m	Acquisitions £m	Exchange differences 2022 £m	Goodwill balance 31 December 2022 £m	Headroom on impairment analysis 2022 £m	Headroom on impairment analysis 2021 £m
UK & Europe	**183.6**	**19.4**	**0.8**	**203.8**	**811.1**	728.0
Americas	**527.8**	**1.5**	**62.9**	**592.2**	**360.9**	415.8
AsPac	**131.3**	**–**	**6.5**	**137.8**	**281.0**	380.6
Middle East	**10.0**	**–**	**1.2**	**11.2**	**119.5**	103.6
	852.7	**20.9**	**71.4**	**945.0**	**1,572.5**	1,628.0

Included above is the detail of the headroom on the cash generating units (CGUs) existing at the year end, which reflects where future discounted cash flows are greater than the underlying assets and includes all relevant cash flows, including where provisions have been made for future costs and losses. Overall, in all CGUs, there is sufficient headroom available. This is largely consistent with 2021 overall with reductions in Americas and ASPAC, primarily driven by the increase in discount rates as a result of volatility in the spot rates of corporate bonds impacting risk-free rates.

The key quantifiable assumptions applied in the impairment review are set out below:

	Discount rate 2022 %	Discount rate 2021 %	Terminal growth rates 2022 %	Terminal growth rates 2021 %
UK & Europe	**10.3**	9.3	**2.0**	2.0
Americas	**12.1**	10.9	**2.3**	2.4
AsPac	**13.4**	11.0	**2.2**	2.2
Middle East	**13.5**	12.1	**1.2**	1.3

Discount rate

Pre-tax discount rates derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are reviewed annually with external advisers and are adjusted for risks specific to the market in which the CGU operates.

Discount rates used in 2022 have increased compared with 2021. The change can be attributed to the increased geopolitical risks, macroeconomic conditions, such as sharp short-term inflation increases compared to prior expectations, and significant market movements. Historically Management has built an additional level of prudence into the equity risk premium (ERP). During 2020 when significant equity risk had already been factored in by markets due to the pandemic, Management concluded that increasing the equity risk rate was over-prudent. The Group departed from this policy for a year, but Management considered it appropriate to reinstate it for 2021. During 2022, significant equity risk has again been factored in by the markets, and hence Management has followed the same approach as 2020.

17. Goodwill continued

Terminal growth rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources and have not materially changed as compared with 2021.

Short-term growth rates

The annual impairment test is performed immediately prior to the year end, based initially on five-year cash flow forecasts approved by Management. Short-term revenue growth rates used in each CGU five-year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short-term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

As explained in note 8, Management considers certain sectors in which the Group operates to be more exposed to environmental risks than others. For example, changes in consumer attitudes to aviation or the use of private vehicles, may have an impact on the Group's transport contracts. Currently, no adjustment to existing contracts is required, although Management will continue to monitor the potential impact of environmental risks.

Sensitivity analysis

Sensitivity analysis has been performed, applying a 1% movement in discount rates and a 1% movement in terminal growth rates which are considered to be reasonably possible. Both individually and combined, the impact of these changes in key assumptions does not lead to an impairment in any CGU.

Performing a sensitivity analysis on short-term growth rates is not a numerical exercise, as growth rates are based on known a sensitivity scenario that reflects the judgement associated with short-term growth rates, Management has applied a no growth model to cash flows outside of the 2-year budget period. No impairment results from this scenario, however, when combined with an additional 1% increase in discount rates and a 1% reduction in terminal growth rates, an impairment occurs in the CGU with the lowest headroom as a proportion of its value in use. Management do not consider the combined scenario to be reasonably possible.

Management has also considered the sensitivity of cash flows in the terminal year for all CGUs and has determined that a reduction in cash flows of up to 10% in the final year of the plan is reasonably possible. No impairment results from this scenario even when combined with an additional 1% increase in discount rates and a 1% reduction in terminal growth rates though this is not deemed reasonably possible. Cash flows in the terminal year would need to reduce by 85% in the Middle East (£17.4m), 58% in AsPac (£29.0m), 50% in the Americas (£35.2m) and 64% in UK and Europe (£81.1m), before an impairment would need to be recognised.

Within the forecast cash flows for the AsPac CGU, there are large opportunities which would have a binary outcome. While the loss of these would result in an impairment of the goodwill, there is no indication at present given the opportunities available within the region that an impairment is required. Should the scale of any Division in the Group decline to a level which does not make it economically viable, it is likely that the Group would review the overhead and support structures in place to ensure they are appropriate for the scale of business and opportunities available.

Despite the volatility in discount rates experienced during 2022, Management has not revised the range of possible outcomes in its sensitivity analysis. In arriving at this conclusion, Management has considered the macroeconomic environment and consulted with its external advisors. It is deemed that the rate of change in interest rates experienced in 2022 is not expected to continue and therefore the sensitivities above are considered appropriate.

18. Other intangible assets

	Acquisition related	Other		
	Customer relationships £m	Software and IT £m	Internally generated development expenditure £m	Total £m
Cost				
At 1 January 2022	**176.4**	**128.8**	**55.8**	**361.0**
Arising on acquisition	**24.9**	**0.4**	**1.1**	**26.4**
Additions – internal development	**–**	**0.4**	**0.8**	**1.2**
Additions – external	**–**	**5.8**	**–**	**5.8**
Disposals	**–**	**(2.0)**	**(4.2)**	**(6.2)**
Exchange differences	**18.2**	**4.1**	**0.9**	**23.2**
At 31 December 2022	**219.5**	**137.5**	**54.4**	**411.4**
Accumulated amortisation and impairment				
At 1 January 2022	**60.3**	**100.9**	**55.8**	**217.0**
Impairment charge	**–**	**0.1**	**–**	**0.1**
Amortisation charge – internal development	**–**	**6.4**	**0.3**	**6.7**
Amortisation charge – external	**21.6**	**3.3**	**–**	**24.9**
Disposals	**–**	**(1.6)**	**(4.2)**	**(5.8)**
Exchange differences	**6.6**	**3.0**	**0.9**	**10.5**
At 31 December 2022	**88.5**	**112.1**	**52.8**	**253.4**
Net book value				
At 31 December 2022	**131.0**	**25.4**	**1.6**	**158.0**

	Acquisition related	Other		
	Customer relationships £m	Software and IT £m	Internally generated development expenditure £m	Total £m
Cost				
At 1 January 2021	95.2	131.9	56.9	284.0
Arising on acquisition	79.3	2.9	–	82.2
Additions – internal development	–	0.2	–	0.2
Additions – external	–	8.0	–	8.0
Disposals	(1.2)	(12.1)	(1.0)	(14.3)
Reclassification from property, plant and equipment	–	(0.9)	–	(0.9)
Exchange differences	3.1	(1.2)	(0.1)	1.8
At 31 December 2021	176.4	128.8	55.8	361.0
Accumulated amortisation and impairment				
At 1 January 2021	44.8	102.2	56.4	203.4
Amortisation charge – internal development	–	5.0	0.4	5.4
Amortisation charge – external	16.0	5.9	–	21.9
Disposals	(1.2)	(10.6)	(0.9)	(12.7)
Reclassification from property, plant and equipment	–	(0.5)	–	(0.5)
Exchange differences	0.7	(1.1)	(0.1)	(0.5)
At 31 December 2021	60.3	100.9	55.8	217.0
Net book value				
At 31 December 2021	116.1	27.9	–	144.0

18. Other intangible assets continued

Customer relationships are amortised over the average length of contracts acquired. The Group is carrying £131.1m (2021: £116.1m) in relation to customer relationships. Amortisation of intangibles arising on acquisition consists of amortisation in relation to customer relationships and totals £21.6m (2021: £16.0m).

The net book value of internally generated intangible assets as at 31 December 2022 was £1.6m (2021: £nil) in development expenditure and £1.8m (2021: £7.8m) in software and IT.

19. Property, plant and equipment and right of use assets

	Land and buildings owned £m	Land and buildings leased £m	Leasehold improvements owned £m	Other assets owned[1] £m	Other assets leased[1] £m	Total £m
Cost						
At 1 January 2022	**4.1**	**569.6**	**33.7**	**134.9**	**132.3**	**874.6**
Arising on acquisition	**–**	**4.5**	**–**	**1.1**	**8.6**	**14.2**
Additions	**–**	**116.2**	**2.6**	**9.8**	**13.6**	**142.2**
Reclassification between property, plant and equipment categories	**0.1**	**–**	**0.5**	**0.6**	**(1.2)**	**–**
Disposals	**–**	**(28.5)**	**(1.8)**	**(11.3)**	**(24.3)**	**(65.9)**
Exchange differences	**0.1**	**11.7**	**2.2**	**4.8**	**3.9**	**22.7**
At 31 December 2022	**4.3**	**673.5**	**37.2**	**139.9**	**132.9**	**987.8**
Accumulated depreciation and impairment						
At 1 January 2022	**2.8**	**204.4**	**19.0**	**95.4**	**80.8**	**402.4**
Charge for the year – impairment	**0.2**	**2.0**	**0.2**	**1.9**	**(3.8)**	**0.5**
Charge for the year – depreciation	**0.2**	**96.4**	**4.2**	**16.3**	**22.9**	**140.0**
Reclassification between property, plant and equipment categories	**–**	**–**	**–**	**1.1**	**(1.1)**	**–**
Disposals	**–**	**(15.3)**	**(1.8)**	**(11.1)**	**(23.5)**	**(51.7)**
Exchange differences	**0.1**	**6.7**	**1.2**	**3.6**	**2.7**	**14.3**
At 31 December 2022	**3.3**	**294.2**	**22.8**	**107.2**	**78.0**	**505.5**
Net book value[2]						
At 31 December 2022	**1.0**	**379.3**	**14.4**	**32.7**	**54.9**	**482.3**

1 Other assets include machinery, vehicles, furniture and equipment.
2 The net book value is shown on the balance sheet as £48.1m of owned assets in property, plant and equipment and £434.2m of leased assets in right of use assets.

The additions for leased land and buildings include £0.8m (2021: £3.1m) for dilapidation provisions and £nil (2021: £nil) for non-cash lease incentives.

	Land and buildings owned £m	Restated land and buildings leased[1] £m	Leasehold improvements owned £m	Other assets owned[2] £m	Other assets leased[2] £m	Total £m
Cost						
At 1 January 2021	4.3	479.5	31.9	133.4	136.4	785.5
Arising on acquisition	–	9.0	1.5	2.2	0.9	13.6
Additions	0.3	132.5	2.2	21.4	22.1	178.5
Reclassification between property, plant and equipment categories	–	–	–	8.2	(8.2)	–
Reclassifications from other intangible assets	–	–	0.6	0.3	–	0.9
Disposals	(0.5)	(51.7)	(2.4)	(29.7)	(18.7)	(103.0)
Exchange differences	–	0.3	(0.1)	(0.9)	(0.2)	(0.9)
At 31 December 2021	4.1	569.6	33.7	134.9	132.3	874.6
Accumulated depreciation and impairment						
At 1 January 2021	2.8	141.6	17.5	95.1	86.8	343.8
Charge for the year – impairment	–	–	–	0.3	–	0.3
Charge for the year – depreciation	0.2	88.7	3.5	15.9	20.3	128.6
Reclassification between property, plant and equipment categories	–	–	–	8.0	(8.0)	–
Reclassifications from other intangible assets	–	–	0.5	–	–	0.5
Disposals	(0.1)	(26.0)	(2.4)	(23.3)	(18.2)	(70.0)
Exchange differences	(0.1)	0.1	(0.1)	(0.6)	(0.1)	(0.8)
At 31 December 2021	2.8	204.4	19.0	95.4	80.8	402.4
Net book value[3]						
At 31 December 2021	1.3	365.2	14.7	39.5	51.5	472.2

1 Additions and disposals have been restated to be consistent with the treatment adopted in 2022. The adjustment ensures that changes in lease terms, which are agreed before the end of the original lease are treated as a lease modification and not the termination and commencement of a new lease. This change has no impact on the net book value, cash flow or profit previously reported.
2 Other assets include machinery, vehicles, furniture and equipment.
3 The net book value is shown on the balance sheet as £55.5m of owned assets in property, plant and equipment and £416.7m of leased assets in right of use assets.

20. Inventories

	2022 £m	2021 £m
Service spares, supplies, consumables and work in progress	**22.4**	19.6

Notes to the Consolidated Financial Statements

continued

21. Contract assets, trade and other receivables

Contract assets: Non-current	2022 £m	2021 £m
Accrued income	–	2.6

Contract assets: Current	2022 £m	2021 £m
Accrued income and other unbilled receivables	**334.4**	306.5
Capitalised bid costs	**2.3**	2.4
Capitalised mobilisation and phase-in costs	**7.3**	9.8
Other contract assets	**1.0**	0.3
	345.0	319.0

The Group's Consolidated Balance Sheet includes capitalised bid and phase-in costs that are realised as a part of the normal operating cycle of the Group. These assets represent upfront investments in contracts which are recoverable and expected to provide benefits over the life of those contracts. Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs can only be capitalised when the expenditure meets all three criteria identified in note 2.

Movements in the period were as follows:

Capitalised other contract assets, bid and phase-in costs	2022 £m	2021 £m
At 1 January	**12.5**	18.1
Additions	**0.8**	0.3
Amortisation	**(3.1)**	(4.0)
Written off	–	(1.5)
Exchange differences	**0.4**	(0.4)
At 31 December	**10.6**	12.5

Total trade and other receivables held by the Group at 31 December 2022 amount to £390.7m (2021: £321.9m).

Trade and other receivables: Non-current	2022 £m	2021 £m
Prepayments	**1.3**	0.4
Other receivables	**14.8**	13.2
	16.1	13.6

Other non-current receivables include long-term employee compensation plans, advances and other non-trade receivables.

Trade and other receivables: Current	2022 £m	2021 £m
Trade receivables	**266.8**	234.4
Prepayments	**63.8**	42.9
Amounts owed by joint ventures and associates	**3.1**	1.7
Other receivables	**40.9**	26.7
	374.6	305.7

Other receivables include purchase of own shares by the Employee Share Ownership Trust, and advanced deposits to suppliers.

The management of trade receivables is the responsibility of the reportable operating segments, although they report to the Group on a monthly basis on debtor days, debtor ageing and significant outstanding debts. The average credit period taken by customers is 22 days (2021: 19 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, £55.8m is due from agencies of the UK Government, the Group's largest customer (2021: £68.0m); £65.5m from the Australian Government (2021: £54.7m); £33.1m from the US Government (2021: £37.9m); and £18.3m from the Government of the United Arab Emirates (2021: £23.8m). There are no other customers who represent more than 5% of the total balance of trade receivables. The maximum potential exposure to credit risk in relation to trade receivables at the reporting date is equal to their carrying value. The Group does not hold any collateral as security.

The Group does not have any material impairments associated with expected credit losses due to the sovereign credit rating of most customers. Further specific impairments to trade receivables are based on estimated irrecoverable amounts and provisions on outstanding balances greater than a year old unless there is firm evidence that the balance is recoverable. The total amount of these impairments for the Group was £3.3m as of 31 December 2022 (2021: £4.4m).

An Expected Credit Loss (ECL) is recognised against contract assets only when it is considered to be material and there is evidence that the credit worthiness of a counterparty may render balances irrecoverable. The amount of ECL recognised at 31 December 2022 was £nil (2021: £nil).

Ageing of trade receivables	2022 £m	2021 £m
Not due	**202.1**	191.3
Overdue by less than 30 days	**31.8**	25.1
Overdue by between 30 and 60 days	**6.2**	8.2
Overdue by more than 60 days	**30.0**	14.2
Allowance for doubtful debts	**(3.3)**	(4.4)
	266.8	234.4

Of the total overdue trade receivable balance, 63% (2021: 92%) 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	2022 £m	2021 £m
At 1 January	**4.4**	7.0
Arising on acquisition	**1.3**	1.6
Net charges and releases to income statement	**(0.4)**	0.4
Utilised	**(2.3)**	(4.7)
Exchange differences	**0.3**	0.1
At 31 December	**3.3**	4.4

Included in the current other receivables balance is a further £1.5m (2021: £0.8m) due from agencies of the UK Government.

22. Cash and cash equivalents

	Sterling 2022 £m	Other currencies 2022 £m	Total 2022 £m	Sterling 2021 £m	Other currencies 2021 £m	Total 2021 £m
Customer advance payments[1]	**-**	**1.4**	**1.4**	–	0.1	0.1
Other cash and short-term deposits[2]	**3.5**	**52.3**	**55.8**	172.9	25.4	198.3
Total cash and cash equivalents	**3.5**	**53.7**	**57.2**	172.9	25.5	198.4

1 Customer advance payments totalling £1.4m (2021: £0.1m) are encumbered cash balances.
2 Included within other cash and short-term deposits is £4.0m (2021: £4.0m) of restricted cash.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less from the date of acquisition.

23. Contract liabilities, trade and other payables

Contract liabilities: Current	2022 £m	2021 £m
Deferred income	**60.5**	61.3

Contract liabilities: Non-current	2022 £m	2021 £m
Deferred income	**36.3**	48.6

The allocation of deferred income between current and non-current is presented on the basis that the current portion will unwind in the following 12 months through revenue. There were no material items in the current portion of deferred income in 2021 which did not unwind during the year.

Total trade and other payables held by the Group at 31 December 2022 amount to £629.3m (2021: £533.3m).

Trade and other payables: Current	2022 £m	2021 £m
Trade payables	**108.3**	89.2
Contingent consideration payable	**11.2**	–
Other payables	**166.2**	123.7
Accruals	**337.1**	313.1
	622.8	526.0

Other payables include sales and other direct taxes, payroll taxes, salaries and other non-trade payables.

The average credit period taken for trade purchases is 21 days (2021: 23 days).

Trade and other payables: Non-current	2022 £m	2021 £m
Other payables	**6.5**	7.3

24. Leases

Management estimates that the fair value of the Group's lease obligations approximates their carrying amount. The Group uses leases in the delivery of its contractual obligations and the services required to support the delivery of those contracts, including administrative functions. There are no material future cash outflows relating to leases in place as at 31 December 2022 that are not reflected in the minimum lease payments disclosed below and the Group does not have any leases to which it is contracted but which are not yet reflected in the minimum lease payments. Additionally, the Group does not have any leases where payments are variable. The Group has a significant number of leases which include either termination or extension options, or both. Included in amounts payable under leases below are only those amounts which reflect Management's view of the reasonably certain lease term in line with current operational requirements.

No lease liability is recognised in respect of leases which have a lease term of less than 12 months in duration at the point of entering into the lease, or where the purchase price of the underlying right of use asset is less than £5,000.

The total cash outflow for leases, excluding short-term leases and low-value leases, in the year was £128.4m (2021: £119.1m). This is presented in the Consolidated Cash Flow Statement as £120.5m (2021: £111.3m) relating to the principal element of the lease liability payments, with the remaining balance of £7.9m (2021: £7.8m) presented within interest paid.

Amounts payable under leases	Minimum lease payments 2022 £m	Minimum lease payments 2021 £m
Within one year	**150.6**	131.0
Between one and five years	**263.2**	263.9
After five years	**51.5**	53.6
	465.3	448.5
Less: future finance charges	**(19.3)**	(18.2)
Present value of lease obligations	**446.0**	430.3
Less: amount due for settlement within one year (shown within current liabilities)	**(144.4)**	(126.3)
Amount due for settlement after one year	**301.6**	304.0

The following amounts are included in the Group's Consolidated Financial Statements in respect of its leases:

	Note	2022 £m	Restated[1] 2021 £m
Additions to right of use assets	19	**129.8**	154.6
Depreciation charge on right of use assets	19	**(119.3)**	(109.0)
Net release of impairment on right of use assets	19	**1.8**	–
Net disposals of right of use assets	19	**(14.0)**	(26.2)
Net reclassifications from right of use assets	19	**(0.1)**	(0.2)
Net exchange differences on right of use assets	19	**6.2**	0.1
Carrying amount of right of use assets	19	**434.2**	416.7
Current lease liabilities	24	**144.4**	126.3
Non-current lease liabilities	24	**301.6**	304.0
Capital element of lease repayments		**(120.5)**	(111.3)
Interest expense on lease liabilities	13	**(7.9)**	(7.8)
Profit on early termination of leases	10	**0.2**	0.6
Expenses relating to short-term or low-value leases	10	**(4.2)**	(2.8)

1 Additions and disposals have been restated to be consistent with the treatment adopted in 2022. The adjustment ensures that changes in lease terms, which are agreed before the end of the original lease, are treated as a lease modification and not the termination and commencement of a new lease. This change has no impact on the net book value, cash flow or profit previously reported.

25. Loans

	Total 2022 £m	Total 2021 £m
Loans are repayable as follows:		
On demand or within one year	**44.5**	64.9
Between one and two years	**54.1**	40.2
Between two and five years	**106.3**	160.8
After five years	**58.0**	111.1
	262.9	377.0
Less: amount due for settlement within one year (shown within current liabilities)	**(44.5)**	(64.9)
Amount due for settlement after one year	**218.4**	312.1

Included within amounts repayable within one year is £nil (2021: £nil) related to the draw down on the revolving credit facility.

	Carrying amount 2022 £m	Fair value 2022 £m	Carrying amount 2021 £m	Fair value 2021 £m
Loans	**262.9**	**241.5**	377.0	389.4

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

25. 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 2022 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash Movements[2] £m	At 31 December 2022 £m
Loans payable	**(377.0)**	**149.3**	**(6.5)**	**(30.1)**	**1.4**	**(262.9)**
Lease obligations	**(430.3)**	**120.5**	**(13.1)**	**(8.0)**	**(115.1)**	**(446.0)**
Liabilities arising from financing activities	**(807.3)**	**269.8**	**(19.6)**	**(38.1)**	**(113.7)**	**(708.9)**
Cash and cash equivalents	**198.4**	**(151.1)**	**6.2**	**3.7**	**–**	**57.2**
Derivatives relating to Net Debt	**0.6**	**–**	**–**	**1.2**	**–**	**1.8**
Net Debt	**(608.3)**	**118.7**	**(13.4)**	**(33.2)**	**(113.7)**	**(649.9)**

1 Acquisitions represent the net cash/(debt) acquired on acquisition.
2 Non-cash movements on loans payable relate to movement in capitalised finance costs in the year. For lease obligations non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

	At 1 January 2021 £m	Cash flow £m	Acquisitions[1] £m	Exchange differences £m	Non-cash Movements[2] £m	At 31 December 2021 £m
Loans payable	(388.8)	29.7	(14.3)	(2.9)	(0.7)	(377.0)
Lease obligations	(402.6)	111.3	(13.8)	(0.5)	(124.7)	(430.3)
Liabilities arising from financing activities	(791.4)	141.0	(28.1)	(3.4)	(125.4)	(807.3)
Cash and cash equivalents	335.7	(145.8)	13.3	(4.8)	–	198.4
Derivatives relating to Net Debt	(4.7)	–	–	5.3	–	0.6
Net Debt	(460.4)	(4.8)	(14.8)	(2.9)	(125.4)	(608.3)

1 Acquisitions represent the net cash/(debt) acquired on acquisition.
2 Non-cash movements relate to the net impact of entering into new leases and exiting certain leases before the end of the lease term without payment of a cash termination cost.

26. Provisions

	Employee related £m	Property £m	Contract £m	Claims £m	Other £m	Total £m
At 1 January 2022	**73.8**	**19.3**	**14.2**	**20.1**	**70.2**	**197.6**
Arising on acquisition	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Reclassified between categories	**–**	**(1.1)**	**–**	**–**	**1.1**	**–**
Transferred from working capital	**–**	**0.8**	**–**	**–**	**0.6**	**1.4**
Charged to income statement	**13.5**	**3.0**	**2.6**	**8.8**	**7.7**	**35.6**
Released to income statement	**(3.2)**	**(0.8)**	**(3.8)**	**–**	**(3.9)**	**(11.7)**
Utilised during the year	**(6.2)**	**(1.9)**	**(1.4)**	**(4.7)**	**(6.2)**	**(20.4)**
Exchange differences	**4.6**	**0.3**	**–**	**–**	**0.6**	**5.5**
At 31 December 2022	**82.5**	**19.6**	**11.6**	**24.2**	**70.5**	**208.4**
Analysed as:						
Current	**48.3**	**6.4**	**9.8**	**4.9**	**65.5**	**134.9**
Non-current	**34.2**	**13.2**	**1.8**	**19.3**	**5.0**	**73.5**
	82.5	**19.6**	**11.6**	**24.2**	**70.5**	**208.4**

Employee-related provisions include amounts for long-term service awards and terminal gratuity liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until rewards fall due and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is uncertain.

The majority of property provisions relate to leased properties and are associated with the requirement to return properties to either their original condition, or to enact specific improvement activities in advance of exiting the lease. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in January 2037.

A contract provision is recorded when a contract is deemed to be unprofitable and therefore is considered onerous. The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision.

Claims provisions relate to claims made against the Group. These claims are varied in nature, although they typically come from either the Group's service users, claimants for vehicle-related incidents or the Group's employees. While there is some level of judgement on the amount to be recorded, in almost all instances the variance to the actual claim paid out will not individually be material, however the timing of when the claims are reported and settled is less certain as a process needs to be followed prior to the amounts being paid.

Included within other provisions is:

- £42.7m related to indemnities provided in respect of a historic business transaction. Within this amount, £36.0m is reserved for potential tax liabilities arising within the disposed company when local tax submissions are reviewed by the relevant authorities which represents Management's best estimate of the likely outcome based on past experiences and other known factors. Under the indemnity, £36.0m is the Group's maximum potential exposure to these tax matters. The timing of utilisation is dependent on future events which could occur within the next 12 months, or over a longer period.
- £27.8m related to legal and other costs that the Group expects to incur over an extended period, in respect of past events for which a provision has been recorded, none of which are individually material.

Individual provisions are only discounted where the impact is assessed to be significant. Currently, the effect of discounting is not material.

27. Capital and other commitments

Capital expenditure contracted but not provided	2022 £m	2021 £m
Property, plant and equipment	**5.7**	1.2
Intangible assets	**0.2**	0.8

28. Contingent liabilities

The Group has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2021: £5.7m). The actual commitment outstanding at 31 December 2022 was £5.7m (2021: £5.7m).

The Group has provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2022 was £222.7m (2021: £263.8m).

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

The Group is also aware of other claims and potential claims which involve or may involve legal proceedings against the Group although the timing of settlement of these claims remains uncertain. Management is of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

29. Financial risk management

29 (a) Fair value of financial instruments

i) Fair value hierarchy

The vast majority of financial instruments are held at amortised cost. The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: Inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs that are observable for the asset or liability, either directly or indirectly, other than quoted prices included within Level 1.

Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 31 December 2022 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.

29. Financial risk management continued

29 (a) Fair value of financial instruments continued

i) Fair value hierarchy continued

The Group held the following financial instruments which fall within the scope of IFRS 9 *Financial Instruments* at 31 December:

	Carrying amount (measurement basis)		Comparison fair value	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost 2022 £m	Fair value 2022 £m	2022 £m	Amortised cost 2021 £m	Fair value 2021 £m	2021 £m
Financial assets						
Financial assets – current						
Cash and bank balances	**57.2**	**–**	**57.2**	198.4	–	198.4
Derivatives designated as FVTPL (Level 2)						
Forward foreign exchange contracts	**–**	**3.0**	**3.0**	–	2.6	2.6
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**0.3**	**0.3**	–	–	–
Receivables						
Trade receivables (note 21)	**266.8**	**–**	**266.8**	234.4	–	234.4
Amounts owed by joint ventures and associates (note 21)	**3.1**	**–**	**3.1**	1.7	–	1.7
Financial assets – non-current						
Derivative instruments in designated hedge accounting relationships (Level 2)						
Forward foreign exchange contracts	**–**	**0.3**	**0.3**	–	–	–
Financial liabilities – current						
Derivatives designated as FVTPL (Level 2)						
Forward foreign exchange contracts	**–**	**(1.1)**	**(1.1)**	–	(2.0)	(2.0)
Financial liabilities at fair value (Level 3)						
Contingent consideration (note 23)	**–**	**(11.2)**	**(11.2)**	–	–	–
Financial liabilities at amortised cost						
Trade payables (note 23)	**(108.3)**	**–**	**(108.3)**	(89.2)	–	(89.2)
Loans (note 25)	**(44.5)**	**–**	**(44.3)**	(64.9)	–	(65.2)
Lease obligations (note 24)	**(144.4)**	**–**	**(143.3)**	(126.3)	–	(126.3)
Financial liabilities – non-current						
Financial liabilities at amortised cost						
Loans (note 25)	**(218.4)**	**–**	**(197.2)**	(312.1)	–	(324.2)
Lease obligations (note 24)	**(301.6)**	**–**	**(300.5)**	(304.0)	–	(304.0)

Management estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The following table shows the development of financial assets and liabilities categorised as level 3:

	Financial liabilities current contingent consideration 2022 £m	Financial liabilities current contingent consideration 2021 £m
Balance at 1 January	–	–
Arising on acquisition	(12.2)	–
Cash settlement	1.0	–
Balance at 31 December	(11.2)	–

The fair values of loans and lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

ii) Fair value of derivative financial instruments
The fair value of derivative financial instruments results in a net asset of £2.5m (2021: £0.6m) comprising non-current assets of £0.3m (2021: £nil), current assets of £3.3m (2021: £2.6m), and current liabilities of £1.1m (2021: £2.0m).

	1 January 2022 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2022 £m
Forward foreign exchange contracts	**0.6**	**0.6**	**1.3**	**2.5**

	1 January 2021 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2021 £m
Forward foreign exchange contracts	(4.9)	0.2	5.3	0.6

The fair value of financial liabilities recognised at fair value through profit and loss is £1.1m (2021: £2.0m) and relates to derivatives that are not designated in hedge accounting relationships. The fair value of the derivatives and their credit risk adjusted fair value are not materially different and are approximately equal to the amount contractually payable at maturity due to the short tenure of the instruments.

29 (b) Financial risk

The Board is ultimately responsible for ensuring that financial and non-financial risks are monitored and managed within acceptable and known parameters. The Board delegates authority to the Executive team to manage financial risks. The Group's Treasury function acts as a service centre and operates within clearly defined guidelines and policies that are approved by the Board. The guidelines and policies define the financial risks to be managed, specify the objectives in managing these risks, delegate responsibilities to those managing the risks and establish a control framework to regulate treasury activities to minimise operational risk.

29 (c) Liquidity risk

i) Credit facilities
The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. As at 31 December, the Group's committed bank credit facilities and corresponding borrowings were as follows:

	Currency	Amount 2022 £m	Drawn 2022 £m	Utilised for bonding facility 2022 £m	Total facility available 2022 £m
Syndicated revolving credit facility	**Sterling**	**350.0**	**–**	**–**	**350.0**

	Currency	Amount 2021 £m	Drawn 2021 £m	Utilised for bonding facility 2021 £m	Total facility available 2021 £m
Syndicated revolving credit facility	Sterling	250.0	–	–	250.0
Term loan facility	Sterling	120.0	120.0	–	–

In November 2022 the Group refinanced its revolving credit facility, with a new deal having a term of five years to November 2027 with a maximum capacity of £350m, up from the previous facility of £250m. In addition, the new facility provides an additional accordion facility of £100m which is uncommitted. The Group has £266.4m (2021: £259.2m) of US private placement loan notes which will be repaid as bullet repayments between 2022 and 2032.

In September 2022, the Group acquired 100% of the issued share capital of OXZ Holdings AG (ORS) which had CHF6m (£5.4m) uncommitted credit facility which was undrawn at acquisition and through to 31 December 2022. Uncommitted credit facilities can be withdrawn by the bank at any time.

29. Financial risk management continued

29 (c) Liquidity risk 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 2022	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Trade payables (note 23)	**108.3**	**–**	**–**	**–**	**108.3**
Obligations under leases[1] (note 24)	**150.6**	**113.9**	**149.3**	**51.5**	**465.3**
Loans[2] (note 25)	**45.4**	**54.9**	**108.0**	**58.1**	**266.4**
Future loan interest	**11.2**	**7.3**	**15.2**	**8.9**	**42.6**
Derivatives settled on gross basis:					
Outflow	**1,284.0**	**7.6**	**8.1**	**–**	**1,299.7**
Inflow	**(1,286.2)**	**(8.1)**	**(8.6)**	**–**	**(1,302.9)**
	313.3	**175.6**	**272.0**	**118.5**	**879.4**

1 The present value of lease obligations is £446.1m after deducting £19.2m of future finance costs.
2 Loans are stated gross of capitalised finance costs.

At 31 December 2021	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Trade payables (note 23)	89.2	–	–	–	89.2
Obligations under leases (note 24) – restated[1]	131.0	107.1	156.8	53.6	448.5
Loans[2] (note 25)	66.1	40.5	161.2	111.4	379.2
Future loan interest	12.2	11.3	16.3	12.2	52.0
Derivatives settled on gross basis:					
Outflow	1,427.9	–	–	–	1,427.9
Inflow	(1,428.4)	–	–	–	(1,428.4)
	298.0	158.9	334.3	177.2	968.4

1 The present value of lease obligations is £430.3m after deducting £18.2m of future finance costs.
2 Loans are stated gross of capitalised finance costs.

Gross cash flows in the table above relating to forward foreign exchange contracts total £1,286.2m (inflow) and £1,284.0m (outflow) on demand or within one year (2021: £1,428.4m (inflow) and £1,427.9m (outflow) on demand or within one year).

29 (d) Foreign exchange risk

i) Transactional

It is the Group's policy to hedge material transactional exposures using forward foreign exchange contracts to fix the functional currency value of non-functional currency cash flows. At 31 December 2022, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments, or highly probable forecast transactions.

ii) Translational

Where possible the Group will raise external funding to match the currency profile of its foreign operations, in order to mitigate translation exposure. If matched funding is not possible, currency derivatives may be used to protect against movements in foreign exchange.

iii) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Details of the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IFRS 9 *Financial Instruments* can be seen in note 2.

The Group holds a number of forward foreign exchange contracts designated as cash flow hedges. These derivatives are hedging highly probable forecast foreign currency trade payments in the UK business. The net notional amounts are summarised by currency below:

	2022 £m	2021 £m
Sterling	**(32.9)**	(2.1)
US Dollar	**12.7**	–
Indian Rupee	**21.7**	2.2

All derivatives designated as cash flow hedges are highly effective and as at 31 December 2022, £0.6m net fair value gains (2021: £nil net fair value gain) has been deferred in the hedging reserve. During the year to 31 December 2022, £0.9m (2021: £0.1m) of net fair value gains were transferred to the hedging reserve and £0.4m fair value gains (2021: £0.1m gains) were reclassified to the Consolidated Income Statement.

iv) Currency sensitivity

The Group's currency exposures in respect of monetary items at 31 December 2022 that result in net currency gains and losses in the income statement and equity arise principally from movement in US Dollar and Indian Rupee exchange rate. The impact of a 10% movement is summarised below:

	Pre-tax profits gain/(loss) 2022 £m	Equity gain/(loss) 2022 £m	Pre-tax profits gain/(loss) 2021 £m	Equity gain/(loss) 2021 £m
US Dollar	**(0.1)**	**1.3**	–	0.1
Euro	**(0.1)**	**–**	–	–
Indian Rupee	**–**	**2.1**	–	(0.2)
	(0.2)	**3.4**	–	(0.1)

29 (e) Interest rate risk

The Group's policy is to minimise the impact of interest rate volatility on earnings to provide an appropriate level of certainty to cost of funds. Exposure to interest rate risk arises principally on changes to US Dollar and Sterling interest rates.

i) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

Financial assets	Floating rate 2022 £m	Fixed rate 2022 £m	Weighted average interest rate 2022 %	Floating rate 2021 £m	Fixed rate 2021 £m	Weighted average interest rate 2021 %
Cash and cash equivalents	**57.2**	**–**	**1.2**	198.4	–	–

Financial liabilities	Floating rate 2022 £m	Fixed rate 2022 £m	Weighted average interest rate 2022 %	Floating rate 2021 £m	Fixed rate 2021 £m	Weighted average interest rate 2021 %
US Dollar loans	**–**	**266.4**	**4.2**	–	259.2	4.3
Other loans	**–**	**–**	**–**	120.0	–	1.6
	–	**266.4**	**–**	120.0	259.2	3.2

Exposure to interest rate fluctuations is mitigated through the issuance of fixed rate debt. The rates on the US Dollar loans are fixed for the term of each loan. The loans will be repaid as bullet repayments between 2022 and 2032. Excluded from the above analysis is £446.0m (2021: £430.3m) 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 SONIA (Sterling Overnight Index Average) rates on the net financial liability position (excluding leases) at the balance sheet date, with all other variables held constant, would have resulted in a £0.6m increase in pre-tax profit for the year to 31 December 2022 (2021: increase of £0.8m).

From 1 January 2022, SONIA replaced GBP LIBOR and with all other variables held constant is not expected to have a material impact on the Group. The floating rate loans mentioned above have been restructured effective 1 January 2022 so that the actual interest rates used are consistent when using SONIA as a benchmark compared with GBP LIBOR and this results in no change to the risk strategy going forward.

29. Financial risk management continued

29 (f) Credit risk

The Group's principal financial assets are cash and cash equivalents, contract assets and trade and other receivables.

Credit risk is the risk that a counterparty could default on its contractual obligations. In this regard, the Group's principal exposure is to cash and cash equivalents, derivative transactions and trade receivables.

The Group's contract asset and trade receivables credit risk is relatively low given that a high proportion of our customer base are government bodies with strong sovereign, or sovereign-like, credit ratings. However, where the assessed credit worthiness of a customer, government or non-government, falls below that considered acceptable, appropriate measures are taken to mitigate against the risk of contractual default using instruments such as credit guarantees.

The Group has not recorded any impairments related to contract assets or trade and other receivables relating to credit risk during the year ended 31 December 2022 (2021: none).

The Group's Treasury function primarily transacts with counterparties that comply with Board policy. Where exceptions are approved due to local requirements, the Group's exposures are monitored and kept to an immaterial level. The credit risk is measured by way of a counterparty credit rating from any two recognised rating agencies. Pre-approved limits are set based on a rating matrix and exposures monitored accordingly. The Group also employs the use of set-off rights in some agreements.

The Group's policy is to provide guarantees for joint ventures and associates only to the relevant proportion of support provided by the partners. At 31 December 2022, the Company has issued guarantees in respect of certain joint ventures and associates as per note 28.

29 (g) Capital risk

Management's objective is to maintain a capital structure that supports the Group's strategic objectives, 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.

Management reviews and approves at least annually a treasury policy document which covers, inter alia, funding and liquidity risk, capital structure and risk management. This policy details targets for committed funding headroom, diversification of committed funding and debt maturity profile.

The Group plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders.

The following table summarises the capital of the Group:

	2022 £m	2021 £m
Cash and cash equivalents	**(57.2)**	(198.4)
Loans	**262.9**	377.0
Obligations under leases	**446.0**	430.3
Equity	**1,029.7**	1,008.4
Capital	**1,681.4**	1,617.3

30. Retirement benefit schemes

30 (a) Defined benefit schemes

i) Characteristics and risks

The Group contributes to defined benefit schemes for qualifying employees of its subsidiaries. The schemes in which the Group participates are categorised as follows:

Non-contract specific schemes

These schemes do not relate to any specific contract and represent 98% (2021: 98%) of scheme assets and 98% (2021: 97%) of scheme liabilities. They consist of six pre-funded defined benefit schemes and an unfunded defined benefit scheme.

The two UK funded schemes are Serco Pension and Life Assurance Scheme (SPLAS) and a non-contract specific section of the Railways Pension Scheme (RPS). The funding policy for the UK pre-funded schemes is to contribute amounts which will achieve 100% funding on a projected salary basis based on regular actuarial valuations.

There are three non-UK schemes based in Switzerland and are available for the employees of OXZ Holdings AG and its subsidiaries which are part of a collective foundation. The occupational benefits fund commission defines the contributions which are shared equally between the employer and the employees.

The Group also makes contributions to the Public Sector Superannuation Scheme in Australia.

The unfunded scheme is a German scheme and any liabilities arising are recognised in full, with the liabilities in relation to the unfunded scheme amounting to £0.2m (2021: £0.3m).

Contract specific schemes

These schemes represent 2% (2021: 2%) of scheme assets and 2% (2021: 3%) of scheme liabilities. They consist of two pre-funded defined benefit schemes in the UK.

Under contractual arrangements the Group sponsors a section of the RPS, an industry-wide defined benefit scheme, paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund any deficit at the end of the franchise period and any costs are shared 60% by the employer and 40% by the members.

The Group also makes contributions under Admitted Body status for one section of the Local Government Pension Scheme for the period to the end of the relevant customer contract. The Group is required to pay regular contributions as decided by the respective scheme actuary and as detailed in each scheme's schedule of contributions. In addition, the Group may be required to pay some or all of any deficit (as determined by the respective scheme actuary) that is remaining at the end of the contract.

In respect of Local Government Pension Schemes, as there is a residual liability, the Group recognises a sufficient level of provision in these financial statements based on the IAS 19 *Employee Benefits* valuation at the reporting date and contractual obligations.

Joint venture scheme

Under contractual arrangements, the Group's joint venture Merseyrail Services Holding Company Limited (MSHCL) sponsors a section of the RPS, an industry-wide defined benefit scheme, paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund any deficit at the end of the franchise period and there is no pension obligation on the balance sheet of the Group or MSHCL. The costs associated with the scheme are included in profit from operations for MSCHL shown in note 7 and reflected in the share of profits in joint ventures in the income statement and therefore the disclosure in this note do not include MSHCL.

Scheme funding

The normal contributions expected to be paid during the financial year for all schemes ending 31 December 2023 are £8.9m (2022: £6.8m).

The assets of funded schemes are held independently of the Group's assets in separate trustee administered schemes. The trustees of each pension scheme are required by law to act in the interest of the scheme and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regard to the assets of the scheme. The Group's schemes are valued by independent actuaries annually using the projected unit credit actuarial cost method for accounting purposes. This reflects service rendered by employees to the date of valuation and incorporates actuarial assumptions including discount rates to determine the present value of benefits, inflation assumptions, projected rates of salary growth and life expectancy of pension plan members. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Pension assets and liabilities in the different defined benefit schemes are not offset.

The schemes typically expose the Group to risks that impact the financial performance and position of the Group and may affect the amount and timing of future cash flows. The key risks are set out below:

- Investment risk. The schemes hold assets with which to discharge the future liabilities of these schemes. Any decline in the value of these investments directly impacts on the ability of the schemes to meet its commitments and could require the Group to fund this shortfall in future years. SPLAS's investment strategy aims to reduce volatility risk by better matching assets to liabilities and is based on the actuarial funding basis. 48% of the scheme's assets are annuity policies, which result in an insurer funding the future benefit payments to the relevant members and therefore eliminate the risk of changes in the future value of the benefits to the scheme. The investment strategy outside of the annuity has a benchmark allocation of 45% Liability Driven Investments (LDIs), 40% Buy and Maintain Credit and 15% Private Debt. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays and are therefore linked to the key drivers of the scheme's liabilities.
- 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.

Serco Pension and Life Assurance Scheme (SPLAS)

The largest non-contract specific schemes is SPLAS. The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2021 and completed in May 2022. The actuarially assessed deficit for funding purposes was £70.0m. The increase to the actuarially assessed deficit for funding purposes was as a result of the RPI reform announced by the UK government to take effect from 2030.

30. Retirement benefit schemes continued

30 (a) Defined benefit schemes continued

i) Characteristics and risks continued

Serco Pension and Life Assurance Scheme (SPLAS) continued

Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. As at 31 December 2022, the estimated actuarial deficit on a funding basis for SPLAS was £27m (2021: £42m) whereas the accounting valuation resulted in an asset of £47.5m (2021: £166.2m). The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions.

The schedule of contributions for SPLAS was agreed during 2022, with 44.3% of pensionable salaries for active employees due to be paid in regular contributions from 1 June 2022. The schedule of contributions also determined that additional shortfall contributions were required and the Group has committed to make deficit recovery payments by 31 March of £6.6m per year from 2022 to 2030. An annual assessment of the shortfall is performed and if the scheme is determined to be in a surplus position the shortfall contributions due by 31 March are deferred to the following year. If the shortfall calculated in the annual assessment is less that than the cumulative shortfall due to date the contribution is capped at the shortfall calculation and any excess is carried forward to the next year.

ii) Events in the year

During the year there has been a high degree of volatility in the pensions market. Discount rates and short-term inflation rates have been rising since 31 December 2021 which has resulted in the weighted average durations used for valuing pension schemes decreasing. Concerns over high global inflation, recession, disruption to supply chains due to the war in Ukraine and rising interest rates, compounded by the market volatility in September 2022 due to political events resulted in a sharp rise in bond yields and a subsequent reduction in the value of LDIs, which triggered collateral calls. The Group made a short-term temporary loan of £60m to SPLAS on 28 September 2022 while the scheme liquidated assets to meet these collateral calls, in order to ensure that the LDI hedge was maintained; this loan was repaid on 3 October 2022.

The private debt investments are less volatile to the market conditions and therefore the allocation of investments was outside the scheme's benchmark at 31 December 2022, with 46% LDIs, 24% Buy and Maintain Credit and 30% Private Debt. The Trustees of SPLAS have been working closely with the Group and investment consultants to ensure the investment objectives of the scheme are maintained.

On 1 September 2022, the Group acquired 100% of the issued share capital of OXZ Holdings AG. Included in the acquisition was a net pension obligation of £5.0m relating to three schemes as noted above.

iii) Values recognised in total comprehensive income in the year

The amounts recognised in the Consolidated Financial Statements for the year are analysed as follows:

Recognised in the income statement	2022 £m	2021 £m
Current service cost – employer	**5.9**	5.1
Past service cost – employer	**0.8**	–
Settlement gain recognised	**(0.3)**	–
Administrative expenses and taxes	**2.4**	1.5
Recognised in arriving at operating profit after exceptional items	**8.8**	6.6
Interest income on scheme assets – employer	**(28.3)**	(22.0)
Interest on franchise adjustment	**(0.2)**	(0.1)
Interest cost on scheme liabilities – employer	**25.8**	21.0
Finance income	**(2.7)**	(1.1)
Total recognised in the income statement	**6.1**	**5.5**

Included within the SOCI	2022 £m	2021 £m
Actual return on scheme assets	**(539.8)**	42.3
Less: interest income on scheme assets	**(28.3)**	(22.0)
Net return on scheme assets	**(568.1)**	20.3
Effect of changes in demographic assumptions	**21.2**	3.3
Effect of changes in financial assumptions	**530.3**	19.8
Effect of experience adjustments	**(77.2)**	23.4
Remeasurements	**(93.8)**	66.8
Change in franchise adjustment	**(7.0)**	0.1
Change in members' share	**(5.3)**	(0.6)
Actuarial loss on reimbursable rights	**(12.3)**	(0.5)
Total recognised in the SOCI	**(106.1)**	**66.3**

iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Fair value of scheme assets 2022 £m	Present value of scheme liabilities 2022 £m	Surplus/(deficit) 2022 £m	Fair value of scheme assets 2021 £m	Present value of scheme liabilities 2021 £m	Surplus/(deficit) 2021 £m
SPLAS	**925.3**	**(877.8)**	**47.5**	1,489.1	(1,322.9)	166.2
Other Schemes	**134.4**	**(134.1)**	**0.3**	103.8	(136.2)	(32.4)
Total	**1,059.7**	**(1,011.9)**	**47.8**	1,592.9	(1,459.1)	133.8
Franchise adjustment[1]			**1.8**			8.6
Members' share of deficit			**1.2**			5.8
Net retirement benefit asset (before tax)			**50.8**			148.2
Net pension asset			**57.0**			166.2
Net pension liability			**(6.2)**			(18.0)
Net retirement benefit asset (before tax)			**50.8**			148.2
Deferred tax			**(13.9)**			(36.9)
Net retirement benefit asset (after tax)			**36.9**			111.3

1 The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period and therefore no additional funding will be required by the Group.

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.

The high degree of volatility as noted above resulted in a reduction in pension scheme assets, particularly investments in bonds, LDIs and amounts held by insurance companies. There has been significant reduction in pensions scheme obligations as discount rates have risen but this has only partially offset the reduction in assets as the liabilities are hedged on an actuarial basis rather than an IAS 19 basis. The decrease in pension scheme obligations was partially offset by experience adjustments on SPLAS which were primarily due to the impact from inflation on the current year allowances for deferred valuations and pension increases.

v) Pension asset values

The schemes asset values at 31 December are:

Scheme assets at fair value	2022 £m	2021 £m
Equities	**45.2**	55.7
Bonds except LDIs	**151.4**	368.2
Pooled investment funds	**140.0**	107.6
LDIs	**217.7**	390.0
Property	**1.3**	2.2
Cash and other	**13.4**	6.9
Amounts held by insurance companies	**490.7**	662.3
Fair value of scheme assets[1]	**1,059.7**	1,592.9

1. There are no investments in the Group's own transferable financial instruments held as pension assets. No property pension assets are occupied, or other pension assets used by the Group.

As required by IAS 19 *Employee Benefits*, the Group has considered the extent to which the pension plan assets should be classified in accordance with the fair value hierarchy of IFRS 13 *Fair Value Measurement*.

- Equity and Bonds all have quoted prices in active markets and are classified as level 1.
- Pooled investment funds have no observable market price and the valuation is based on the Net Asset Value provided by the fund administrator at 30 September adjusted for actual cash flows in the period to 31 December. Therefore, these investments are classified as level 3.
- LDIs are valued at fair value which is typically the Net Asset Value provided by the fund administrator. The LDIs are comprised of a mix of Level 1 and Level 2 instruments, including corporate/government bonds priced at their quoted bid price, derivatives made up of interest rate/inflation swaps and payables in respect of repurchase agreements.
- Amounts held by insurance companies are valued at the equal and opposite of the defined benefit obligations that they insure and are classified as level 3.

30. Retirement benefit schemes continued

30 (a) Defined benefit schemes continued

vi) Changes in the fair value of scheme assets and liabilities

The table below shows the movements in fair value of scheme assets and liabilities and shows where they are reflected in the financial statements.

	Fair value of scheme assets £m	Present value of scheme liabilities £m	Surplus/ (deficit) £m
At 1 January 2022	**1,592.9**	**(1,459.1)**	**133.8**
Current service cost – employer	**–**	**(5.9)**	**(5.9)**
Past service costs – employer	**–**	**(0.8)**	**(0.8)**
Administration expenses – employer	**(2.4)**	**–**	**(2.4)**
Plan settlement	**(8.0)**	**8.3**	**0.3**
Net interest on scheme assets and liabilities	**28.3**	**(25.8)**	**2.5**
Total recognised in the income statement	**17.9**	**(24.2)**	**(6.3)**
Return of plan assets	**(568.1)**	**–**	**(568.1)**
Effect of changes in demographic assumptions	**–**	**21.2**	**21.2**
Effect of changes in financial assumptions	**–**	**530.3**	**530.3**
Effect of experience adjustments	**–**	**(77.2)**	**(77.2)**
Total recognised in the SOCI	**(568.1)**	**474.3**	**(93.8)**
Contributions by employer	**19.9**	**–**	**19.9**
Total recognised in the cash flow statement	**19.9**	**–**	**19.9**
Contributions by employees	**1.7**	**(1.4)**	**0.3**
Current service cost – employees	**–**	**(0.9)**	**(0.9)**
Net Interest cost – employee	**0.1**	**(0.2)**	**(0.1)**
Change in member share	**1.8**	**(2.5)**	**(0.7)**
Arising on acquisition	**46.7**	**(51.7)**	**(5.0)**
Benefits paid	**(52.8)**	**52.8**	**–**
Foreign exchange	**1.4**	**(1.5)**	**(0.1)**
Other movements	**(4.7)**	**(0.4)**	**(5.1)**
At 31 December 2022	**1,059.7**	**(1,011.9)**	**47.8**
At 1 January 2021	1,600.5	(1,534.8)	65.7
Current service cost – employer	–	(5.1)	(5.1)
Administration expenses – employer	(1.5)	–	(1.5)
Net interest on scheme assets and liabilities	22.0	(21.0)	1.0
Total recognised in the income statement	20.5	(26.1)	(5.6)
Return of plan assets	20.3	–	20.3
Effect of changes in demographic assumptions	–	3.3	3.3
Effect of changes in financial assumptions	–	19.8	19.8
Effect of experience adjustments	–	23.4	23.4
Total recognised in the SOCI	20.3	46.5	66.8
Contributions by employer	9.0	–	9.0
Total recognised in the cash flow statement	9.0	–	9.0
Contributions by employees	0.6	(0.4)	0.2
Current service cost – employees	–	(0.9)	(0.9)
Net Interest cost – employee	0.1	(0.1)	–
Change in member share	0.7	(1.4)	(0.7)
Arising on acquisition	1.3	(2.7)	(1.4)
Benefits paid	(59.3)	59.3	–
Foreign exchange	(0.1)	0.1	–
Other movements	(58.1)	56.7	(1.4)
At 31 December 2021	1,592.9	(1,459.1)	133.8

Changes in the franchise adjustment	Total £m
At 1 January 2021	8.4
Interest on franchise adjustment – recognised in income statement	0.1
Other changes – recognised in the SOCI	0.1
At 1 January 2022	**8.6**
Interest on franchise adjustment – recognised in income statement	**0.2**
Other changes – recognised in the SOCI	**(7.0)**
At 31 December 2022	**1.8**

vii) Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which reflects 87% of total liabilities and 87% of total assets of the defined benefit pension scheme in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Group continued to set RPI inflation in line with the market expectation less an inflation risk premium. The inflation risk premium is 0.3% both at 31 December 2021 and at 31 December 2022.

The average duration of the benefit obligation at the end of the reporting period is 11.5 years (2021: 16.3 years).

Significant actuarial assumptions	2022 %	2021 %
Discount rate	**5.00**	1.80
Rate of salary increases	**2.85**	2.95
RPI Inflation	**3.15**	3.35
CPI Inflation	**2.35**	2.45

Post-retirement mortality[1]	2022 years	2021 years
Current pensioners at 65 – male	**21.5**	21.7
Current pensioners at 65 – female	**24.1**	24.3
Future pensioners at 65 – male	**23.6**	23.9
Future pensioners at 65 – female	**26.2**	26.4

1 The mortality assumptions have not been updated to reflect the potential effects of Covid-19 given there remains uncertainty of the Covid-19 impact on long-term mortality rates for pension scheme members.

Sensitivity analysis for SPLAS is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 December 2022 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 2022 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. Due to the increased volatility in the pension market the Group has updated its sensitivity disclosure to reflect a 1% change in the relevant assumption compared to a 0.5% change used in previous years. The prior year comparatives have been restated.

30. Retirement benefit schemes continued

30 (a) Defined benefit schemes continued

vii) Actuarial assumptions: SPLAS continued

Increase/(decrease) in defined benefit obligation of SPLAS	2022 £m	Restated 2021 £m
Discount rate – 1.0% increase	**(93.4)**	(205.9)
Discount rate – 1.0% decrease	**113.8**	243.8
Inflation – 1.0% increase	**68.0**	145.7
Inflation – 1.0% decrease	**(68.1)**	(157.0)
Rate of salary increase – 1.0% increase	**1.6**	3.3
Rate of salary increase – 1.0% decrease	**(1.5)**	(3.3)
Mortality – one-year age rating	**25.4**	49.7

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

The increase or decrease in the defined benefit obligation in the sensitivity table above would be offset by the corresponding movement in the scheme's assets. A 1% change in the long-term gilt yields consistent with the discount rates would result in an approximate offsetting movement of £100m (2021: £180m) in the scheme's LDI investment and a 1% change in long term inflation expectation would result in an approximate offsetting movement of £70m (2021: £140m) in the scheme's LDI Investment.

viii) Actuarial assumptions: Other schemes

The other UK based schemes are valued on a consistent basis to SPLAS with a discount rate ranging from 4.90% to 5.00%, RPI inflation assumptions of 3.10% to 3.15% and CPI inflation assumptions of 2.30% to 2.35%. The non-UK based schemes use a discount rate ranging from 2.40% to 5.45%.

Assumptions in respect of the expected return on scheme assets are required when calculating the franchise adjustment for the contract-specific plans. These assumptions are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2022 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% (2021: 4.6%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by the scheme.

30 (b) Defined contribution schemes

The Group paid employer contributions of £96.7m (2021: £92.1m) into UK defined contribution schemes, foreign defined contribution schemes and foreign state pension schemes.

Serco participated in certain pre-funded defined benefit pension arrangements relating to contracts, including participations in public sector schemes, however, contractual protections are in place allowing actuarial and investment risk to be passed to the end customer via recoveries for contributions paid.

The nature of these arrangements varies from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

31. Share capital

Issued and fully paid	2022 £m	Number 2022 millions	2021 £m	Number 2021 millions
1,218,008,788 (2021: 1,233,380,637) ordinary shares of 2p each at 1 January	**24.4**	**1,218.0**	24.7	1,233.4
Cancelled: Nil (2021: 15,371,849) ordinary shares of 2p	**–**	**–**	(0.3)	(15.4)
1,218,008,788 (2021: 1,218,008,788) ordinary shares of 2p each at 31 December	**24.4**	**1,218.0**	24.4	1,218.0

During the year no (2021: 15,371,849) shares were cancelled as part of the Serco Share Repurchase Programme (the Programme).

The Company has one class of ordinary shares which carry no right to fixed income.

32. Share premium account

	2022 £m	2021 £m
At 1 January and 31 December	**463.1**	463.1

33. Reserves

33 (a) Movements in other reserves

	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Treasury shares £m	Hedging reserve £m	Translation reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 January 2021	(135.6)	81.0	(2.1)	–	(0.4)	(19.9)	0.1	(76.9)
Total comprehensive income/ (loss) for the year	44.6	–	–	–	0.2	(7.6)	–	37.2
Income statement items reclassified	–	–	–	–	0.1	–	–	0.1
Shares purchased and held in Treasury	–	–	–	(40.7)	–	–	–	(40.7)
Cancellation of shares held in Treasury	–	–	–	20.4	–	–	0.3	20.7
Shares transferred from Treasury to own shares reserves	–	–	(0.3)	20.3	–	–	–	20.0
Shares transferred to award holders on exercise of share awards	–	(1.0)	1.2	–	–	–	–	0.2
Expense in relation to share based payments	–	15.8	–	–	–	–	–	15.8
At 1 January 2022	**(91.0)**	**95.8**	**(1.2)**	**–**	**(0.1)**	**(27.5)**	**0.4**	**(23.6)**
Total comprehensive (loss)/ income for the year	**(78.9)**	**–**	**–**	**–**	**0.4**	**60.1**	**0.1**	**(18.3)**
Shares purchased and held in own share reserve	**–**	**–**	**(15.9)**	**–**	**–**	**–**	**–**	**(15.9)**
Shares purchased and held in Treasury	**–**	**–**	**–**	**(91.2)**	**–**	**–**	**–**	**(91.2)**
Shares transferred to award holders on exercise of share awards	**–**	**(9.3)**	**9.4**	**–**	**–**	**–**	**–**	**0.1**
Expense in relation to share based payments	**–**	**15.6**	**–**	**–**	**–**	**–**	**–**	**15.6**
Tax credit on items taken directly to equity	**–**	**3.4**	**–**	**–**	**–**	**–**	**–**	**3.4**
At 31 December 2022	**(169.9)**	**105.5**	**(7.7)**	**(91.2)**	**0.3**	**32.6**	**0.5**	**(129.9)**

33 (b) Retirement benefit obligations reserve

The retirement benefit obligations reserve represents the actuarial gains and losses recognised in respect of annual actuarial valuations for defined benefit retirement schemes, the fair value adjustments on reimbursable rights and the related movements in deferred tax balances.

33 (c) Share based payment reserve

The share based payment reserve represents credits relating to equity-settled share based payment transactions and any gain or loss on the exercise of share award schemes satisfied by own shares.

33 (d) Own shares reserve

The own shares reserve represents the cost of shares in Serco Group plc held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy awards under the Group's share plan schemes. At 31 December 2022, the ESOT held 9,144,275 (2021: 11,605,185) shares equal to 0.8% of the current allotted share capital (2021: 1.0%). The market value of shares held by the ESOT as at 31 December 2022 was £14.2m (2021: £15.6m).

33. Reserves continued

33 (e) Treasury shares

The Treasury shares reserve represents amounts paid to repurchase ordinary shares. On 24 February 2022, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. On 8 March 2022, the Group confirmed that the repurchase would be split over two tranches, with the first tranche of £40m completed during the period 8 March 2022 to 16 August 2022. The second tranche of £50m completed during the period 17 August 2022 to 9 December 2022. The total cost including fees was £91.2m and resulted in the repurchase of 55,506,704 shares at an average price of £1.64. These are held within Treasury shares at 31 December 2022.

33 (f) Hedging and translation reserve

The hedging and translation reserve represents foreign exchange differences arising on translation of the Group's overseas operations and movements relating to cash flow hedges.

34. Share based payment expense

The Group recognised the following expenses related to equity-settled share based payment transactions:

	2022 £m	2021 £m
Long-Term Incentive Plan	**13.8**	12.3
Performance Share Plan	**-**	2.0
Deferred Bonus Plan	**1.0**	1.0
Equity Settled Bonus Plan	**0.6**	0.5
MyShareSave Plan	**0.2**	–
	15.6	15.8

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 2022 thousands	Weighted average exercise price 2022 £	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £
Outstanding at 1 January	**31,014**	**Nil**	22,149	Nil
Granted during the year	**10,543**	**Nil**	10,584	Nil
Dividend equivalent granted during the year	**598**	**Nil**	512	Nil
Exercised during the year	**(9,365)**	**Nil**	(29)	Nil
Lapsed during the year	**(2,506)**	**Nil**	(2,202)	Nil
Outstanding at 31 December	**30,284**	**Nil**	31,014	Nil

The awards over shares outstanding at 31 December 2022 were all unvested and had a weighted average contractual life of 1.0 years (2021: 1.3 years).

In the year, 11 grants were made, of which eight were non-performance related. The remaining three awards were performance-based awards, with 75% of the award split equally between Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC) performance conditions, 15% linked to ESG Scorecard Objectives and 10% linked to improvements in order book. The rewards subject to market-based performance conditions (such as the TSR condition for these awards) were valued using the Monte Carlo Simulation model. For awards subject only to non-market-based performance conditions (such as the EPS and ROIC conditions) the Black-Scholes model was used. The Black-Scholes model was also used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the TSR-based awards.

The Monte Carlo and Black-Scholes models used the following inputs:

	2022
Weighted average share price	**£1.48**
Weighted average exercise price	**Nil**
Expected volatility	**35.1%**
Expected life	**3 years**
Risk-free rate	**1.58%**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.43 (2021: £1.30).

Performance Share Plan (PSP)

Under the PSP, eligible employees have been granted options or conditional share awards with an exercise price of two or zero pence. Awards vest after the performance period of two to three years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are only subject to continued employment on vesting dates which vary from two to three years after the grant dates.

On the performance-related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC).

If options remain unexercised after a period of ten years from the date of grant, then the options expire.

	Number of options or shares under award 2022 thousands	Weighted average exercise price 2022 £	Number of options or shares under award 2021 thousands	Weighted average exercise price 2021 £
Outstanding at 1 January	**9,337**	**0.02**	19,091	0.02
Dividend equivalent granted during the year	**-**	**Nil**	129	0.02
Exercised during the year	**(2,877)**	**0.02**	(9,787)	0.02
Lapsed during the year	**(5)**	**Nil**	(96)	0.02
Outstanding at 31 December	**6,455**	**0.02**	9,337	0.02

Of these awards, 6,453,743 (2021: 9,335,825) were exercisable at the end of the year. The awards outstanding at 31 December 2022 had a weighted average contractual life of 4.5 years (2021: 5.5 years).

There were no new awards granted under the Performance Share Plan in the year.

Deferred Bonus Plan (DBP)

Under the DBP, eligible employees are entitled to participate in a voluntary bonus deferral, using up to 50% of their earned annual bonus to purchase shares in the Group at market price. In connection with this, the Group will make a matching share award, up to a maximum of two times the gross bonus deferred, which will vest provided they remain in employment for that period, the shares are retained for that period, and the performance measures have been met.

	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £
Outstanding at 1 January	**1,806**	**Nil**	2,046	Nil
Granted during the year	**741**	**Nil**	687	Nil
Dividend equivalent granted during the year	**33**	**Nil**	39	Nil
Exercised during the year	**(505)**	**Nil**	(966)	Nil
Outstanding at 31 December	**2,075**	**Nil**	1,806	Nil

None of these awards were exercisable at the end of the year (2021: nil). The awards outstanding at 31 December 2022 had a weighted average contractual life of 1.4 years (2021: 1.5 years).

There were 741,066 new awards granted under the Deferred Bonus Plan in the year, with 100% of the deferred bonus subject to the same EPS performance conditions as the LTIPs.

34. Share based payment expense continued

The Black-Scholes model used the following inputs:

	2022
Weighted average share price	**£1.46**
Weighted average exercise price	**Nil**
Expected volatility	**35.1%**
Expected life	**3.0 years**
Risk-free rate	**1.48%**

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 £1.46 (2021: £1.41).

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 2022 thousands	Weighted average exercise price 2022 £	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £
Outstanding at 1 January	**1,257**	**Nil**	908	Nil
Granted during the year	**476**	**Nil**	329	Nil
Dividend equivalent granted during the year	**23**	**Nil**	20	Nil
Exercised during the year	**(313)**	**Nil**	–	Nil
Outstanding at 31 December	**1,443**	**Nil**	1,257	Nil

None of these awards were exercisable at the end of the year (2021: none). The awards outstanding at 31 December 2022 had a weighted average contractual life of 0.4 years (2021: 1.3 years).

There were 476,218 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:

	2022
Weighted average share price	**£1.45**
Weighted average exercise price	**Nil**
Expected volatility	**35.1%**
Expected life	**3.0 years**
Risk-free rate	**1.48%**

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 £1.45 (2021: £1.40).

UK save as you earn (MyShareSave)

MyShareSave scheme was introduced to UK employees in October 2022. Participating individuals are required to save 36 monthly payments over a maximum of a 48-month period and thus will have the option to buy shares at a discounted grant price. Participants can withdraw from the scheme at any time including after the vesting period has ended.

	Number of shares under award 2022 thousands	Weighted average exercise price 2022 £	Number of shares under award 2021 thousands	Weighted average exercise price 2021 £
Outstanding at 1 January	**–**	**Nil**	–	Nil
Granted during the year	**5,556**	**1.26**	–	Nil
Dividend equivalent granted during the year	**–**	**Nil**	–	Nil
Lapsed during the year	**(20)**	**1.26**	–	Nil
Outstanding at 31 December	**5,536**	**1.26**	–	Nil

None of these awards were exercisable at the end of the year (2021: none). The awards outstanding at 31 December 2022 had a weighted average contractual life of 3.4 years (2021: n/a).

There were 5,555,561 new awards granted under the UK MyShareSave plan in the year.

The fair value of the options was based on the assumptions for awards granted during the year as follows:

	28 October 2022
Closing share price	**£1.64**
Exercise price	**£1.26**
Expected volatility	**34%**
Dividend yield	**2%**
Expected life	**3.59 years**
Risk-free rate	**4%**

The weighted average estimated fair value of awards granted under this scheme in the year was £0.53.

35. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings and associates are disclosed below.

Transactions

During the year, Group companies entered into the following transactions with joint ventures and associates:

	Transactions 2022 £m	Current outstanding at 31 December 2022 £m	Non-current outstanding at 31 December 2022 £m
Sale of goods and services			
Joint ventures	**10.5**	**3.1**	**–**
Other			
Loan to joint venture	**10.0**	**–**	**10.0**
Loan to pension scheme	**60.0**	**–**	**–**
Dividends received – joint ventures	**7.3**	**–**	**–**
Dividends received – associates	**1.8**	**–**	**–**
Receivable from consortium for tax – joint ventures	**3.2**	**0.9**	**3.2**
Total	**92.8**	**4.0**	**13.2**

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. The Group made a short-term temporary loan of £60.0m to Serco Pension and Life Assurance Scheme (SPLAS) in September 2022 in order for the scheme to be able to liquidate assets to meet collateral calls required to ensure that the LDI hedge was maintained; this loan was repaid during the year.

35. Related party transactions continued

	Transactions 2021 £m	Current outstanding at 31 December 2021 £m	Non-current outstanding at 31 December 2021 £m
Sale of goods and services			
Joint ventures	1.6	1.7	–
Associates	0.8	–	–
Other			
Loan to joint venture	–	–	–
Dividends received – joint ventures	–	–	–
Dividends received – associates	13.5	–	–
Receivable from consortium for tax – joint ventures	0.9	0.2	0.8
Total	16.8	1.9	0.8

As announced on 2 November 2020, the Ministry of Defence notified the Group that it would be exercising its ability to terminate services provided by the Group through AWE Management Limited (AWEML) on 30 June 2021. During 2022 a final dividend of £1.8m (2021: £13.5m) was received from AWEML.

As announced on 24 June 2021, Vivo Defence Services Limited (VIVO), a joint venture between the Group and Equans, has been awarded contracts to provide repairs and maintenance work for Service Family Accommodation (SFA) by the UK Ministry of Defence (MOD) Defence Infrastructure Organisation (DIO).

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:

	2022 £m	2021 £m
Short-term employee benefits	**8.6**	8.5
Share based payment expense	**7.1**	5.0
	15.7	13.5

The key Management personnel comprise the Executive Directors, Non-Executive Directors and members of the Executive Committee (2022: 17 individuals, 2021: 18 individuals).

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2022 £m	2021 £m
Salaries, fees, bonuses and benefits in kind	**3.4**	3.5
Amounts receivable under long-term incentive schemes	**3.0**	2.8
Gains on exercise of share awards	**2.7**	3.6
	9.1	9.9

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 142 to 169.

36. Notes to the Consolidated Cash Flow statement

Year ended 31 December	2022 Before exceptional items £m	2022 Exceptional items £m	2022 Total £m	2021 Before exceptional items £m	2021 Exceptional items £m	2021 Total £m
Profit before tax	**199.2**	**(2.4)**	**196.8**	193.4	(1.2)	192.2
Net finance costs	**20.4**	**-**	**20.4**	24.0	–	24.0
Operating profit for the year	**219.6**	**(2.4)**	**217.2**	217.4	(1.2)	216.2
Adjustments for:						
Share of profits in joint ventures and associates	**(12.0)**	**-**	**(12.0)**	(8.7)	–	(8.7)
Share based payment expense	**15.6**	**-**	**15.6**	15.8	–	15.8
Impairment of intangible assets	**0.1**	**-**	**0.1**	–	–	–
Amortisation of intangible assets	**31.6**	**-**	**31.6**	27.3	–	27.3
Impairment of property, plant and equipment	**2.3**	**-**	**2.3**	0.3	–	0.3
Net reversal of impairment of right of use assets	**(1.8)**	**-**	**(1.8)**	–	–	–
Depreciation of property, plant and equipment	**20.7**	**-**	**20.7**	19.6	–	19.6
Depreciation of right of use assets	**119.3**	**-**	**119.3**	109.0	–	109.0
Loss on disposal of intangible assets	**0.4**	**-**	**0.4**	1.6	–	1.6
Profit on early termination of leases	**(0.2)**	**-**	**(0.2)**	(0.6)	–	(0.6)
Profit on disposal of property, plant and equipment	**(0.5)**	**-**	**(0.5)**	(0.2)	–	(0.2)
Increase/(decrease) in provisions	**4.0**	**(0.6)**	**3.4**	(7.2)	(1.5)	(8.7)
Total non-cash items	**179.5**	**(0.6)**	**178.9**	156.9	(1.5)	155.4
Operating cash inflow/(outflow) before movements in working capital	**399.1**	**(3.0)**	**396.1**	374.3	(2.7)	371.6
(Increase)/decrease in inventories	**(1.5)**	**-**	**(1.5)**	1.7	–	1.7
Decrease in receivables	**1.2**	**-**	**1.2**	25.4	–	25.4
(Increase)/decrease in payables	**(24.1)**	**0.1**	**(24.0)**	(1.9)	(4.8)	(6.7)
Movements in working capital	**(24.4)**	**0.1**	**(24.3)**	25.2	(4.8)	20.4
Cash generated by operations	**374.7**	**(2.9)**	**371.8**	399.5	(7.5)	392.0
Tax paid	**(44.2)**	**-**	**(44.2)**	(42.1)	–	(42.1)
Non-cash R&D expenditure	**(0.4)**	**-**	**(0.4)**	–	–	–
Net cash inflow/(outflow) from operating activities	**330.1**	**(2.9)**	**327.2**	357.4	(7.5)	349.9

37. Post balance sheet events

Dividends

Subsequent to the year-end, the Board has recommended the payment of a final dividend in respect of the year ended 31 December 2022 of 1.92p. 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.

Employee Share Ownership Trust

Subsequent to the year end, the Group's Employee Share Ownership Trust completed the purchase of 12m shares at the cost of £18.7m. These shares will be held in the own share reserve until they are transferred to award holders on the exercise of share awards.

Company Balance Sheet

At 31 December	Note	2022 £m	2021 £m
Fixed assets			
Right of use assets	39	**0.1**	0.1
Deferred tax assets	46	**0.7**	–
Investments in subsidiaries	40	**2,052.5**	2,041.7
		2,053.3	2,041.8
Current assets			
Debtors: amounts due within one year	41	**18.2**	3.9
Debtors: amounts due after more than one year	41	**555.5**	534.2
Derivative financial instruments due within one year	45	**3.0**	2.6
Corporation tax asset	41	**0.6**	0.5
Cash at bank and in hand		**21.1**	138.2
		598.4	679.4
Total assets		**2,651.7**	2,721.2
Creditors: amounts falling due within one year			
Trade and other payables	42	**(155.7)**	(80.0)
Loans	43	**(44.4)**	(64.9)
Provisions	44	**(50.8)**	(12.6)
Corporation tax liability		**(0.1)**	–
Derivative financial instruments	45	**(1.1)**	(2.0)
		(252.1)	(159.5)
Net current assets		**346.3**	519.9
Creditors: amounts falling due after more than one year			
Loans	43	**(218.4)**	(312.1)
Amounts owed to subsidiary companies		**(1,301.2)**	(1,203.6)
Provisions	44	**(1.2)**	(41.1)
		(1,520.8)	(1,556.8)
Total liabilities		**(1,772.9)**	(1,716.3)
Net assets		**878.8**	1,004.9
Capital and reserves			
Called up share capital	47	**24.4**	24.4
Share premium account	48	**463.1**	463.1
Capital redemption reserve		**0.4**	0.4
Profit and loss account	49	**401.8**	437.1
Share based payment reserve	50	**88.0**	81.1
Treasury shares reserve	51	**(91.2)**	–
Own shares reserve	51	**(7.7)**	(1.2)
Total shareholders' funds		**878.8**	1,004.9

The accompanying notes form an integral part of the financial statements.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The total loss for the year was £5.0m (2021: profit £11.0m) and the total comprehensive loss for the year was £5.0m (2021: profit £11.0m).

The financial statements (registered number 02048608) were approved by the Board of Directors on 27 February 2023 and signed on its behalf by:

Mark Irwin
Group Chief Executive Officer

Nigel Crossley
Group Chief Financial Officer

Company Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Treasury shares £m	Share based payment reserve £m	Own shares reserve £m	Total shareholders' equity £m
At 1 January 2021	24.7	463.1	0.1	493.0	–	66.7	(2.1)	1,045.5
Total comprehensive income for the year	–	–	–	11.0	–	–	–	11.0
Dividends paid by the Group	–	–	–	(26.5)	–	–	–	(26.5)
Shares purchased and held in Treasury	–	–	–	–	(40.7)	–	–	(40.7)
Cancellation of shares held in Treasury	(0.3)	–	0.3	(20.4)	20.4	–	(0.3)	(0.3)
Shares transferred from treasury to own shares reserve	–	–	–	(20.0)	20.3	–	–	0.3
Shares transferred to option holders on exercise	–	–	–	–	–	(1.0)	1.2	0.2
Awards over parent's shares made to employees of subsidiaries	–	–	–	–	–	9.0	–	9.0
Expense in relation to share based payments	–	–	–	–	–	6.8	–	6.8
Tax credit on items taken directly to equity	–	–	–	–	–	(0.4)	–	(0.4)
At 1 January 2022	**24.4**	**463.1**	**0.4**	**437.1**	**-**	**81.1**	**(1.2)**	**1,004.9**
Total comprehensive loss for the year	**-**	**-**	**-**	**(5.0)**	**-**	**-**	**-**	**(5.0)**
Dividends paid by the Group	**-**	**-**	**-**	**(30.3)**	**-**	**-**	**-**	**(30.3)**
Shares purchased and held in Treasury	**-**	**-**	**-**	**-**	**(91.2)**	**-**	**-**	**(91.2)**
Shares purchased and held in own share reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(15.9)**	**(15.9)**
Shares transferred to option holders on exercise	**-**	**-**	**-**	**-**	**-**	**(9.3)**	**9.4**	**0.1**
Awards over parent's shares made to employees of subsidiaries	**-**	**-**	**-**	**-**	**-**	**10.8**	**-**	**10.8**
Expense in relation to share based payments	**-**	**-**	**-**	**-**	**-**	**4.8**	**-**	**4.8**
Tax charge on items taken directly to equity	**-**	**-**	**-**	**-**	**-**	**0.6**	**-**	**0.6**
At 31 December 2022	**24.4**	**463.1**	**0.4**	**401.8**	**(91.2)**	**88.0**	**(7.7)**	**878.8**

The accompanying notes form an integral part of the financial statements.

Notes to the Company Financial Statements

38. Accounting policies

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of the UK-adopted international financial reporting standards but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in note 2 to the Consolidated Financial Statements, except as noted below.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

39. Right of use assets

Leased vehicles of £0.1m (2021: £0.1m) have been included on the balance sheet following the adoption of IFRS 16 *Leases*.

40. Investments held as fixed assets

Shares in subsidiary companies at cost	£m
At 1 January 2021	2,032.7
Awards over parent's shares made to employees of subsidiaries	9.0
At 1 January 2022	**2,041.7**
Awards over parent's shares made to employees of subsidiaries	**10.8**
At 31 December 2022	**2,052.5**

The Company directly owns 100% of the ordinary share capital of the following subsidiaries:

Name	% Ownership
Serco Holdings Limited	100%

There have been no indicators of impairments identified for the investments held as fixed assets.

41. Debtors

Amounts due within one year	2022 £m	2021 £m
Prepayments	**12.5**	0.2
Prepaid intercompany interest	**4.9**	3.0
Amounts owed by subsidiary companies	**0.8**	0.7
	18.2	3.9

Amounts due after more than one year	2022 £m	2021 £m
Amounts owed by subsidiary companies	**555.5**	534.2

The expected credit loss provision against amounts owed by subsidiary companies is immaterial.

42. Trade and other payables

Amounts due within one year	2022 £m	2021 £m
Amounts owed to subsidiary companies	**73.3**	64.5
Trade creditors	**57.8**	0.5
Accruals and deferred income	**24.5**	13.4
Other creditors including taxation and social security	**0.1**	1.6
	155.7	80.0

43. Loans

	2022 £m	2021 £m
Loans are repayable as follows:		
On demand or within one year	**44.4**	64.9
Between one and two years	**54.2**	40.2
Between two and five years	**106.2**	160.8
After five years	**58.0**	111.1
	262.8	377.0
Less: amount due for settlement within one year (shown within current liabilities)	**(44.4)**	(64.9)
Amount due for settlement after one year	**218.4**	312.1

44. Provisions

	Contract £m	Other £m	Total £m
At 1 January 2022	**9.8**	**43.9**	**53.7**
Released to income statement	**(0.3)**	**–**	**(0.3)**
Released to income statement – exceptional	**(1.4)**	**–**	**(1.4)**
At 31 December 2022	**8.1**	**43.9**	**52.0**
Analysed as:			
Current	**8.1**	**42.7**	**50.8**
Non-current	**–**	**1.2**	**1.2**
	8.1	**43.9**	**52.0**

A contract provision is recorded when a contract is deemed to be unprofitable and therefore is considered onerous. The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision.

Other provisions are held for indemnities given on disposed businesses and legal and other costs that the Company expects to incur over an extended period, in respect of past events, for which a provision has been recorded. These costs are based on past experience of similar items and other known factors and represent Management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next 12 months or over a longer period.

45. Derivative financial instruments

	Assets 2022 £m	Liabilities 2022 £m	Assets 2021 £m	Liabilities 2021 £m
Forward foreign exchange contracts	**3.0**	**(1.1)**	2.6	(2.0)
Analysed as:				
Current	**3.0**	**(1.1)**	2.6	(2.0)

The Company holds derivative financial instruments in accordance with the Group's policy in relation to its financial risk management. Details of the disclosures are set out in note 29 of the Group's Consolidated Financial Statements.

Notes to the Company Financial Statements
continued

46. Deferred tax

	2022 £m	2021 £m
Tax losses	**0.7**	–
	0.7	–

The movement in the deferred tax asset during the year was as follows:

	2022 £m	2021 £m
At 1 January	**–**	–
Credit to profit and loss account	**0.7**	–
At 31 December	**0.7**	–

The deferred tax asset not recognised is as follows:

At 31 December	2022 £m	2021 £m
Temporary differences on assets/intangibles	**0.2**	0.3
Share based payments and employee benefits	**2.5**	2.4
Other temporary differences	**1.8**	1.8
Tax losses	**51.1**	51.5
	55.6	56.0

47. Called up share capital

Issued and fully paid	2022 £m	Number 2022 millions	2021 £m	Number 2021 millions
1,218,008,788 (2021: 1,233,380,637) ordinary shares of 2p each at 1 January	**24.4**	**1,218.0**	24.7	1,233.4
Cancelled: nil (2021: 15,371,849) ordinary shares of 2p	**–**	**–**	(0.3)	(15.4)
1,218,008,788 (2021: 1,218,008,788) ordinary shares of 2p each at 31 December	**24.4**	**1,218.0**	24.4	1,218.0

During the year nil (2021: 15,371,849) shares were cancelled as part of the Serco Share Repurchase Programme (the Programme).

The Company has one class of ordinary shares which carry no right to fixed income.

48. Share premium account

	2022 £m	2021 £m
At 1 January and at 31 December	**463.1**	463.1

49. Profit and loss account

	2022 £m	2021 £m
At 1 January	**437.1**	493.0
(Loss)/profit for the year	**(5.0)**	11.0
Equity dividends	**(30.3)**	(26.5)
Shares transferred from Treasury to own shares reserve	**–**	(20.0)
Cancellation of shares held in Treasury	**–**	(20.4)
At 31 December	**401.8**	437.1

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 £5.0m (2021: profit £11m) and the total comprehensive loss for the year was £5.0m (2021: profit £11m).

The Company plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders.

During 2015, Serco Group plc as a statutory entity created £519m of reserves from the Rights Issue which was structured to ensure that these reserves were distributable. As a result of this transaction, the Group has sufficient distributable reserves to facilitate the payment of distributions by Serco Group plc.

50. Share based payment reserve

	2022 £m	2021 £m
At 1 January	**81.1**	66.7
Awards over parent's shares made to employees of subsidiaries	**10.8**	9.0
Share based payment charge	**4.8**	6.8
Shares transferred to award holders on exercise of share awards	**(9.3)**	(1.0)
Tax credit/(charge) on items taken directly to equity	**0.6**	(0.4)
At 31 December	**88.0**	81.1

Details of the share based payment disclosures are set out in note 34 of the Group's Consolidated Financial Statements.

51. Other reserves

Treasury shares reserve

The Treasury shares reserve represents amounts paid to repurchase ordinary shares. On 24 February 2022, the Group announced its intention to repurchase ordinary shares with a value of up to £90m. On 8 March 2022, the Group confirmed that the repurchase would be split over two tranches, with the first tranche of £40m completed during the period 8 March 2022 to 16 August 2022. The second tranche of £50m completed during the period 17 August 2022 to 9 December 2022. The total cost including fees was £91.2m and resulted in the repurchase of 55,506,704 shares at an average price of £1.64. These are held within Treasury shares at 31 December 2022.

Own share reserve

The own shares reserve represents the cost of shares in Serco Group plc held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy awards under the Group's share plan schemes. At 31 December 2022, the ESOT held 9,144,275 (2021: 11,605,185) shares equal to 0.8% of the current allotted share capital (2021: 1.0%). The market value of shares held by the ESOT as at 31 December 2022 was £14.2m (2021: £15.6m).

52. Contingent liabilities

The Company has guaranteed overdrafts, leases, and bonding facilities of its joint ventures and associates up to a maximum value of £5.7m (2021: £5.7m). The actual commitment outstanding at 31 December 2022 was £5.7m (2021: £5.7m).

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 2022 was £220.9m (2021: £243.5m).

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

The Company is also aware of other claims and potential claims which involve or may involve legal proceedings against the Company although the timing of settlement of these claims remains uncertain. The Directors are of the opinion, having regard to legal advice received and the Company's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Company's financial position.

The Company has a guarantee in place with the SPLAS Trustees in respect of any pension contribution obligations that remain unpaid after 30 days of being due from other Group entities, including the plan sponsor, up to a total of £200m (2021: £174m) less contributions made by the Group since April 2022. This guarantee runs until 2030 (2021: 2028).

53. Related parties

The Directors of Serco Group plc had no material transactions with the Company or its subsidiaries during the year other than service contracts and Directors' liability insurance. Details of the Directors' remuneration are disclosed in the Remuneration Report for the Group.

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100% owned by Serco Group plc.

Appendix: List of subsidiaries and related undertakings

Company name	Serco Group interest	Registered office address
ACN 611 392 744 Pty Ltd	49%	Level 6, 123 Epping Road, Macquarie Park, NSW 2113, Australia
Aeradio Technical Services WLL[2/4]	49%	Headquarters Building, Building # 1605, Road # 5141, Askar # 951, PO Box 26803 Manama, Kingdom of Bahrain
AI Recruiting BV	100%	Kapteynstraat 1, 2201 BB Noordwijk, The Netherlands
BRTRC Federal Solutions, Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Cardinal Insurance Company Limited	100%	Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
Chimera WBB JV L.L.C.	49%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Clemaco Contracting NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
Clemaco Trading NV	100%	Sint-Sebastiaanstraat 5, 8400 Oostende, Belgium
COMPASS SNI Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Confluent Innovations, L.L.C.	49%	5880 Innovation Drive, Dublin, OH 43016, United States
Decisive Analytics Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Defence Contractor Management and Operations Limited	24.5%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Djurgardens Farjetrafik AB	50%	Svensksundsvagen 17, 111 49 Stockholm, Sweden
DMS Maritime Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Facilities First Australia Holdings Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Facilities First Australia Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Facilities First Australia Sub-Holdings Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Hong Kong Parking Limited	40%	Room 2601, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong
Innu Serco Inc	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
Innu Serco Limited Partnership	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
International Aeradio (Emirates) L.L.C. – Abu Dhabi	49%	Office No. 503, 5th Floor, Al Muhairy Building, Zayed The First Street, PO Box 3164 Abu Dhabi, United Arab Emirates
International Aeradio (Emirates) L.L.C. – Dubai	49%	19th Floor, Rolex Tower, Sheikh Zayed Road, PO Box 9197 Dubai, United Arab Emirates
JBI Properties Services Company L.L.C.	49%	7th Floor, Al Sila Tower Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates
Joint Integrated Range Solutions L.L.C.	49%	8337 W. Sunset Road, Suite 250, Las Vegas, NV 89113, United States
Khadamat Facilities Management L.L.C.	49%	The United Arab Emirates University, Al Jamea Street, Al Maqam District, PO Box 66718 Al Ain, United Arab Emirates
Lift BV	100%	Noordwal 10 III, 2513 EA 's-Gravenhage, The Netherlands
LOGTEC Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Mahani Technical Services, L.L.C.	49%	511 Duckwater Fall Road, Duckwater, NV, 89314, United States
Mercurius Finance SA	100%	42 rue de la Vallée, L-2661 Luxembourg
Merseyrail Electrics 2002 Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, United Kingdom
Merseyrail Infraco Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF, United Kingdom
Merseyrail Services Holding Company Limited[3]	50%	2 New Bailey, 6 Stanley Street, Salford, Greater Manchester, M3 5GS, United Kingdom
Northern Rail Holdings Limited	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES, United Kingdom
Northern Rail Limited	50%	Serco House 16 Bartley Wood, Business Park Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom

Company name	Serco Group interest	Registered office address
ORS Deutschland GmbH	100%	Güterhallenstrasse 4, 79106 Freiburg, Germany
ORS España Servicios Sociales, S.L.	100%	Avda Felipe II 1 7 1 ° Madrid 28009-Madrid, Spain
ORS Greece Monoprosope A.E	100%	280, Kifisias Ave., Chalandri, Greece
ORS Italia S.r.l	100%	Piazza Annibaliano, 18 CAP 00198 Presso Studio Filippini & Ass, Italy
ORS Service AG	100%	Röschibachstrasse 22, 8073 Zürich, Switzerland
ORS Service GmbH (Austria)	100%	Leopold-Ungar-Platz 2, 1190, Döbling, Wien, Germany
ORS Slovakia s.r.o	15%	Grösslingova 45, Bratislava, Slovakia
OXZ Holdings AG	100%	Röschibachstrasse 22, 8073 Zürich, Switzerland
Priority Properties North West Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Sapienza Consulting BV	100%	Kapteynstraat 1, 2201 BB Noordwijk, The Netherlands
Sapienza Consulting France SAS	100%	4 Allée des Cormorans 06150 CANNES LA BOCCA, France
Sapienza Consulting GmbH	100%	Berliner Allee 65, 64295 Darmstadt, Germany
Sapienza Consulting Ltd	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Sapienza Consulting S.r.l.	100%	Piazza Sant'Andrea della Valle, 3 Roma, Italy
Serco (Jersey) Limited	100%	26 New Street, St. Helier, JE2 3RA, Jersey
Serco Australia Pty Limited[3]	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Belgium S.A.	100%	1945 Chaussée de Wavre, 1160 Auderghem, Brussels, Belgium
Serco Caledonian Sleepers Limited	100%	Basement and Ground Floor Premises, 1-5 Union Street, Inverness, IV1 1PP, Scotland, United Kingdom
Serco Canada Inc.	100%	330 Bay Street, Suite 400, Toronto, Canada M5H 2S8
Serco Canada Marine Corporation	100%	330 Bay Street, Suite 400, Toronto, Canada M5H 2S8
Serco Citizen Services Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Corporate Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Czech Republic s.r.o.	100%	Praha City Centre, Klimentska 46, Prague, 110 02, Czech Republic
Serco Defence Clothing Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Defence S.A.	100%	1945 Chaussée de Wavre, 1160 Auderghem, Brussels, Belgium
Serco Defence Services Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Environmental Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Ferries (Guernsey) Crewing Limited	100%	4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, GY1 2JA, Guernsey
Serco Ferries (HR) Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Geografix Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Gestion de Negocios S.L.U.	100%	Calle Ayala no 13, 1° derecha, CP-28001, Madrid, Spain
Serco Group (HK) Limited	100%	Unit 3103, 31/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong
Serco Group Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco Holdings Limited[1]	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Inc.[3]	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
Serco International Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom

Appendix: List of subsidiaries and related undertakings continued

Company name	Serco Group interest	Registered office address
Serco International S.à r.l	100%	7, rue Robert Stümper, L-2557, Luxembourg
Serco Italia S.p.A.	100%	Viale della Tecnica 161, 00144, Rome, Italy
Serco Leasing Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Leisure Operating Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Limited[3]	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Listening Company Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Luxembourg S.A.	100%	Rue Sainte Zithe, 33, L-2763 Luxembourg
Serco Nederland B.V.	100%	Kapteynstraat 1, 2201 BB Noordwijk ZH, Netherlands
Serco New Zealand (Asset Management Services) Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Training Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco North America (Holdings), Inc.	100%	1209 Orange Street, Wilmington, DE 19801, United States
Serco North America Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Nunavut Ltd.	49%	Field Law, House 2436, PO Box 1734, Iqaluit, NU X0A 0H0, Canada
Serco Paisa Limited	50%	Ci Tower, St. George's Square, New Malden, Surrey, KT3 4TE, United Kingdom
Serco PIK Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Pension Trustee Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Projects L.L.C.	49%	Global Business Centre 2, Second Floor, Al Hitmi Village Building, C-Ring Road, PO Box 25422 Doha, State of Qatar
Serco Regional Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Safety Services L.L.C.	49%	Hala Business Center, Al Khor Building, Office 201, 202, Baniyas Street, Al Buteen Area Deira, Dubai
Serco S.a.r.l.	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. 31, Riyadh, 12467-2444, Kingdom of Saudi Arabia
Serco Security Services SASU	100%	15 Rue Lumière, Technoparc Pays de Gex, 01630 Saint Genis Pouilly, France
Serco Services GmbH	100%	Lise-Meitner-Strasse 10, 64293 Darmstadt, Germany
Serco Singapore Pte Limited	100%	38 Beach Road, #29-11 South Beach Tower, Singapore, 189767
Serco Switzerland S.A.	100%	62 Route de Frontenex Bis 86, 1208 Geneva, Switzerland
Serco Traffic Camera Services (VIC) Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Serco-IAL Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom

Company name	Serco Group interest	Registered office address
Serco-IPS Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States
STJ Administration Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Corporate Security WA Pty Limited	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Hospitality & Entertainment Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Services (FNQ) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Services (Newcastle) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Services (SA) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Services (Vic) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
TJS Services (WA) Pty Ltd	100%	Level 23, 60 Margaret Street, Sydney, NSW 2000, Australia
Vivo Defence Services Limited	50%	Shared Services Centre Q3 Office, Quorum Business Park, Benton Lane, Newcastle-Upon-Tyne, NE12 8EX, United Kingdom
Whitney, Bradley & Brown, Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon, VA 20170, United States

1 Serco Holdings Limited is directly owned by Serco Group plc. All other subsidiaries and associated undertakings are held indirectly via Group companies.
2 Companies in liquidation as at 31 December 2022.
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.

Compliance with the UK Corporate Governance Code

This section 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, set out on pages 111 to 141, which provides additional details of how the Provisions of the Code have been applied.

The Company has applied all the principles and complied with all the provisions of the Code during 2022, except for Provision 38, an explanation for this is provided below.

1. Board leadership and Company purpose

The Board is collectively responsible to the Company's shareholders for promoting the long-term sustainable success of the Company, generating value for shareholders as a valued and trusted partner of governments, and delivering public services that transform outcomes and make a positive difference for our fellow citizens. It oversees and agrees the Group's purpose, values and strategy at its annual strategy review and at each Board meeting, and ensures that necessary resources are available, and that the appropriate risk management controls and processes are in place by regular review of such matters at Board and Committee meetings.

The Board is mindful of the need to create value while taking account of the wider interests of other stakeholders and, when taking decisions, balances the impact on suppliers, communities, the environment, employees and customers with the objective of securing long-term sustainable growth for shareholders. New business and the renewal of existing contracts above an agreed level are considered at divisional level and then by the Investment Committee, prior to review by the Board which is undertaken having regard to the Company's four principal values of Trust, Care, Innovation and Pride, and the impact on its workforce. The ways in which the interests of the Company's stakeholders and the matters set out in section 172 of the Companies Act 2006 have been considered are set out on pages 121 to 126, including details of the manner in which engagement with the workforce is achieved. The Board is conscious of the benefits of aligning its culture with its strategy and is further embedding this through its ESG Framework.

Regular engagement is sought with major shareholders, primarily through executive management, following the announcement of the full and half year results, and also through the Chairman, who is available to major shareholders, and the Chair of the Remuneration Committee who consults with shareholders when appropriate to do so regarding remuneration matters. The Chairman meets shareholders during the annual governance roadshow and Non-Executive Directors have the opportunity to meet investors at the full and half year results. The outcome of such engagement is shared to ensure the Board as a whole has a clear understanding of the views of shareholders. The Company has established "Employee Voice" to ensure employee engagement and employees can raise concerns through the Company's ethics hot line, Speak Up.

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

2. Division of responsibilities

The roles and responsibilities of the Chairman, Chief Executive, Senior Independent Director, the Board and its Committees are clearly defined, documented, approved by the Board and are available on the Company's website.

The Chairman, who was independent on his appointment, leads and is responsible for the operation of the Board. The Chief Executive is responsible for the leadership and management of the business within the authorities delegated by the Board. Their respective responsibilities are documented and regularly reviewed.

There are five separate committees of the Board, each of which is chaired by a different Non-Executive Director as follows:

- Audit Committee: Tim Lodge
- Corporate Responsibility Committee: Kirsty Bashforth
- Group Risk Committee: Ian El-Mokadem
- Nomination Committee: John Rishton
- Remuneration Committee: Lynne Peacock

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

The Board regularly reviews the overall balance of skills, experience, diversity, independence and knowledge of Board and Committee members and undertakes an annual review of the independence of its Non-Executive Directors.

As at the date of this report, with six Non-Executive Directors, in addition to the Chairman, and two Executive Directors on the Board, over half of the Board, excluding the Chairman, are independent Non-Executive Directors.

The Non-Executive Directors approve the objectives of the Executive Directors annually and assess their performance against these objectives.

The Chairman meets formally with the Non-Executive Directors without the Executive Directors present and maintains regular formal and informal contact with Non-Executive Directors. In addition, there are opportunities for the Non-Executive Directors to meet in the absence of the Executive Directors at Committee meetings.

The Non-Executive Directors, led by the Senior Independent Director, meet, without the Chairman present, to appraise his performance.

The time commitment of Non-Executive Directors is defined on appointment and regularly evaluated. All Non-Executive Directors are able to devote the time required to undertake their roles, including the Chairman who chairs two listed companies. No director holds more than four directorships of public companies.

The Directors have access to independent professional advice at the Company's expense as well as to the advice and services of the Company Secretary who advises the Board on corporate governance matters.

3. Composition, succession and evaluation

The Nomination Committee is chaired by the Company's Chairman and comprises solely Non-Executive Directors. It reviews succession plans for both Board and senior management positions to ensure appropriate refreshment and, with the assistance of an external search company, leads the process for Board appointments and makes recommendations to the Board. All appointments are made on merit against objective criteria including the skills, experience and knowledge required for the Board as a whole and the promotion of diversity of gender and ethnic and social background.

When seeking to appoint Non-Executive Directors, the services of a search consultant with appropriate experience within the sector in which the Company operates are utilised to ensure a strong and diverse selection of potential candidates meeting the candidate specification drawn up by the Committee.

All Directors submit themselves for re-election at each Annual General Meeting.

Following the annual evaluation of the Board and its Committees, which is externally facilitated every three years, the recommendations are considered by the Board and implemented by the Chairman with the assistance of the Company Secretary. Annual appraisals of Non-Executive Directors, including the identification of training needs, are undertaken by the Chairman to ensure continued effective contributions.

4. Audit, risk and internal control

The Annual Report and Accounts includes a statement of the Directors' responsibilities regarding the financial statements, including the status of the Company as a going concern, with an explanation of the Group's strategy and business model together with the relevant risks and performance metrics.

A further statement confirms that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Audit Committee report sets out the details of the Committee's responsibility for ensuring the integrity of the financial reporting process and the key matters considered during the year in respect of its oversight of financial and business reporting.

The Board, through the Group Risk and Audit Committees, has carried out a robust assessment of the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity. Further details about these risks and how they are managed and mitigated are included in this Annual Report and Accounts together with the Viability Statement which explains how the Directors have assessed the prospects of the Company and concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

The Board determines the Company's risk appetite and has established risk management and internal control systems. At least annually, the Board undertakes a review of their effectiveness.

The Audit Committee annually reviews the external auditor's independence, the effectiveness of the external audit, including consideration of the level of challenge made by the external auditor, and the provision of non-audit services. It also reviews and monitors the effectiveness of the Company's internal audit arrangements.

5. Remuneration

The Remuneration Committee has delegated responsibility for determining the policy on Executive Director remuneration, which it does taking account of workforce remuneration and the alignment of incentives and rewards with culture.

The Company's share incentive schemes are designed to promote long term shareholdings for Executive Directors to provide alignment with shareholders' interests.

Although not fully compliant with Provision 38 of the Code during 2022 relating to the alignment of Executive Directors' pension contributions with those of the wider workforce in respect of the Chief Executive Officer, as outlined in 2020 and 2021 phased arrangements were in place to reduce the incumbent Chief Executive Officer's pension contributions to be in line with those of the wider workforce by 1 January 2023, in accordance with Investor Association guidelines. Rupert Soames' pension would have been fully aligned with the wider workforce by 1 January 2023 but, with Rupert's decision to step down from the Board on 31 December 2022, this is no longer an issue in 2023. In accordance with the requirements of the Code, the pension opportunity for all Executive Directors' is aligned to that of the wider workforce.

Decisions made regarding executive pay are appropriate in the context of the wider workforce. Details of how we have engaged with shareholders and the wider workforce, and how the outcomes from the engagement is considered when making remuneration decisions is set out in the Directors' Remuneration Report on pages 142 to 169.

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 142 to 169.

Shareholder Information

Our website
The Company's website, www.serco.com, provides access to share price information as well as sections on managing your shareholding online, corporate governance and other investor relations information.

Shareholder queries
Our share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed opposite.

American Depositary Receipts (ADRs)
Serco has established a sponsored Level I ADR programme. Serco ADRs are traded on the US over-the-counter market (SCGPY).

For queries relating to your ADR holding, please contact our ADR depositary bank, Deutsche Bank Trust Company Americas.

Managing your shares online
Shareholders can manage their holding online by registering to use our shareholder portal at www.shareview.co.uk. This free service is provided by our Registrar, giving quick and easy access to your shareholding.

Electronic communications
We encourage shareholders to consider receiving their communications electronically which means you receive information quickly and securely and allows us to communicate in a more environmentally friendly and cost-effective way. You can register for this service online using our share portal at www.shareview.co.uk

Duplicate documents
Some shareholders find that they receive duplicate documentation due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact our Registrar, Equiniti.

Changes of address
To avoid missing important correspondence relating to your shareholding, it is important that you inform our Registrar of your new address as soon as possible.

Sharegift
If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to Sharegift (Registered Charity no.1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org or by calling +44 (0) 207 930 3737.

Dividend
Proposed final dividend
The Directors have recommended payment of a final dividend of 1.92 pence in respect of the year ended 31 December 2022, subject to approval by shareholders at the Annual General Meeting.

Key dates
Annual General Meeting 27 April 2023
Ex-dividend date 11 May 2023
Record date 12 May 2023
Payment date 9 June 2023

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

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Registered in England and Wales No. 2048608

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BN99 6DA
United Kingdom

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+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.

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Website: www.adr.db.com
Email: db@astfinancial.com

Brokers
JP Morgan Cazenove
Barclays

Auditor
KPMG LLP

Unsolicited mail and shareholder fraud
Shareholders are advised to be wary of unsolicited mail or telephone calls offering free advice, to buy shares at a discount or offering free company reports. For further information on how shareholders can be protected from investment scams visit www.fca.org.uk/consumers/scams/investment-scams/ share-fraud-and-boiler-room-scams

Notification of major interests in shares (TR1 Forms)
Email: cosec@serco.com

Notes

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Printed by a carbon neutral company to the EMAS standard and Environmental Management System certified to ISO 14001. This product is made using recycled materials limiting the impact on our precious forest resources, helping reduce the need to harvest more trees.

This publication has been manufactured using 100% offshore wind electricity sourced from UK wind. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy.

This is a certified climate neutral print product for which carbon emissions have been calculated and offset by supporting recognised carbon offset projects. The carbon offset projects are audited and certified according to international standards and demonstrably reduce emissions. The climate neutral label includes a unique ID number specific to this product which can be tracked at www.climatepartner.com, giving details of the carbon offsetting process including information on the emissions volume and the carbon offset project being supported.

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