

WHAT SORT of BUSINESS ARE we? a

Serco is one of the world's largest outsourcing businesses, operating in Europe, the Middle East, Asia Pacific and North America. Nearly a third of our turnover comes from outside the UK.

Our core products are the skills and processes for organisational design and change management. We are focused on the public sector – which represents 90% of our business – and have a strong public service ethos. In partnership with our customers and staff we aim to enhance service levels and operational efficiency by shortening decision-making chains, reducing bureaucracy and achieving continuous improvement.

We apply our skills in an extraordinarily diverse range of fields. We run world-class scientific establishments and railways, maintain offices and spacecraft, manage schools, prisons and motorway systems, test military assets and control air traffic. In every case, our job is to make our customers' operations more efficient. We can do this by managing existing facilities, projects and systems. Or we can create entirely new facilities – raising finance, designing and procuring them, then operating them.



A growth business

Since flotation in 1988 we've averaged over 20% annual growth in both sales and profits. And we've achieved this largely by organic growth rather than by acquisition.

A predictable business

Our future earnings and cash flows are highly visible. Our contracts run typically for 5-10 years, and in practice our high renewal rate means they can last for decades. Our forward order book currently stretches to 2028. The income from our contracts is highly dependable: some 90% comes from governments and international agencies, the rest from major corporations.

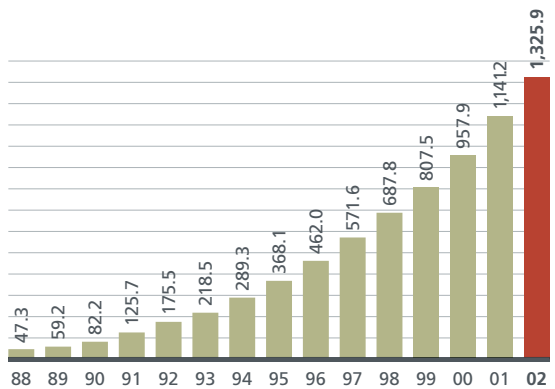
A diverse business

Our contracts are spread across many countries worldwide and a remarkable range of activities. This diversity brings three key benefits:

- Broader exposure to growth opportunities – we can direct funds and people into those that offer the best returns.
- Better risk management – downturns in individual markets and geographies can be offset by growth in others, and we can use our established skills to drive business performance while developing new skills for emerging markets.
- Better product development – we develop competencies and centres of excellence around the world, and share best practice across the whole portfolio.

A versatile business

Our management processes are designed to exploit the benefits of diversity. We've developed the Serco Management



TURNOVER £m
Including joint ventures

System as a common framework for all our contracts, in whatever field of activity. It allows contract managers a high degree of autonomy while maintaining consistency of culture, values and standards – and provides an effective mechanism for monitoring and control. The Serco Best Practice Centre and Serco Our World intranet ensure that every contract has access to what we learn.

A change business

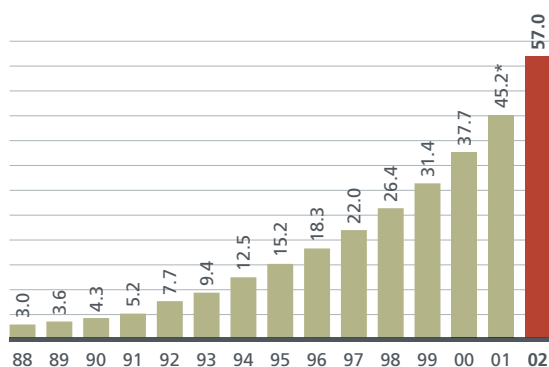
Our core task is to manage positive change within organisations, making them more efficient and improving the service they deliver. Serco's management processes are specifically designed to help plan and manage change. We instil customer focus, reduce bureaucracy, encourage staff to take on broader roles – and have well-developed techniques for measuring progress.

An innovative business

We don't see change as a one-off exercise: we focus on continuously adding value to customers' operations over time. So we're never content with the status quo. The relentless pursuit of constant improvement is part of our culture – and underpins our success rate of over 90% on contract rebids and extensions.

An entrepreneurial business

One way to manage an outsourcing contract is to focus on cost cuts. From the bid stage onwards, we take a more rounded view: if it was a business, how would we improve it? Can we extend our range of services? Can we increase sales? Could we develop new revenue streams? What if we put in some investment? That's how our contract managers are trained and empowered to think. It's what enables them



PROFIT £m

Before amortisation of goodwill

Over the last 15 years the group has achieved compound average annual growth in excess of 23% in turnover and profit. The majority of this growth has been through additions to our contract portfolio with little impact through acquisitions.

* The 2001 accounts have been restated after adoption of UITF 34 *Pre-contract costs* in 2002.

to keep adding value, constantly improving our performance. It's also why a significant proportion of our new business in any year comes from broadening the scope of existing contracts: if we show customers what we can do, they often invite us to do more.

A public service business

As our national and local government customers would expect, we have a strong public service ethos. This is not the same as a public sector ethos: we believe passionately that private sector companies bring distinct benefits to the task of delivering public services. In the words of the recent UK Confederation of British Industry (CBI) Statement of Intent on public private partnerships, which we helped to formulate, a public service ethos revolves around 'customer service, a sense of duty, fairness, openness and accountability'.

An ethical and transparent business

We deliver public services, and we change the way people work. In both capacities we touch people's lives and we recognise our responsibility to act ethically and sensitively. Our culture is open and collaborative: we aim to form productive partnerships with both staff and customers. We recognise our responsibilities to investors, too: we aim to communicate clearly and transparently with them and to account for our performance straightforwardly.

A socially engaged business

We also recognise our role in the wider community. We do not believe Serco can or should stand apart from the societies in which it operates: we aim to engage positively with local communities and to minimise our impact on the environment. Accountability for corporate social responsibility at a local level is part of every contract manager's job.