

# what ARE OUR opportunities for growth? a

The market for outsourced public services is expanding worldwide. In a marketplace that is so large and growing so fast we have to be highly selective in the opportunities we choose to pursue. Our strategy is to maintain a balanced portfolio of businesses, ensuring an appropriate mix of new opportunities and strong organic growth to maintain our success in the future.

At present we are focusing on selected opportunities in the UK, Italy and Germany, North America, the Middle East, Australia and New Zealand. Given the scale of our addressable market and the diversity of sectors in which we are active, we have developed clear criteria for determining specific focus areas. The criteria we've developed for selecting key targets in a worldwide marketplace will shape the way Serco evolves in the future.



**Our vision**

Our vision is to become the leading global outsourcing company. To achieve this, we are pursuing and helping to shape multi-activity service contract opportunities with governments around the world as they seek to harness commercial expertise and private finance to manage public services better and more efficiently.

**Key geographic markets**

Around the world the public and budgetary pressure on governments to improve service delivery and cost efficiency is ever-growing. As a result, more and more of our key geographic markets are looking to the private sector for support. To maximise our growth potential we are not only responding to conditions in the most favourable markets, but working in partnership with government bodies to create new opportunities based on long term relationships. The relative attractiveness and development rate of these opportunities will vary from one geographical market to another.

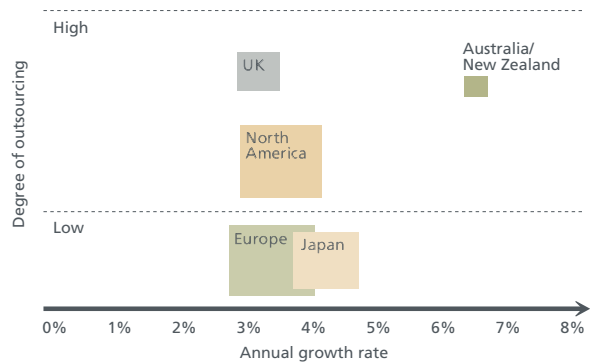
**United Kingdom**

The UK remains our core market and continues to demand innovation in the delivery of public services: we are seeing

more opportunities than ever for developing long term relationships with our customers to deliver complex outcomes. The government's Comprehensive Spending Review will take annual spending by government departments from £240bn in 2002 to £301bn in 2005/06 – a 25% uplift in three years. Coupled with the stated aim of improving public services, this presents us with a wealth of opportunity over the next few years. The principal beneficiaries will be the justice, education, health and defence sectors in which we have tremendous strengths and significant experience. We fully support the government's reform agenda and continue to enhance our core skills and capabilities in organisational change and the transformation of public service delivery.

While aiming to enhance our reputation for trusted, consistent service delivery, we also intend to be recognised as a reliable strategic partner for government in the design, build and implementation of world-class public services.

Because our customers are now looking for support at earlier stages in the development of sophisticated contract models, we are establishing a new public sector strategic consultancy service. This integrates our existing capability with a newly



**GROWTH IN PUBLIC EXPENDITURE**

Source: EIU Country forecasts, inflation adjusted; Europe based on Germany, France, Italy and Spain. £

Size of the boxes represents total government expenditure 2002 (US\$bn).

formed team to support clients as they develop strategies for organisational reform, transformation of public service delivery and creation of cost-effective supporting infrastructure. It will deliver sustainable value by establishing long term relationships based on realistic organisational process and fiscal designs and achievable business transformation planning. By applying its expertise not only in the UK but worldwide, it will benefit our reputation and operations throughout the group.

The consultancy team will be backed by specialist programme delivery units drawn from within Serco to provide practical solutions that meet requirements for change and operational performance improvement, information management, infrastructure regeneration and project management.

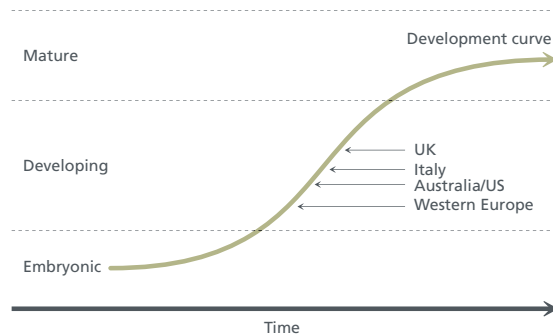
**Continental Europe and Middle East**

The diverse European markets in which we operate are evolving rapidly. Financial, political and social imperatives are driving governments towards new models for the delivery of public services, requiring greater private sector involvement in both funding and providing services. Germany and Italy are key markets where we are well positioned for growth –

and our portfolio of contracts with a number of European agencies gives us additional capability and credibility. In Germany, significant steps are being made in the education, defence and transport sectors. In Italy, the outsourcing of non-core government services is now the norm. In the Middle East, our solid contract base in aerospace and air traffic services is providing a platform for diversification and growth – as evidenced by our recent contract to deliver engineering and other support services to the Dubai Ports, Customs and Free Zone Corporation.

**Asia Pacific**

The Australian defence outsourcing market – in which we are a market leader – is maturing, but a programme of defence and civil PFIs is beginning to emerge as Australian states come under increasing budgetary pressure. The New Zealand government has begun to pursue public private partnerships in transportation and to look at wider applications for private finance. In Japan, pressure for reform of public finances has led to the introduction of PFI-driven opportunities. We continue to monitor these markets closely: our strategy is to focus on selected opportunities where our experience will have the greatest impact.



**MARKET DEVELOPMENT**

*Relative position of key markets on the development curve.*

**North America**

The US government has recently announced a major reform of procurement policy. Over the next two years federal agencies will have to open up 50% of their activities to private sector competition, and this will rise eventually to 100%. This directive will effectively market-test over 800,000 government posts. In 2002 the US government spent over US\$80bn on services, including information technology, base operations and engineering services, and we expect annual growth of at least 12% in the federal sector. Major growth will be seen in the Departments of Defense and Homeland Security, where the combined 2003 budget is likely to exceed \$400bn and further significant growth is expected over the coming years. In Canada federal, provincial and municipal governments are using public private partnerships to solve budgetary gaps and to improve public services, particularly in the health and transportation sectors. British Columbia (BC) has created a new central agency, Partnerships BC, to drive this process. North America remains the world's largest outsourcing market and so demands careful and constant attention from us.

**Selecting and balancing opportunity**

A core part of our strategy is to maintain not only a wide geographic presence but also a broad base of core skills and expertise. This diversity protects us against downturns in individual markets, and balances maturity in one with the growth of another. It means we can draw on a wide portfolio of management competencies and core skills that enable us to compete effectively for the most demanding contracts. And it also exposes us to more growth opportunities than we can possibly pursue – so an important function of our annual planning is to select the right opportunities.

Our selection processes are rigorous and designed to help us balance the portfolio, maintain our focus on opportunities most likely to deliver success and provide the best return to shareholders. Our confidence in our growth planning and forecasting is founded on the ability to make considered decisions about each opportunity, be it a new market entry or a single contract, based on robust assessments of the financial and strategic benefits.

INSIDE STORY

what  
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One area where we see clear opportunities for growth is rail transport. In the UK, Scandinavia and Australia we're building an impressive track record – and demonstrating a variety of options for reducing the cost of public transport to the taxpayer. London's award-winning Docklands Light Railway (DLR) is a case in point...



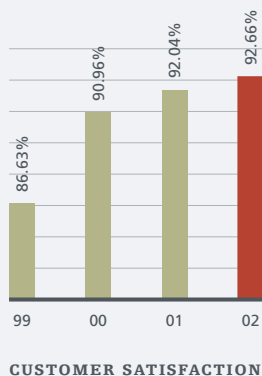
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## Best in Britain – twice running

Docklands Light Railway

An urban metro isn't just a piece of transport infrastructure. It's part of the way people live. It's how they go to work, how they get to the shops, how they have a night out. If you want to run it properly, you have to engage with the way people run their lives.

That's what the National Rail Awards judges had in mind when they named us Best UK Rail Operator last year, for the second year running. They didn't just commend our service intervals or the cleanliness of our trains. "The DLR is as much part of East London as Bow Bells," they said.



**F**ive years ago, when we took over the franchise, that certainly wasn't the case. Since then we've stepped-up service frequency and capacity. We've cut delays by 70% and vehicle failures by 40% to beat the franchise target of 96% reliability. And because people know they can trust the service, they use it more. The number of passengers has more than doubled, from 20m to over 44m.

Being able to run our own show is an advantage. We're responsible for the whole business, including operation and maintenance of the trains, structures, tracks and automatic signalling. We've also been able to increase non-core revenue through innovations in areas such as advertising, retail and promotions – increasing the value of the franchise and ultimately reducing the public cost of supporting DLR services.

One key to our success is the close partnership with our customer, Docklands Light Railway Ltd. This ensures the effective use of resources to deliver the best possible services to the travelling public.

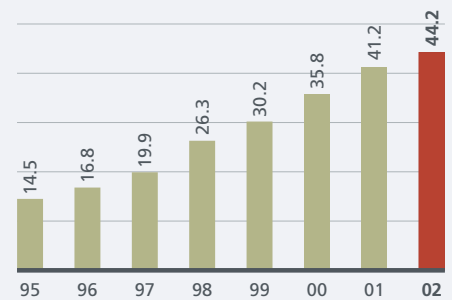
The second factor is the way we've built the DLR into the life of the community. First we made it frequent and reliable. Then we made sure everyone knew about it, by taking real-time train information out of the stations and into the community. Our innovations have included displaying train arrival countdowns in public buildings and office lifts around individual stations, and making accurate arrival information instantly available on the internet and mobile phones.



We've also built strong links with local organisations, from schools to businesses and charities. We provide free travel for some local primary schools, community groups and special needs organisations. We support vital local initiatives such as an ethnic community centre, a toddler care centre, a children's hospice and a drop-in centre for the unemployed. We sponsor the Women in Docklands business networking organisation and the Round The Island Road Race for charity. You can see school children's art on DLR trains, the Salvation Army making weekly collections on DLR concourses, and secondary school teams in DLR-sponsored football kit. In these and many other ways we've woven the DLR into the fabric of community life.

Behind the scenes we've supported crucial infrastructure investment; for example, by integrating a second-generation computer-based signalling system. And our public face has been enhanced by multi-skilled staff who have the training and empowerment to deliver friendly and helpful service.

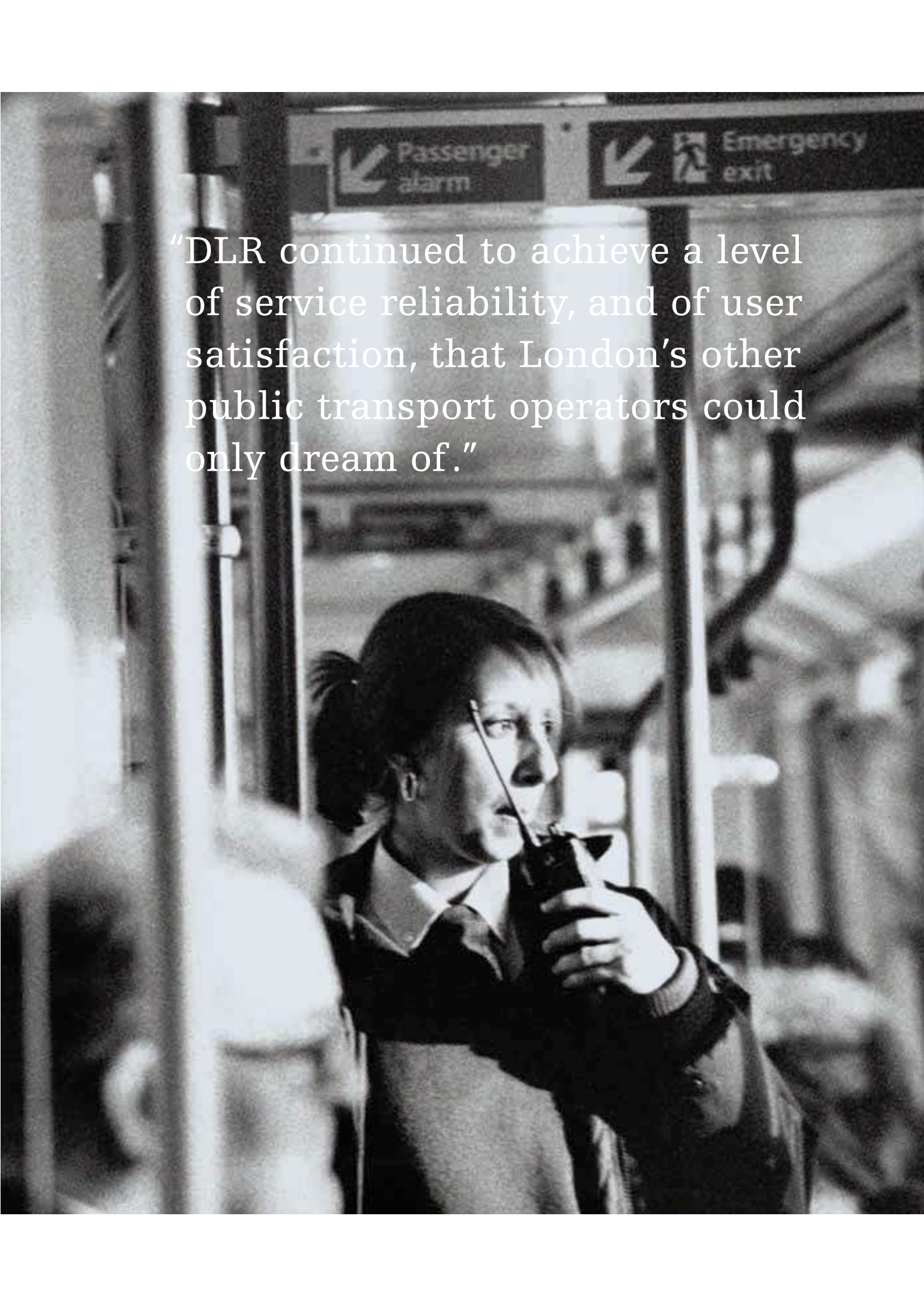
That combination of qualities – in people, technology and communication – is what's made the delivery of the DLR service special. This was reflected by the London Transport Users Committee in its 2001/02 annual report: "[The DLR] continued to achieve a level of service reliability, and of user satisfaction, that London's other public transport operators could only dream of."



**HOW PASSENGER NUMBERS HAVE GROWN**

*Since Serco took over in 1997 passenger numbers have doubled to 44.2m.*





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