



Serco Corporate Responsibility Review 2010



Serco's Governing Principles

We foster an entrepreneurial culture

We are passionate about building innovative and successful Serco businesses. We succeed by encouraging and generating new ideas. We trust our people to deliver. We embrace change and, by taking measured risks, encourage creative thinking.

We enable our people to excel

Our success comes from our commitment and energy to go the extra mile. We are responsible to each other and can expect support when we need it most. We expect our people to achieve more by recognising and harnessing the power of individuals. We value people for their knowledge, ideas and potential to contribute.

We deliver our promises

We do what we say we will do to meet expectations. We promise only what we can deliver. If we make mistakes, we put them right. We are clear about what we need to achieve and we expect to make a fair profit.

We build trust and respect

We build respect by operating in a safe, socially responsible, consistent and honest manner. We never compromise on safety and we always operate in an ethical and responsible manner. We listen. In doing so, we treat others as we would wish to be treated ourselves, and challenge when we see something is wrong. We integrate with our communities.



FRONT COVER:
Clockwise from top right: Containing a blaze at our International Fire Training Centre (IFTC); Steve Marrufo, Commercial Diver, inspects pontoons at Devonport; US business student Amy Kao is supported by the Serco Scholars Programme; Chris Brown, Technical Support Manager at IFTC; Tara Robinson, Stores, Logistics and Sustainability Manager, sorts items for recycling at Borallon Correctional Centre, Queensland, Australia; Owen George, Electrical Technician, Dung Tang, Apprentice and (top left) Faisal Ahmed, Mechanical Technician with London's Barclays Cycle Hire Scheme; Porters Ricki Alexander and Denise Cook at UK's Leicester Royal Infirmary

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INTRODUCTION

Welcome

Serco is an international service company. We deliver essential services on behalf of national and local governments, and for commercial customers. Our revenue in 2010 was £4,327 million, and we employ some 70,000 people around the world. We are also proud to be the UK's Most Admired Support Services Company and 2nd Most Admired Company, according to the 2010 *Management Today* Awards.

This review explains how we manage our corporate responsibilities, and showcases some of the outstanding work being done by Serco people around the world under each of our four pillars: people, health and safety, community, and environment. It covers our responsibilities in the marketplace, policies, governance and strategy; it also gives the detail of what we have accomplished in 2010, and what we have set out to achieve in 2011.

Our vision is to be the world's greatest service company; meeting our corporate responsibilities is one of the ways in which we will achieve this ambition. Our Governing Principles (see opposite) determine our values-led company ethos. This holistic view of responsibility is integral to everything we do. In this way, our customers, people, partners, suppliers and communities will give us their trust and ensure our mutual success.



Together, we work better

Christopher Hyman, Serco's Chief Executive, explains why shared values are the key to effective corporate responsibility

How important is corporate responsibility to Serco?

I have always believed that corporate responsibility is fundamental to our success. It's about unwavering commitment and respect: for each other, for Serco's customers and stakeholders, and for society at large. This is not a tick-box exercise but a significant factor in our continued success and growth.

The main reason why corporate responsibility is of such importance to Serco is because we see its effects on a daily basis. Across the world our people have to work closely with the local community in order to run a successful business. From helping the long-term unemployed into jobs to providing safe travel for millions of people, our customers rely on us to provide trusted, reliable services to their citizens on a daily basis. This work carries a duty for us to be responsible for our behaviour, acting in an honest, safe and socially beneficial manner. So corporate responsibility is not an option for us, it is central to the way we run our operations.

We base this on our strong set of values, which have developed organically over many years. They are critical to the way we operate; so much so that we enshrined them as our Governing Principles [see page 2], constantly reinforcing the importance of responsibility in our actions.

How does Serco manage its responsibilities?

Managing our responsibilities well, across more than 700 contracts in many different countries, is something we work hard to continuously develop. For many reasons this is of critical importance, not least because almost everything we do is delivering services directly to the public – from running air traffic control to improving children's education.

It is the responsibility of every company to ensure it is compliant with all the laws and regulations of the countries in which it

works and that there is a robust governance framework in place. In our case this is even more important given the diversity of our contracts and the services we provide. That is why in 2010 we comprehensively revised our Serco Management System (SMS) which defines how we manage our business [see page 34].

The SMS, together with our Code of Conduct, encourages ethical business behaviour in line with our Governing Principles. This enables us to protect our reputation as a responsible provider and benefits everyone connected with Serco – be they customers, partners, suppliers, shareholders or the communities in which we operate.

Much of Serco's work takes place in the community. What direct support does Serco provide?

Serco has a long tradition of helping communities, driven by our values and the passion of our employees.

The group's ambition is to invest 1% of pre-tax profits into the community. That gives us a marker by which we can judge our efforts on an annual basis. Once again, in 2010 we exceeded this target, reinvesting over £2.2 million back into society around the world, equating to 1.1% of our pre-tax profits.

But the ways in which we make this investment a reality have to be managed and be accountable locally because they are driven by local needs and sensitivities. Activities range from fundraising to help the survivors of natural disasters to providing communities with access to facilities and assets. For example, following Haiti's devastating earthquake in early 2010 our US colleagues launched a company-wide appeal that ultimately saw both employees and Serco around the world donate \$124,000 for the relief effort.

Our investment figure reflects only one side of how we support communities. For example,

we provide expertise and skills to help the Military Child Education Coalition charity – which supports the education of the children of US military personnel. We have now been able to help it extend its reach into the UK. We also provide young people with invaluable work experience through such diverse environments as the National Physical Laboratory and Merseyrail [see pages 23 and 24].

Does the current economic climate make it harder to 'do the right thing'?

You often hear companies talking about the importance of 'doing things right'. Improving internal systems, introducing modern management procedures, making efficiencies where they can – this is all part and parcel of running a successful business. But what captures the heart is when you see people striving to 'do the right thing'. This is what gets me up in the morning.

This is something we see every day in Serco. We are lucky to have people with amazing passion for what they do and for the positive impact they can directly make on others' lives. This is obvious not only to me but also to our customers, and helps to reassure them that they can trust us to 'do the right thing' on their behalf.

There are greater tests for all companies in difficult economic times, but the litmus test is if you can say you are acting according to your values. Our Governing Principles give us the confidence to say that no matter what the situation, we will always seek to act in a responsible, values-based way – and 'do the right thing'.

What are your corporate responsibility priorities for the future?

Serco has been managing its responsibilities for many years, and corporate responsibility is of increasing importance for the governments, commercial organisations and citizens we serve across the world.

I was heartened when the UK Government recently outlined its expectations of business. The five priorities given – to improve skills, to support small and medium enterprises (SMEs), to protect the environment, to improve quality of life, and to support the community – are already central to Serco's global work and responsibilities.



First, our commitment to the communities in which we operate is very clear and I am very proud of our people's energy in these activities. We do this in many ways, including by helping to up-skill those who need it most. One example is the work being carried out in Australia by our resettlement team at Acacia Prison. At Acacia we are working very closely with Aboriginal offenders, their families and community representatives to help develop employability skills as they prepare to re-enter society – helping to reduce the rates of reoffending [see page 25].

Second, we continually seek to improve our relationships with SMEs in our supply chain. We have recently undertaken a survey of a sample of our SMEs to gain a better insight into their experiences of working with Serco, and established an SME Advisory Body to ensure we receive regular feedback and to prioritise areas for improvements. In the US we subcontract 48% of our work to this group of suppliers, far exceeding our contractual targets. But it is also about providing practical support to small businesses through campaigns such as the UK Health and Safety Executive's Estates Excellence [see page 22].

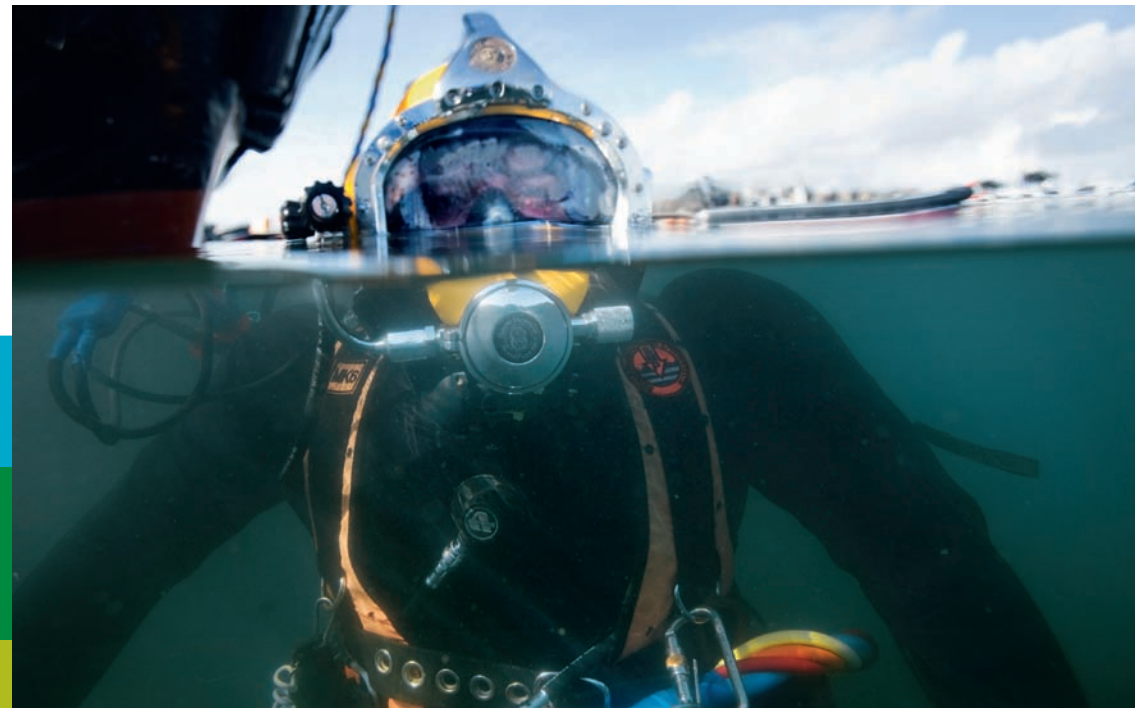
Third, Serco is committed to reducing its use of carbon: we set ourselves the tough objective of achieving a 2.5% reduction in our carbon footprint year-on-year and in January 2011 we were really proud to be one of the 530 UK companies to have achieved the Carbon Trust Standard.

Serco is also dedicated to improving the wellbeing of our people: from simple ideas that engage employees such as the '10,000 Steps a Day' programme in the US, where employees received a pedometer to track their walking habits, to the 24-hour free-phone employee medical advice service initially offered to our people in our Defence, Science and Nuclear division but now also being offered to others.

For me, being a responsible organisation is integral to the way we work in all our operations, and this will never change. I am of the firm belief that having a strong set of values and sense of corporate responsibility, shared by our people across the company and with all our stakeholders, has truly contributed to the success of Serco.



Managing our responsibilities



Consideration of our corporate responsibilities is not a standalone discipline; it is woven into the fabric of our company, and central to the way we deliver excellence to our customers. It is driven by our values and the company ethos this engenders, backed up by strong leadership and measurement of our efforts



LEFT TO RIGHT: Sabana Compaunder, Linen Room Assistant at Leicester Royal Infirmary; Chris Brown, Technical Support Manager at our International Fire Training Centre; Commercial Diver Steve Marrufo inspects pontoons at Devonport; Anthony Fafane, Redistribution Operative with Barclays London Cycle Hire Scheme; Mariana Kajen, Environment Manager at the Dubai Metro

Corporate responsibility is firmly embedded within Serco's business and ethos. Effective leadership enables us to measure and maximise our efforts

Serco understands that successful management of our corporate responsibilities lies in the alignment of everyone's interests: our customers, people, partners, suppliers and the communities in which we work.

Our vision – to be the world's greatest service company – depends on the trust of everyone who touches our business. Consideration of our corporate responsibilities is not a standalone discipline; it is woven into the fabric of our company, and central to the way we deliver excellence to our customers. It is driven by our values and the company ethos this engenders, backed up by strong leadership and measurement of our efforts.

Defining our role

Corporate responsibility is a complex, multi-faceted and evolving requirement of any business. But for Serco, it is uniquely challenging.

Many companies can describe their core business simply. The defined limits of their activity

make it relatively easy to identify their impact on the environment, for example, and to devise and implement a strategy to reduce that impact.

Now consider the breadth of Serco's global activity. We deliver essential services primarily for national and local governments. We provide engineering support to the UK military and marine services to the Australian Navy. We are one of the principal private providers of air traffic control in the world. We manage prisons and leisure centres, employ nuclear scientists, and dispose of waste from the everyday to the hazardous. We provide educational services, we help the unemployed to find jobs, and we keep people moving – by air, road, rail, boat and bicycle.

These are complex services. How do we devise a corporate responsibility strategy that will apply across these diverse sectors?

Getting the basics right

Serco's answer begins with three fundamental principles. Firstly, we must always provide a

clear statement of our intent for every aspect of corporate responsibility, from our people to the way we support and impact local communities. Secondly, we must address challenges around measurement and reporting. Finally, we must empower and encourage our employees to bring our principles to life on a daily basis – since it is at this local level that responsibilities can often be most effectively met.

The ethical dimension

We are proud of what we stand for as a company. We have clear values defined in a set of Governing Principles that informs every decision we make (see page 2). We regularly face ethical issues in our operations and future strategy; how we respond is at the heart of corporate responsibility.

Serco recognises that such issues are seldom black and white. One argument, for example, says that no work should be done in countries where human rights abuses take place. We therefore maintain a watchlist of countries where any proposed business must be approved by the Group Ethics Committee. But other situations are less clear-cut, with many contributing factors. Each case has to be taken on its merits.

In the midst of this complexity, we take great pains to make clear where we stand. We have revised and reissued our Code of Conduct to every employee, so they know exactly what is expected of them. We actively engage with ethical issues as members of the Institute of Business Ethics in the UK, and in the US, we are one of

the 85 members of the Defense Industry Initiative on Business Ethics and Conduct (DII). These organisations allow us to benchmark and see how other organisations address similar issues.

We always look to identify, integrate and apply best practice. We have a Global Ethics Committee to determine the company's position in relation to markets, opportunities and activities that have been identified as presenting an ethical dilemma. We also have a group standard human rights decision tree, to ensure that we are clear about the ethical aspects of the decisions we make. We have an ethics hotline that employees can call – anonymously if they wish – if they have concerns. And we work hard to train and make people aware of these issues.

Assessing our work

Measuring the impact of our activities is vital, but challenging. Take the environment. Our carbon footprint is, overall, quite low for a company of our size because of the nature of our business, which largely involves providing services on other organisations' premises. We work with our customers to minimise environmental impact, but how do we measure our 'share'?

The simple answer is that in those areas where we have responsibility, we identify the best indicators of our impact, whether positive or negative. We then put controls in place to capture this information.

We report on our community investments, our carbon emissions, and days lost through accidents. But we do more than can ever be



recorded in metrics. With our contracts in emerging economies, for example, we set and maintain standards for staff accommodation and welfare that go beyond what local legislation, custom and practice dictate.

Activities on the ground

As a company contracted to deliver public services in countries worldwide, Serco's work carries a large social impact. In addition, on a local level, Serco's philosophy of individual empowerment encourages relevant and sustainable activities by our people that demonstrate how we live our values, and also make a large contribution towards our goals for corporate responsibility.

So, our UK rail business visits schools to tackle the issue of children playing on tracks. Our defence businesses work with military-related charities to support service families – indeed, our Vice President Ethics in the US is currently on part-time secondment to the Military Child Education

Coalition charity. Our nuclear scientists, meanwhile, work with the local community to encourage young people to see the reality of a science career at first hand. This report gives many other examples of the ways in which Serco people unite our values and our responsibilities.

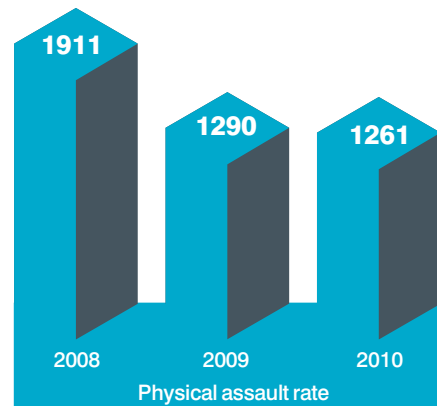
Embedding corporate responsibility

We take governance of our business seriously. We devolve responsibility and empower people, but we must do so in a way that ensures we meet the standards we set ourselves, as well as legal and regulatory requirements.

This governance is delivered through the Serco Management System (SMS). The SMS defines the group's policies and standards that must be complied with wherever we operate. During 2010 the SMS was comprehensively reviewed, updated and simplified; the refreshed System was relaunched in January 2011.

This review of 2010 gives both the character and the detail of our corporate responsibility activities. Overleaf we report on our performance and priorities in each of four pillars: people, health and safety, community and the environment. We illustrate this with examples of the tremendous work being done in these fields by our people around the world.

From page 32, we consider our responsibilities in the marketplace, and give full details of company structures, processes and the SMS, together with more detail on our strategy and performance. We conclude by summarising our 2011 objectives.



34%

reduction in physical assault rate (per 100,000 employees) over the last three years

Viewpoint survey

Viewpoint is Serco's annual global employee survey. 2010 saw an increased response rate

66%

2008

76%

2009

78%

2010

Given the global nature of our business and our diverse workforce, we believe this is a very good response rate to our survey from employees. (Figure excludes joint-venture colleagues.)

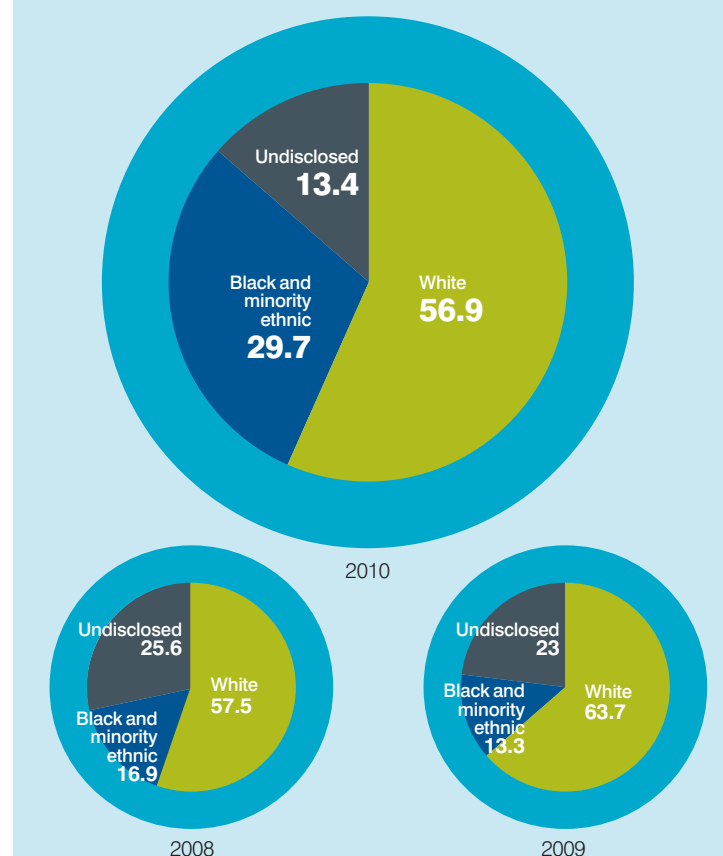
Find out more on page 39

6.6

The average number of sickness days per employee per year – a slight increase on 2009, but remaining below the 2008 level

Ethnicity

Our performance showed improvement during 2010 against 2009



People serving people

We manage bases for the UK's Royal Air Force, prisons in Australia and the Metro in Dubai. Throughout the world we help educators, scientists, commuters and the families of service personnel. But from the depths of the ocean to satellites in space, wherever we operate and whatever we do, our work has one thing in common. It's all about people serving people

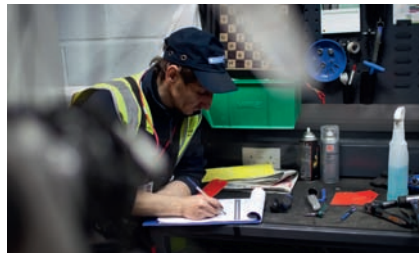
We don't use the word 'serving' lightly. Serco is a company rooted in strong values such as honesty, openness and integrity. To make these values real and thus ensure we deliver what is needed, requires not only hearts in the right place, but also efficient, systematic support. That means good people management, rooted in good leadership, honest dialogue, empowerment and respect. This year, we have maintained progress in improving what we regard as the three management fundamentals: leadership, engagement and the development of our people. In leadership, we took steps to enable external benchmarking and help us develop an accurate picture of our performance vis-à-vis marketplace peers. Such benchmarking is particularly crucial internationally, helping ensure that we recruit and reward people appropriately wherever they are and whatever they do. When we have the right people in place, we trust and empower them.

Employee engagement has always been core to Serco. In 2010, we continued our relationship with David MacLeod and Nita Clarke following the successful launch in 2009 of their seminal report *Engaging for Success*, which examined practical ways to encourage employee engagement in UK businesses. We also introduced a number of innovations to improve the employment experience including the US Serco Scholars Programme that provides educational grants to the children of employees; UK Bike4work scheme to encourage our employees to use environmentally friendly forms of transport when travelling to and from work; payroll-giving in North America and India; fitness and wellbeing programmes; and the re-launch of our recruitment website, both to raise the calibre of recruits and to improve visitors' experience. We have also carried out pilot research on establishing links between employee engagement and business performance.

We have continued our established practice of ensuring that we maintain an accurate picture of our people's understanding of – and feelings about – the business they work for, with our regular internal Viewpoint survey. This gives employees an opportunity to have their say; to influence the direction that Serco takes and the actions it undertakes; to contribute to making it a better place to work. The survey results feed directly into the identification and prioritisation of opportunities for improvement every year.

In 2010, employees from around the world (excluding colleagues in joint venture companies) completed the survey which resulted in a 78% response rate, a slight increase on 2009's figure of 76%. It produced a raft of positive results, from a four-point rise in understanding of Serco's business vision to an 11-point improvement in our score for recognition and praise. Globally, we have also received around 1,100 entries for our annual Pulse Awards, which are designed to celebrate the excellent work of our people; for example, by displays of inspirational leadership, excellence or improvement in business operations; environmental and safety initiatives; or actions that recognise our responsibilities to society and the communities we serve. Some of the great work of Pulse winners can be seen on www.serco.com/pulse and refer to page 42 for more information.

However, perhaps this year's single most dramatic development has been sign-off on our company-wide human capital management programme called 'Empower – Transforming People Management'. This significant investment in shared services, software and new work practices will revolutionise the management of key workforce processes such as staff rostering, absence management, recruitment, internal mobility and the delivery of core HR services in every Serco division.



“We want employees who reflect and represent the communities we serve”



Steering a new London workforce

In 2010, a new vehicle became a highly visible fixture on the streets of London. The launch of the Barclays Cycle Hire Scheme, run by Serco on behalf of Transport for London, saw 5,000 distinctive blue bikes hit the roads

Getting the scheme up and running involved meeting some very tight deadlines. “The tender process began at the start of 2009 and we won it in mid-August,” says Alan Stannard, Operations Director. “We then had one year to get the scheme ready to launch.”

The contract awarded to Serco required it to provide and operate 5,000 bicycles for hire from 400 docking stations with 10,000 docking points around the capital. And one key criterion was to recruit a real London workforce to fill the 234 jobs available. The aim was to offer opportunities to those in need.

“We focused on two groups,” says Alan. “One was apprentices: we recruited 27 from across the local community with the support of Jobcentre Plus, the National Apprenticeship Service and organisations working specifically with NEETs groups (individuals not in education, employment or training). All of our apprentices undergo a structured programme that will provide them with an NVQ (National Vocational Qualification) in cycle maintenance, a professional certificate and key skills.

Creating opportunities

- Recruitment focused on the long-term unemployed in north and west London
- Over 50% of the 234-strong workforce were recruited through Jobcentre Plus
- 27 apprentices learnt key skills, earning NVQs and professional qualifications
- High rate of employee retention

“The other group we engaged with was the long-term unemployed. More than 50% of our people have been employed through Jobcentre Plus. We work closely with the local Jobcentre Plus in Enfield, where we have our contact centre and Islington, where our control room is located. We ensured they knew what type of person would do well in the roles we were offering and the skills we sought. The people at Jobcentre Plus worked hard to help us achieve our goal: a workforce centred on giving opportunities to the long-term unemployed, but which is in all forms very diverse – one that reflects and represents the communities we serve. They have roles that include maintenance and manning the telephone, and they’re given training opportunities towards qualifications such as NVQs.”

Alan says that, as the weather turned bitter last December, a few of the workforce chose to leave – and these newly skilled people have found themselves very employable elsewhere: “But generally speaking, not too many have left us. I think it helps that we have a good working environment. And also that the Scheme is something people really want to be a part of. It delivers great job satisfaction. Our employees know they are contributing to something that’s rather special. And they receive really positive feedback from customers on the streets.”

When it came to launch day, says Alan, it was a case of all Serco hands on deck. “It was a lovely summer night in July last year, and we had to get 5,000 bikes out on the streets by morning. We had more than 100 Serco people turning up from all over, wanting to be part of it: people from HR, from Finance, from IT; people from Birmingham, from the North West, from Newcastle and Sunderland. At five in the morning senior people were riding bikes down the road. It was one of those experiences you know you’re never going to forget.”

And the Scheme is still growing – there’s talk of expansion out to east London, ready for the Olympics – and people love it. “By the end of the year, we’d become a London institution. Almost two million journeys, about 100,000 members; and the city’s really taken the Scheme to its heart. It’s a wonderful thing to be part of.”



Haydn Durrant, Electrical Apprentice on the Defence Academy Campus Integrator contract near Swindon, UK

Support and skills for our future people

“At Serco, we find that apprentices are motivated, flexible and loyal. They bring increased productivity, improved competitiveness and a committed, competent workforce,” says Lesley Watson, Technical Training Manager, UK’s Defence, Science and Nuclear (DSN) division.

In 2010, the apprenticeship programme within Serco expanded rapidly. There are now around 200 apprentices across the business, doing everything from cycle maintenance in London to engineering with Northern Rail.

In the DSN division in the UK, there are 30 apprentices, up from 14 last year. The increase comes from the need to fill the skills shortages identified by the division’s business groups. Due to the diverse nature of DSN’s work, each site has vastly different requirements, from electronic engineering to aircraft support services.

“Places are highly sought after,” says Lesley. “Our timeline for recruiting seven apprentices for January 2011 was very tight. We advertised on the National Apprenticeship Vacancy Matching Service site. The ads were active for 10 days and attracted more than 200 applicants.”

DSN has an eye on nurturing the apprentices of the future too, says Lesley. “We’ve set up an Imagineering Club at Ilchester Community Primary School in Somerset, near our Yeovilton site. It’s run by Serco employees and apprentices who help children learn about engineering and complete mechanical and electrical projects in a fun environment.

“Our aim is to set up more clubs across the country near sites with apprentices,” continues Lesley. “We’re looking to open the next one in June 2011. We hope these clubs will create a spark of interest in science.”

Talent for innovation

Peter Morrissey, an Aircraft Welder at the Royal Navy's Culdrose base, came up with a solution to a recurring fault with Merlin helicopter exhausts. It has drastically reduced their time out of service from three months to approximately 35 hours. By repairing the helicopter exhaust assemblies more efficiently on site, Peter's innovation has saved more than £3.3 million.

How did this initiative start?

When I first began working on the Merlin contract, we received a steady stream of aircraft exhaust assemblies. I discovered that most of the exhausts had cracks in the same place, that these cracked exhaust assemblies were being scrapped and replaced, and that each assembly was valued at approximately £12,000. This did not seem right to me; I believe in repairing things, not throwing them away. When these cracked exhausts were continually coming into the welding bay, I suggested looking for a better way to deal with the problem, and, being a company open to innovation, Serco said 'have a go'!

And you came up with a solution?

Yes. The exhausts have 18 vanes, to break up the swirl of the exhaust. These vanes are very thin – under a millimetre thick – and the bottom and the top of the vanes were prone to cracking. At first we were only repairing vanes that had cracks, but we decided this was a false economy. Now when the exhaust assembly comes into the workshop we carry out a modification to all 18 vanes. On inspection we have occasionally noticed faults on other parts of the exhausts, such as the spokes or the outer casing, for which we have designed repair schemes, obtained the authority necessary and then successfully completed the repair.

So how do you actually do it?

Through experience, we know roughly where the exhaust will crack. Because the cracks are not always visible to the naked eye, we carry out a Non-Destructive Test (NDT). This involves using a penetrating dye that reveals exactly where the cracks are. We

repair the cracked area in accordance with an Engineering Repair Instruction, then NDT it again to make sure the fault is rectified. We have repaired 282 exhaust assemblies so far using this system, and I am not aware of any assemblies that have needed further repairs.

Is it difficult to obtain the regulator's approval?

Yes, getting approval can be difficult at times, because of all the steps you have to go through – taking pictures of the cracks, write-ups, the repair process, and of course the testing of the repair and final approval.

Has Serco been supportive?

Absolutely. The big difference with Serco is that it gives you the time to work out a better way to

do things and will give you the support and time to achieve the result, which, in this case, is a successful repair. Serco positively looks for you to use your experience and your training to come up with a solution.

Do you have any ambitions for the future?

My big problem is that I enjoy my job! I'd like to earn more money, but I'd probably have to wear a suit and tie and sit in an office, and that's just not me. It's not for want of encouragement – if you want to progress within the company, Serco is always happy to help and support you. No one ever tries to knock you back or hold you down. It's a great company to work for. But I like to put my overalls on and get my hands dirty!

Peter's story

Peter Morrissey was working for the UK's Ministry of Defence until the start of the Integrated Merlin Operational Support contract in September 2006 and has been employed by Serco since then. Peter was recognised in 2010 for his achievements in winning a company Global Pulse Award for excelling at innovation (see page 42). He says: "I knew nothing about it until I received a letter from the award team. It meant going to a ceremony at Whitehall in London with my wife. I felt as if I had won an Oscar."



OUR PEOPLE



Enabling our employees' children to excel

In spring 2010, ten children of Serco North American employees were selected from 200 applicants to each win a \$5,000 scholarship under the new Serco Scholars Programme. "We want to celebrate the talents of our employees' children," says Sue Snyder, Director of the Talent Management Team. "This is an excellent opportunity for Serco to support employees directly. In a broader sense, the Programme promotes our reputation as a company with a positive corporate culture and service ethos that will attract and develop a talented workforce."

One scholarship winner was Amy Kao, pictured above, a Business Administration major at Carnegie Mellon University, Pittsburgh. Her father, Yung-chi, is an Applications System Analyst for the US Armament Software Engineering Center, New Jersey. He says: "This scholarship allows talented young people to feel confident about their leadership potential, and proud to be part of the Serco family." Amy says the scholarship has been a "tremendous help", especially in making it possible to study abroad for a term at Oxford University in the UK.

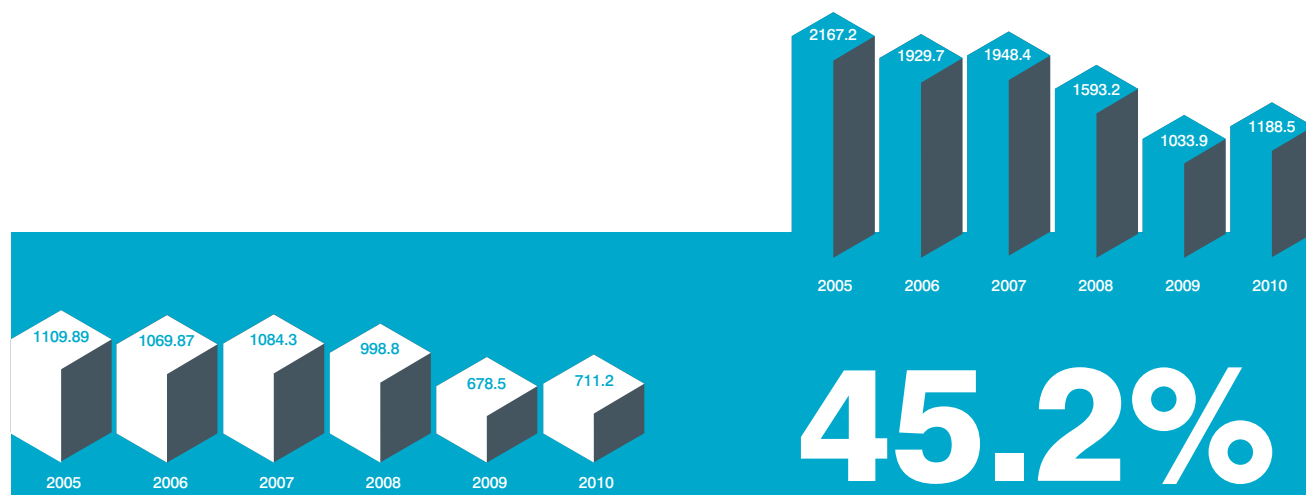
Ed Casey, Serco North America's Chief Executive, says: "It is very exciting to see the range of accomplishments of the scholars and all those that applied. As someone who benefited from financial assistance to support my education, I know the impact that a scholarship can have."

In 2011, another 10 young people will benefit from the Serco scholarships, including five graduating high-school students and five college underclassmen (undergraduates).

What the scholar says:

"The scholarship has been a tremendous help, especially in allowing me the opportunity to study abroad. Last term, when I was at Oxford University, none of my other financial aid could carry over. Therefore, the Serco scholarship definitely helped me to receive an international education!"

Amy Kao, Business Administration major, Carnegie Mellon University, Pittsburgh



45.2%

Setting the highest standards

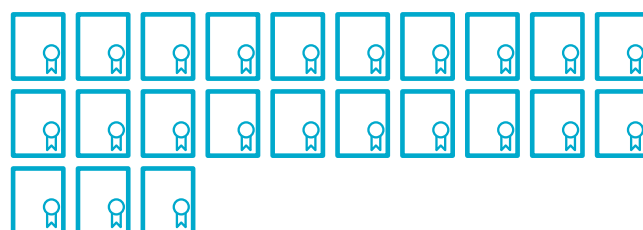
35.9%

reduction in reportable incident rate over the past five years
(per 100,000 employees)

reduction in lost time incident rate over the past five years
(per 100,000 employees)

94%

increase in UK Fit to Work assessments against 2009



23

Awards and Commendations
won at the annual Royal Society for the Prevention of Accidents (RoSPA) National Safety Awards during 2010

Find out more on page 36



50% reduction in personal accidents at Leicester Royal Infirmary, UK

We take health and safety immensely seriously at Serco. Our aspiration is zero harm to our people and our customers. With this aim in mind, we set our standards very high – often above legal requirements – in order to ensure we do everything we can to prevent regrettable incidents

We operate in more than 30 different countries around the world, each with its own regulations and legislation. There are different risks to manage but wherever we operate, we apply the internal systems we have created in line with best practice. Embedded in the Serco Management System are our health and safety (H&S) policies and standards. These are the minimum standards that must be applied. We audit ourselves against these standards, looking for good practice we can build on and spread more widely, and inadequate performance that must be addressed. In short, we set a standard to be followed, we audit against it, we act.

Our performance in health and safety is good. For instance, we are pleased to have exceeded

our target for a 10% reduction in staff reportable incident (RI) rate in 2010, against the benchmark of 2008. For more details on our health and safety record, see page 36.

We strive for high standards and serious incidents are rare. When they do happen, we must learn from them. Following the death of Robert Carter at All Saints Station on the London Docklands Light Railway in 2007, Serco was found guilty in April 2010 of breaching section 3(1) of the Health and Safety at Work etc Act 1974. Serco failed to ensure that automatic trains operating on the DLR system did not hit unauthorised persons on the tracks. Immediately after the incident, thorough reviews of the circumstances were undertaken and new procedures implemented to

ensure that this type of particular accident could be avoided in the future.

Some of the biggest challenges we face are from the more routine threats to health and safety. Slips, trips and falls are the most common incidents and it is vital to prevent such hazards wherever possible. And prevention requires diligence and dedication. This year has seen a number of notable initiatives.

At the UK's Leicester Royal Infirmary, H&S Manager Ken Bruce has focused on unsafe behaviour by staff: the number of resulting injuries has halved. We have sponsored a Health Bus to support the British Health and Safety Executive's 'Estates Excellence' programme to safeguard the workforces of small and medium enterprises (SMEs) on industrial estates throughout the South East (see page 19 for more on the Royal Infirmary and page 22 for the Health Bus). And such initiatives, and the thinking that underlies them, make a real difference to people's lives. The UK's National Physical Laboratory, for example, has logged more than 1.6 million working hours without a reportable injury, and BlueScope Steel in Illawarra, our steelworks contract in Australia, reported 1.1 million such hours. In the Americas, our lost days incident rate dropped 10% year-on-year, continuing our strong and improving safety record in the region.

These facts highlight an active philosophy of health and safety across our divisions. We are very proud of our performance but recognise there is always more that must be done to remind, refresh, update and evolve.

Safety first, always

Richard Head had been with the Royal Maritime Auxiliary Service for around 30 years when, in April 2008, his dive team became part of Serco. The team provides dive support to the Marine Services Mooring contract on behalf of the UK's Ministry of Defence, checking for wear or corrosion to keep moorings fit for purpose.

What work is the Serco dive team currently undertaking?

We have been involved in many types of operation recently, including inspection, recovery of heavy mooring material, seabed excavation, and underwater cutting, all to a maximum depth of 50 metres.

What are the challenges?

All of these operations have great difficulties, especially when undertaken in zero-visibility situations, as is often the case. For example,

when operating our airlift for seabed excavation, the diver on the seabed has to position airlifting equipment weighing two tonnes in black water while directing a supporting crane – a massive orientation exercise. When undertaking thermal arc cutting, the diver has to consider the explosive risk of what he is cutting into, and the build-up of explosive gases that are a product of underwater cutting. Without training, robust procedures and risk assessments, these situations could prove to be fatal.

What other risks do divers encounter?

Every time a diver goes sub-surface, one of the greatest risks he will encounter is decompression illness (DCI) often known as 'the bends', which can be deadly. The risk of DCI is greatly reduced by the adoption of rigorous procedures and risk assessments, and the use of calculated diving air tables to limit the exposure of pressure upon the

working diver. Our dive chamber is on-site, with trained chamber operators and diving medical technicians, ready to safely decompress a diver using therapeutic oxygen tables should he show any signs of DCI once on the surface.

How do you ensure that health and safety is always at front of mind?

Every dive that we carry out on behalf of Serco is potentially life-threatening. Therefore, for every operation we adopt and promote a good health and safety culture supported by robust dive procedures and risk assessments with no exceptions. Whenever we come across a hazardous situation that may fall outside of our procedures or risk assessments, we will stop, reassess and rewrite as necessary to achieve a safer working environment. I believe this is not just good practice but goes a long way towards the reassurance of the team, which is very important for maintaining morale. We will

regularly practise safety drills, such as dive chamber decompression drills, unconscious diver recovery and standby diver recovery, so the whole team is well-practiced in the case of an emergency.

What other procedures are in place?

The first thing I did when Serco became my employer was to revise the manual, the diving policy and all the procedures to reflect what we were now going to do. These were rewritten into a format that could be uploaded into SharePoint IMS – the Integrated Management System that governs all Serco Marine processes.

How is the system used?

All working procedures – not just diving, but vessel procedures, health and safety, HR, everything – to do with managing marine work is in the SharePoint IMS. It was a big job, but worth it. Everything has a custodian who's responsible for ensuring it's accurate

and up-to-date. I'm custodian for the diving bit. If you work in marine, whether onshore, offshore or under the water, you have access to a manual that answers every question you might have and holds every document you'll need. And though it was laborious to get everything loaded up, once it was in place that was basically it. It's now easy to access, easy to use, easy to update and it's the ultimate reference source. It also makes sure we're ready for audits: we're audited by Lloyd's every two years, by the ADC – the Association of Diving Contractors – by our own assurance managers, and also by the Health and Safety Executive. We welcome it. We think we're in pretty good shape, but if we're not, please, tell me. It can only help us improve.

How is the unit's safety record?

We've had no reportable accidents or incidents, and no lost time accidents. It goes with the

territory. Divers are trained with safety front of mind. The individual is responsible for his own safety and the safety of his team. It's taken incredibly seriously, and it's drummed in from day one. It's an industry where you take pains to make sure things don't go wrong, because if they do, they go very wrong very quickly.

What's it like working for Serco?

I like it – my team and I receive very, very good support. There's a strong culture of 'let's make it better'. With Serco, people are always looking to find a way to say yes.

Any plans for the future?

Our 15-year contract began in 2008, so fulfilling that is our core responsibility in the medium term. But we'd like to have more commercial work in the UK or indeed abroad, which would enable us to expand and build for the future. And we're confident we can do that – with safety assured, it goes without saying.

Driving licences

Peter Bond, Serco O Licence Compliance Manager, describes how he keeps roads safe with consistent, rigorous processes.

"After 30 years in the Royal Air Force, I've been working as a Serco O Licence Compliance Manager for a year. It's a big job – licences are issued in the names of our board directors. If I mess up, the buck stops with them!

Any vehicle over 3.5 tonnes or with nine or more seats needs an Operator Licence, or O Licence. We have 731 vehicles operated by 64 contracts; we are not a transportation business, but this makes Serco a significant player in this type of operation in the UK. Examples of contracts that require O Licences are prison transport units, local government refuse and recycling, and MOD contracts.

Part of my role is to audit our centres around the country twice a year to ensure compliance. My inspections are based on the ones undertaken by VOSA – that's the Vehicle & Operator Services Agency. I'm looking for what they'll be looking for: documentary evidence of safety, proof on paper that vehicles are maintained correctly and drivers are trained properly, that they're getting six-monthly eyesight checks, and so on. I'm also a dangerous-goods safety adviser. Carrying hazardous cargo such as radioactive material, clinical waste or munitions involves a plethora of documentation. It's part of my job to make sure we have it, and it's in good shape.

It's been a busy year, as Serco's O Licence operation has been brought back in-house, after several years with external consultants. We found inconsistencies in how things were done. Now we have a centrally managed system and apply it consistently across the contracts. It seems to be working – feedback from our VOSA inspections since September has been positive.

My other main push is to ensure O Licence consistency and rigour is upheld over our entire UK transport operation. While the importance of the O Licence standards may not be well known, it's a critical part of our compliance role within Serco."



Piotr Zalesny, Loader, collecting waste in Milton Keynes



Trained teams save lives

Angela Buckley and Dennis Partridge, Air Traffic Controllers at Idaho Falls Tower, received an urgent call from the pilot of a small single engine aircraft saying he was going down in mountainous terrain. Great teamwork helped avert disaster.

Idaho Falls Air Traffic Control Tower is an airport serving parts of Idaho, Montana and Wyoming in the US. "It's not big; there are just four of us controllers," says Dennis, "But we're a pretty tight team." Teamwork and understanding correct procedure were vital one March afternoon in 2010.

"It was just an ordinary day," says Angela, "getting towards our busy afternoon period. I got a call from a pilot. At first, I didn't realise anything was wrong. I started preparing to guide him into the airport and then all of a sudden I hear, 'I'm not going to make it to the airport. I'm going down'."

The pilot couldn't give a precise location; while Angela questioned him, Dennis contacted the radar approach control facility at Salt Lake City. They had about a minute to get a location fix before he went down. Fortunately, it was enough. A Civil Air Patrol Cessna used radar coordinates to locate the plane, though deputies on the ground took four hours to reach it. "They were lucky," says Angela. "They had no food, no supplies, not even a coat. The passenger had open-toed shoes; not great in four feet of snow."

How does the team feel about it? Dennis says, "One time, when I was in the military, something similar happened, and one of the

guys said to our Chief Controller, 'Hey, will we get something for this?' And he said 'You were doing your job!' That's it. We were doing our job. That's all."

Taleesha Hillman, Air Traffic Control Manager for Idaho Falls Tower, says, "Unwavering focus on health and safety explains why this incident was a success in the midst of an emergency. We're trained during certification and at intervals afterwards for such situations. Safety and success can be managed and measured by the attitudes and behaviours of the team involved – and we have a strong team with an excellent work ethic."

SERCO'S US AIR TRAFFIC CONTROL Under the Federal Aviation Administration (FAA) contract awarded in 1994 and re-awarded with additional sites in 2010, Serco provides air traffic control services at multiple sites throughout the US, including the Pacific region and Alaska.

Serco has provided services at Idaho Falls since 1996. Under a contract awarded in 2010, we will be responsible for 65 sites across the western US and Alaska, including locations in Hawaii, Guam and Saipan.

Serco is responsible for more than 960,000 miles of airspace and handles more than six million aircraft movements a year. We employ more than 700 air traffic control specialists at over 75 airports – located in the US, UK and Middle East – who help support the safety of aircraft, improve the efficiency of air traffic and provide information to the pilots.



Porters Ricki Alexander and Denise Cook at Leicester Royal Infirmary, UK

Making safety 'the way we do things round here'

"I was trying to tackle accidents due to unsafe behaviour by staff," says Ken Bruce. "Not ones as a result of the working environment or faulty equipment – we'd been dealing with those separately. This was about trying to change the ways people behave. It was all about getting staff thinking about it and avoiding dangerous short cuts, doing silly things such as not wearing the appropriate protective equipment."

As an HSEQ (Health, Safety and Environmental Quality) Manager at 1,000-bed Leicester Royal Infirmary (LRI) in the UK, Ken looks out for a large and varied workforce under the facilities management contract – everything from maintenance, patient and retail catering, domestic services to laundry, porters and car park staff. Attending two Royal Society for the Prevention of Accidents (RoSPA) courses on

behavioural safety in late 2009 inspired Ken to take the initiative and develop a behavioural safety programme aligned to a safety objective within the 2010 contract business plan.

First came an internal competition, with departments competing against a scorecard of basic safety techniques – toolbox talks, H&S inspections, updating risk assessments – with the best-performing department each month receiving a silver plate. Next came behavioural safety audits, where the leadership team would go round, talk to staff, encourage good practice and educate about bad, and a green card system, where staff tracked key safety factors, prioritising issues for action.

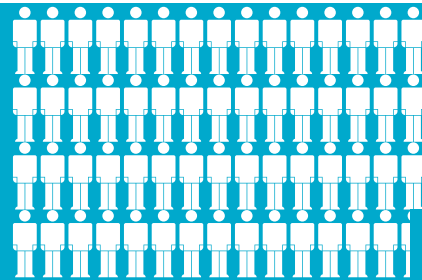
The results have been excellent. "Personal accidents have pretty much halved compared with safety performance figures for 2009," says

Ken. "So that's 50% fewer cuts and bruises, burns, people putting their backs out... injuries across the board." In some departments, the improvements have been even greater – domestic services has achieved a 64% reduction in personal accidents, while linen and refuse services have had no accidents in 2010 compared with six in 2009. Hazard reporting has increased dramatically – a 347% annual increase – reducing the risk of injury to staff, patients and visitors.

Such commitment to H&S has led to LRI achieving the RoSPA Gold Award for five years running and earning a Gold Medal. But the challenge now is to keep it fresh, says Ken. "We're trying to entrench a whole new mind-set and a situation where doing the safe thing becomes 'the way we do things round here'."

The number of reported charities and community projects we supported in 2010
(an increase of 25% over 2009):

593



Gifts in kind
£362,473

Donations
£814,722

Employee volunteering, expertise & management time
£1,094,380

Offering our support locally

£2,271,575

Invested into society in 2010, equating to 1.1% of our pre-tax profit

90%

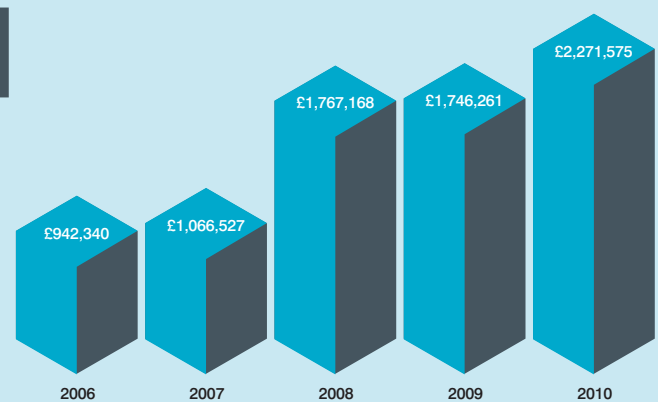
Our score in the 2009 Business in the Community Corporate Responsibility Index. This is consistent with our performance in 2006, 2007 and 2008, achieving Gold Rating again in both the UK and Australian indices

\$124,000

the amount raised by America's fundraising campaign in 2010 to help the survivors of the Haiti disaster

£7,793,871

The amount Serco has reinvested back into society over the past five years



Find out more on page 40

Investing in communities is also about investing in our people, many of whom will live in those communities. We know how important it is for our employees to have pride in what the company gives back to society – whether it is donating money to charities or supporting local employment programmes. How we offer support is largely down to our divisions and individual contracts. They are in the best position to understand the needs of the communities in which they operate, how these align with the aims of customers and how they relate to our employees. We simply ask a question: what can we do for people, society and the environment?

The response is a wide range of Serco community activity: from engaging our employees in fundraising for charities such as the Royal Flying Doctor Service in Australia or for orphans in India, and providing student work placements at HMP & YO1 Doncaster in the UK.

We also encourage our businesses to think long term. For example, since 2004, we have supported the Duke of Edinburgh's Award, a UK-based international charity that helps young people build confidence and skills. In 2010, we continued our support of Project Search which was first implemented in 2008. The programme, involving our customer the

Norfolk and Norwich University Hospital and other organisations, supports people with learning difficulties to develop their confidence and skills in the workplace. During the past three years we have provided work placements to 35 students and nine have found employment in the hospital to date. This programme has now been expanded to include three of our other UK hospital contracts.

But we also continue to find new ways of helping others. In 2010, as part of our company-wide strategy that focuses on skills and employability, our local government business in the UK developed a programme called the Schools

Business Challenge. Designed to challenge young people to find real business solutions, it gives students the opportunity to experience the world of work. With the help of our local authority customers, we identified nine schools that wanted to join forces with Serco. The students who have taken part in this week-long programme have grown in confidence, and, as their mentors, Serco employees also benefited from being exposed to different ways of thinking. In 2010, we undertook two challenges, engaging with 28 students. We anticipate this rising to approximately 80 in total once the programme is completed in 2011.

There are, of course, occasions when we are faced with need on an international scale.

In early 2010 after Haiti's devastating earthquake, our US colleagues launched a company-wide appeal that ultimately saw both employees and Serco around the world donate \$124,000 for the relief effort. When bushfires ravaged their country's outback in 2009, our Australian colleagues also led an international Serco fundraising initiative. We launched a company-wide campaign to raise money for the survivors of the 2010 floods in Pakistan. Money raised by our Middle Eastern employees was used to build five houses.

Overall, at Serco we are committed to investing 1% of our pre-tax profits every year in projects to help the communities in which we work. This year, we have donated £2,271,575, which represents 1.1% of our pre-tax profits.

But, whether it's money or management skills, work experience or interview training to help young people get jobs, there are hundreds of projects run by Serco people on a local level that enhance our reputation and, quietly and without fanfare, improve life for people in the community.

Taking health and safety to the people

Estates Excellence is an innovative scheme joining the UK’s Health and Safety Executive (HSE), local authorities and fire authorities, to help small- and medium-sized businesses safeguard the health of their people. During 2010, a pilot scheme was sponsored by Serco Defence, Science and Nuclear (DSN). The Health Bus, using Serco Civil Government’s mobile health facilities, visited industrial estates in the South East, with trained advisers offering free screenings, diagnoses and advice.

Occupational Health Technician Mark Hobson has been in the front line, working out of the Serco-funded Health Bus. “We do the hands-on screening,” says Mark. “It starts with an HSE recce. They visit the companies on an industrial estate to spread the word about what’s on offer, and to make sure they know this isn’t an inspection. The HSE people will look for risk areas, for example, a lot of noise, or corrosive chemicals. They’ll explain what Estates Excellence is trying to achieve – better health and safety for their people – and get them signed up. Then we take the bus to the estate,

and companies send people for screening. “There’s a toolkit set of tests – for hearing, lung function, skin health and so on. We run the appropriate ones, then pass the results to an occupational health advisor or OH nurse, and they draw conclusions about what, if anything, needs to be done.”

The job calls for diplomacy. “Most companies appreciate it, and a lot of the employees too. They like to know that if there’s a problem, it can be dealt with. But sometimes they can be suspicious. People do worry about whether this might put their job at risk. I’ve been doing this for more than 10 years, and you need to draw on the skills you’ve developed over that time to persuade people that you’re there to help look after their health and make sure their daily work won’t damage them. And make it clear to them that this testing is absolutely not allowed to be used to lay them off or anything like that – that would be against the law.”

Sometimes the unit discovers problems that have been causing suffering for a long time, which can easily be put right. In one case, a group of women turned up with cracked and bleeding hands, saying they’d been like that for years. It was clear that they were handling irritant chemicals without adequate protection. Once it was explained to their employer what

the problem was and how easily it could be solved, protective gear was sourced and the problem disappeared, virtually overnight.

A visit to an estate in Cherwell, Oxfordshire, in early 2011 brings the pilot scheme to an end, but it has already had an impact. Around 1,500 short intelligence-gathering visits – 1,200 to small businesses – have been completed, along with 647 more detailed benchmarking visits, 48% of which resulted in businesses sending people on the training courses – a total of 1,312 attendances. And free health tests on 249 workers saw 34 with issues serious enough to result in referral to a physician. Now the results of the pilot will be evaluated, with a view to rolling out a full programme.

“I hope it continues,” says Mark. “I think it’s great that Serco is trying to help improve the health of people in the community – that’s a great thing for companies to do.”

Heather Bryant, HSE Regional Director, East and South East agrees: “The input from Serco and the team has been fantastic. The Health Bus has helped to improve working lives.

“HSE set a challenge in the new Health and Safety strategy for Britain for others to become part of the solution – Serco’s contribution to the Estates Excellence project via the bus and other support has led the way.”

“The input from Serco and the team has been fantastic. The Health Bus has helped make a real difference in raising employee and employer awareness and improving working lives and conditions as a result.”

Heather Bryant
UK Health and Safety Executive Regional Director, East and South East



Mark Hobson, Occupational Health Technician, with a client

Creating a talent pipeline for the future

Sally Williams works as a Recruitment Business Partner at the National Physical Laboratory (NPL), which develops and maintains the nation’s primary measurement standards, underpinning UK science and technology. “We have around 500 scientists and engineers,” says Sally, “and

we’ve got a great reputation as an employer. Every year we receive around 500 applications from young people looking for work experience. Handling the applications and placements was a big administrative challenge and, unfortunately, pressures of work meant some students ended up ‘parked’ with the filing. We knew we could do better.”

In 2008, Sally and a colleague, Amber Lauchlan, created the NPL Academy. “We asked for input from our scientist colleagues; we designed a robust week of proper work experience; and we set up

an application process, to give the students a feel for what it’s like to apply for a job.

“Around 25 to 30 GCSE/A Level students come for a week. We’ve developed a really good induction and students have the opportunity to talk to the scientists about their work. As part of the programme, the students take part in NPL’s annual schools’ Water Rocket Challenge, building water rockets out of plastic bottles and sticky tape, with prizes for the best performers. On the final day, they make presentations to peers, parents and teachers.”

The first Academy ran in June 2008; the second, in 2009, won a Work Inspiration Award from Business in the Community. The students learn a lot, and get a feel for what a career in science is actually about: “We want to encourage young people to take the science option,” says Sally. “It’s also great line-management experience for some of our current scientists. And we’re creating a talent pipeline for the future.”

Success has brought plans for expansion: “In 2012, we’re hoping to run two Academies – one in June and one in the winter as well.”

To satisfy the huge demand for work placements at the National Physical Laboratory, it created an annual week-long Academy for 15- to 18-year-olds



Reaching out to local schools



Merseyrail Corporate Social Responsibility Manager Sally Ralston describes how bringing real life to school has been recognised with a Business in the Community (BitC) Work Inspiration Award

Under a BitC programme called Business Class, the UK's Merseyrail has teamed up with Archbishop Beck Catholic Sports College – a school local to its head offices – to offer something back to the community it serves.

"Two-way contacts are how the partnership works," says Sally Ralston. "Our managers go to the school for events such as Enterprise Days and our Managing Director, Bart Schmeink, has committed time to mentoring a group of students with behavioural and performance difficulties. We also take the chance to spread the word about rail safety and that kind of thing."

Also, on an ongoing basis, 16 Level 3 BTEC (Business and Technology Education Council) students visit Merseyrail's offices once a week for both practical tuition and to get a feel for the

world of work. Merseyrail employees of all levels provide training on rail industry practice and issues in order to support the 16- and 17-year-old students in tackling hands-on assignments.

The students take on real-life projects, acting as 'Merseyrail consultants': "We had a retail outlet opening at [Merseyside's] Waterloo Station, so I produced a brief, and said 'This is what we need. Can you deliver?' And they picked it up and ran with it. They had meetings, got local celebrities to perform the opening, sent out invitations, liaised with the photographers and created the press release, arranged the catering – basically, they did everything."

Paul Stirling, Assistant Head of Archbishop Beck College, explains how it helps students: "They develop independent skills for their education and careers; it's raised aspirations, motivated them to achieve their full potential and opened their eyes to future prospects."

Sally is in no doubt of the benefits: "It's not just good for me and the students – it ends up bringing in the whole community. The

students access skills and suppliers through their own contacts, so they learn the value of networking. It's a great example of what can be achieved."

Such is its success that Merseyrail is planning to expand its offer. "We are now looking at 10 other schools in some of the more challenging parts of Liverpool," says Sally. "We start by asking them how we can help. For example, would they like us to come in and do mock job interviews or run health and wellbeing workshops? We will take their lead."

The Business Class scheme has had a direct impact on the community it serves, according to Bart Schmeink: "Merseyrail is very much part of the community in Merseyside and we feel it is important to contribute to the improvement and wellbeing of Merseyside's environment and people, particularly young people."

Above: Dave Stamper, the Control Centre Manager at Merseyrail, talks to Year 13 business students from Liverpool's Archbishop Beck College about technological support in modern business

Responsibility beyond our contract

At Acacia Prison, where more than one in three is from Australia's indigenous population, a pilot scheme aims to support Aboriginal prisoners as they prepare to re-enter the community.

"This is the first pilot of its kind in Australia," says Assistant Director Offender Management, Vanessa Davies. "But its success means it won't be the last."

Serco took responsibility for the operation of Acacia, a 1,000-bed male, medium-security prison, in 2006. The Indigenous Prisoner Employment Pilot Programme (IPEP) launched in 2010, bringing together Serco, industrial services company BIS Industrial Logistics, and recruitment, consulting and workforce management services provider, Chandler Macleod, to help prisoners find employment on release from prison. It's a scheme that should help the indigenous community and was undertaken voluntarily by Serco – it isn't just part of the contract.

Candidates are carefully selected, given personalised teaching to address their skills needs, then vocational training. This covers everything from interview techniques to operating a PC, from despatching goods to following health and safety procedures, and leads to a Certificate I in Business Studies, a skill set in Warehouse and Distribution, and a forklift ticket. Representatives from both BIS and Chandler Macleod visit participants on site, during the project and at graduation,

after which both organisations provide contacts who can help them find work.

The scheme is in its early days, with a relatively small number of graduates thus far, several of whom are now engaged in finding work. Participants receive help not only in relation to employment but also with financial management, ongoing mentoring and getting families engaged.

"We work closely with participants' families advising on things such as how to support your working partner and budgeting," says Vanessa. "Family ties are very important in Aboriginal culture and prison can have a very disruptive impact. Participation from the whole community is crucial to success."

Thirteen prisoners took part in the pilot, of whom nine completed phase one of the scheme (phase two being jobseeking on release), four having left for personal reasons or due to transfer to other locations.

On leaving prison, along with help finding work, participants receive practical support from the project partners and other third parties to help them find a place to live, claim benefits, address family problems, set up a bank account and access services, medical facilities, public transport and so on.

"This isn't just about helping prisoners," says Vanessa, "It's about supporting the indigenous community. We don't just want to cut recidivism; we want to help build confidence, achievement and self-reliance."



Nurturing values

Neil Gilbert joined Serco in 2008 as Horticulture Tutor at HMP Dovegate in Uttoxeter, UK, which accommodates 860 inmates and a further 200 in a therapeutic community. Neil led prisoners to reshape Dovegate's outside areas and in 2011, the prison is competing for the Royal Horticultural Society (RHS) Windlesham Trophy for gardens.

What's your approach to the role?

When I came here, the men spent most of their time in the classroom. But I'm more of a hands-on sort of bloke. Although the 30 lads I help do work towards qualifications – City and Guilds horticulture certificates and RHS level 2 – I like to get digging. You can't keep guys shut up in classrooms, and land-based activities provide training, personal development and employability on release.



What kind of things do you grow?

So far we've grown about £10,000-worth of vegetables for the kitchens (about £3,000 in 2010). We send the surplus produce to people in the community outside the prison who need it.

Do you only teach horticulture?

I've brought in animals – rabbits, chickens, geese – for their therapeutic value. Prisoners spend time nurturing and petting them. And it seems to work. We've seen prisoners that have a serious history of self-harm go for more than 18 months without self-mutilation.

How does the prison as a whole benefit?

It's good to add some colour and a bit of nature to the community. We've created a 'Garden of Serenity', where anyone can go for a bit of peace. And that's staff too – sometimes they need peace and quiet at lunchtime.

Do the gardens get any other visitors?

Even the local wildlife comes in now – robins and other birds. And it changes people. One of the lads said to me: "I've spent my whole life robbing security vans, and now you've got me sitting here watching gardening programmes!"

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project highlights organisations within the FTSE 350 that have displayed the most professional approach to corporate governance in respect to climate change disclosure. The Carbon Disclosure Score is normalised to a 100-point scale, and high scores indicate performance.

Serco has joined the top 10% of organisations listed in the CDP Leadership report as published in their FTSE 350 index.



Good for us, good for our customers, good for the planet

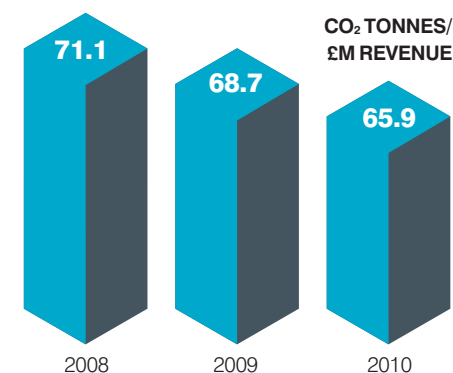
83.7%

Our 2010 score in achieving the Carbon Trust Standard



To find out more, see page 36

In the UK alone, Serco achieved a 7.26% reduction in CO₂ tonnes/£m revenue against 2008



1st
Northern Rail, UK
has become the first Train Operating Company to achieve BS EN 16001 Energy Management Standard

Our aspiration is zero harm. It is an aim that applies to the environment every bit as much as to the safety of our people and customers. It is our policy to place a clear responsibility on all of us at Serco to do everything possible to help minimise our environmental impact. And it works. We are proud to have achieved Carbon Trust Standard certification, recognising our tangible work in reducing carbon emissions

Our environment policy has three drivers.

The first is ethical. We believe, simply, that safeguarding the planet for the good of current and future generations is the right thing to do. Second, reputation – irreproachable environmental credentials are, these days, not a 'nice to have' but imperative. The third driver is also a matter of pragmatism. Environmentally sound behaviour offers huge potential economic benefits in areas such as waste disposal and energy consumption. At our Borallon Correctional Centre in Queensland, Australia, for example, recycling initiatives have cut the frequency of waste pick-ups by two thirds. Find out more on page 30.

Reflecting our devolved nature, the best place to manage impact is locally, and this is where management responsibility has always been. However, as we have developed our group

strategy, we have had to understand our overall impact as a business. Given the sheer range and diversity of our work this has been a challenge. To address it in 2010 we introduced Acco₂unt carbon management software. This gives us the data we need and helped us to join the best-performing 10% of FTSE 350 organisations listed in the UK, according to the Carbon Disclosure Project.

The system means we can now see where we generate carbon, which helps prioritise areas for action. We set ourselves the objective of achieving Carbon Trust Standard certification, requiring us to show: an absolute reduction or a minimum of 2.5% year-on-year reduction in our carbon emissions for three consecutive years relative to revenue; effective carbon measurement; and effective carbon management at all sites. Serco achieved a 7.26% reduction against 2008 relative to revenue.

It was a considerable challenge, but, in January 2011, we reached our target, making us one of only 530 organisations so far to have achieved Carbon Trust Standard certification – putting us in a good position in the new UK Carbon Reduction Commitment league table that affects around 5,000 organisations.

The certification covers all of Serco's UK sites required to participate in the CRC, and gives 50% of the score needed towards our position in the CRC Performance League Table to be published by the Environment Agency in October 2011.

A challenge in meeting our aspirations is that we often share our customers' facilities. Without full control over our environment, we are unable to capture information relating to Serco's impact and therefore measures we can put in place to reduce our footprint are limited. In those instances, we work with our customers to reduce impact. And where we do have overall responsibility, we exert the maximum effort to monitor our work and implement environmental measures.

This is a global approach, managed by local initiatives. For example, in Australia, through our actions, use of potable water in Melbourne's parks and gardens dropped by 75%. Additionally, in the United Arab Emirates, we are a member of the Emirates Environmental Group, which encourages tree planting and recycling.

Improvement comes not overnight or by edict, but gradually, through the efforts of thousands of people in hundreds of ways, united in a conviction that this is worth doing – and doing well.



MAIN PICTURE AND TOP RIGHT: Top class fire training, delivered by Serco in the UK
BOTTOM RIGHT: IFTC Technical Support Manager Chris Brown in front of reeds that naturally digest the foam used in fire training exercises

Use it, clean it, use it again

At Serco's owned and operated International Fire Training Centre in the UK, careful management of the local environment is vital.

"When we run a course," says Chris Brown, Technical Support Manager at the International Fire Training Centre (IFTC), "obviously we look to give an experience as near as possible to the real thing. And once you've finished an exercise, you can't let all that water, with the foam and fuel and other impurities, just go into the river. It would be terrible for wildlife. We'd be closed down. So we contain, manage and treat it on site."

The IFTC, based at Durham Tees Valley Airport, has been delivering fire training to the world's aviation, offshore, petrochemical and maritime sectors for over 50 years.

It's virtually a self-contained environment. "Everything we use in the exercise – a mix of water, oil, foam and solids – goes into the drainage system; from there, it flows to a treatment plant where a tilt-plate system separates the oil, which is skimmed off into a channel to be reclaimed. The rest then goes into a standing interceptor, where it sits till the solids settle. Then the water and foam is pumped to our lagoon, where we've put in a variety of reeds that actually live on the

foam. Once they've digested the foam, we re-use the water.

"Our processes have been agreed with the Environment Agency (EA). If any liquid has to be released into the environment – for example, when heavy rains bring flooding – it's done following consultation and agreement with the EA. This process is tightly controlled and secure. There are strict procedures in place to access the site – all details are logged of who did what, when, why and on what authority."

Making a difference

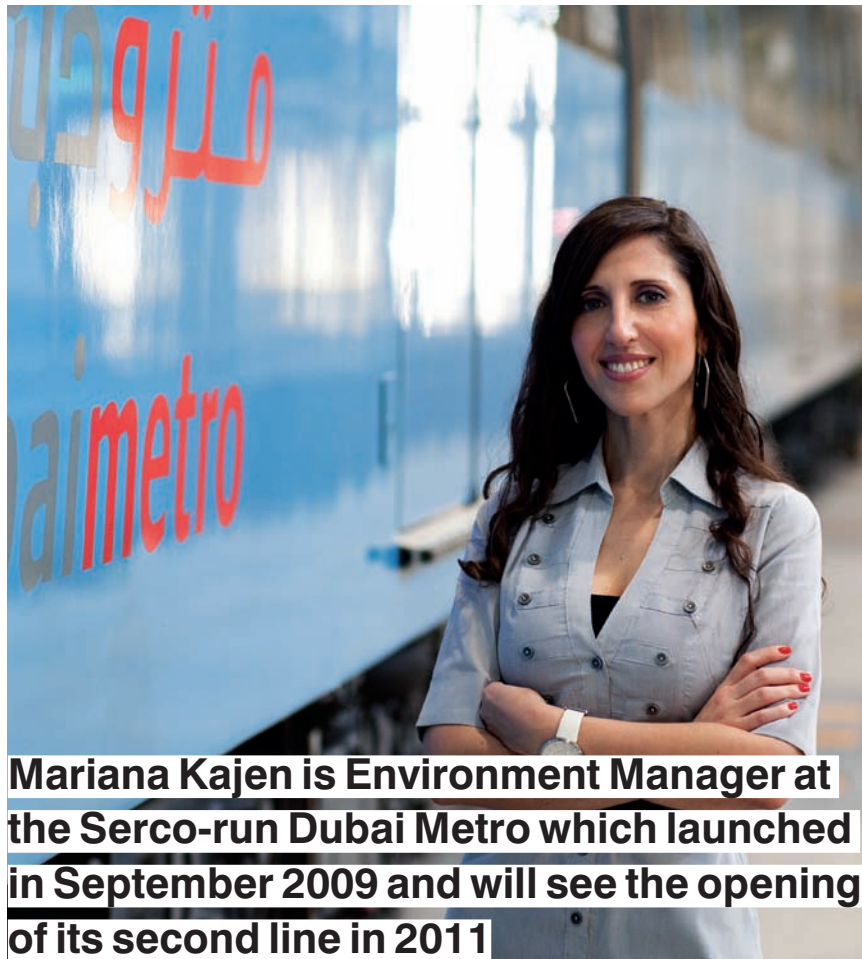
Chris has been working at the centre for around 30 years; it was part of the UK's Civil Aviation Authority up until 1996, when Serco acquired the business. Did Serco's ownership bring any differences? "Oh, yes," he says. "Serco has invested massively, developing the business into one of the world's premier fire-training brands. We're encouraged to go out and get business now. A lot of this investment has been focused on the development of new training rigs – we recently commissioned one that's a combination of an A380 and a 767. The project was a partnership between Serco and industry; we asked our customers: 'What would you like to see at IFTC?' And then we set about making it."

It pays off, too. "When I started, we often had one class a week; now we have up to eight a day. It's down to careful planning, listening to customers and making an effort. We've a far greater variety of rigs and scenarios we can run."

Things have changed for the team as well: "Serco is an excellent company to work for. If you need, for example, additional training they'll provide it."

"We try to be good neighbours, too. We're on first-name terms with local farmers, and keep a close eye on the wind to make sure we don't smoke anyone out. We have a visit every year from a group of disabled children and another from children of the firefighters who were at Chernobyl. We try to give something back."





Mariana Kaje is Environment Manager at the Serco-run Dubai Metro which launched in September 2009 and will see the opening of its second line in 2011

Are there any unique environmental techniques in place on the Dubai Metro?

Many of the positive environmental aspects of the Metro reflect design factors over which Serco had no control. Having said this, the Metro operates under challenging conditions – extremely hot summers, high humidity, strong winds and regular sandstorms. The system is designed to protect passengers from these conditions while minimising energy consumption. For example, the overground stations include large, overhanging areas of roof, plus glazing systems and thermally insulated walls. Together, these features help reduce sunlight and heat exposure within the stations, therefore reducing energy consumption for air-conditioned areas.

What were the environmental priorities for Serco Dubai Metro in 2010?

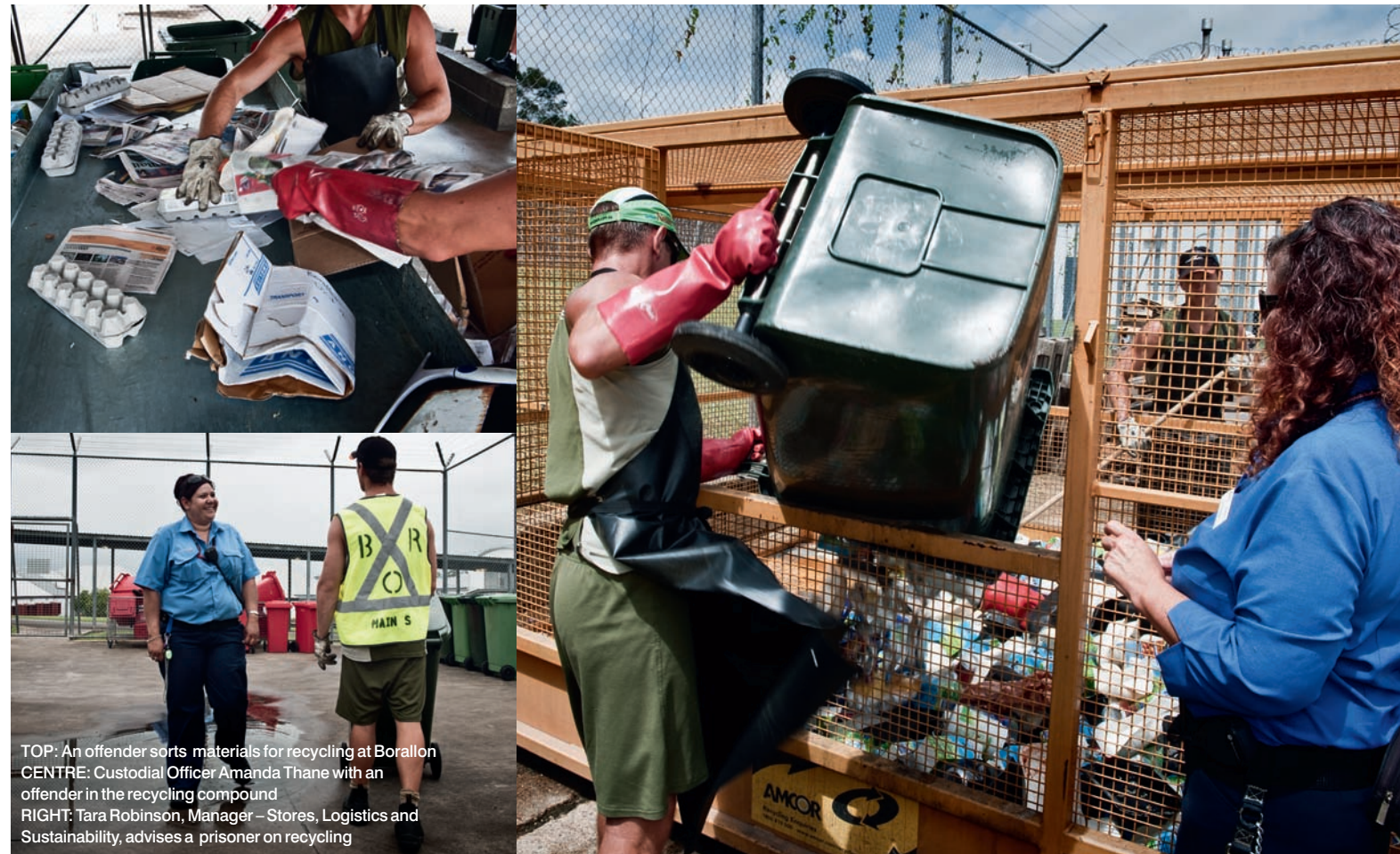
As a new operation, our objectives were to establish and implement an effective Environmental Management System, and establish baselines from which to drive continual improvements. An external LRQA (Lloyd's Register Quality Assurance) audit in August 2010 saw our IMS (Integrated Management System) awarded ISO 9001 and ISO 14001 certification: a phenomenal achievement for a one-year-old railway in a harsh environment, testifying to the tremendous hard work and dedication of the whole Serco Dubai Metro team.

Do you feel that Serco is an environmentally aware company?

Environmental matters are supported at every level of our multicultural workforce, right up to the Health, Safety and Environmental Steering Group, chaired by our Managing Director. Numerous programmes are underway: our recycling schemes, for example, covering everything from paper, plastic and aluminium to batteries, empty toners and ink cartridges, led to an award from the Emirates Environmental Group granting us the right to plant a tree in the name of the organisation at the city's Mushrif Park. Our staff regularly participate in campaigns such as Earth Hour, Clean up UAE and so on, all of which help build environmental awareness, at work and beyond.

Can you point to specific environmental benefits the Metro has brought?

Essentially, it offers an environmentally sound alternative to the ever-growing weight of pollution-producing traffic on the roads. By the end of 2010 (15 months into operation) Dubai Metro has undertaken over 45 million passenger journeys (45,773,742), with numbers currently at around 4.6 million a month. In 2010, availability and punctuality were 99.6% and 97.9% respectively. Although only baseline statistics have so far been gathered, by offering an alternative method of transport, the Metro has also helped to reduce the noise pollution associated with motor transport.



TOP: An offender sorts materials for recycling at Borallon
CENTRE: Custodial Officer Amanda Thane with an offender in the recycling compound
RIGHT: Tara Robinson, Manager – Stores, Logistics and Sustainability, advises a prisoner on recycling

Our ultimate target? 100% recycling

Borallon Correctional Centre has recently had three good reasons to celebrate.

In 2010, the high-security, 500-inmate prison, located near Ipswich, Queensland in Australia won three awards for its recycling initiatives: a Serco Asia Pacific Pulse Award, a Queensland Minister's Award for Excellence, and a finalist award from the National Safety Council Australia for Excellence in Innovative, Environmentally Sustainable Work Practices. However just three years ago, when Serco took over the running of Borallon, the story was quite different.

"When we started," says prison director Scott McNairn, "100% of the prison's waste was going to landfill. We decided to do something about it."

Over the last 12 months, various arrangements have increased the amount of waste disposed of in environmentally friendly ways. "We now have an agreement with a local farmer, who removes organic waste and old bread from the kitchen. Other companies take the waste from our industrial operations for recycling. And we've set up a prisoner working party with eight prisoners to sort through waste to ensure that all recyclable items go in the right streams," says Scott.

This group has also identified items such as clothes, cutlery and so on that had found

"All of the prison's waste was going to landfill so we decided to do something about it – now we could end up turning recycling from a marginal cost into a profitable venture."

Scott McNairn

Director of Borallon Correctional Centre
Queensland, Australia

their way into the system inadvertently. Once recovered, these items are cleaned, repaired and returned to the centre for use. This saves money as well as being environmentally sound.

"We wanted robust sustainability initiatives," says Scott. For example, through its alliance with the recycling provider Amcor, the prison installed an on-site compactor, which not only enabled the conversion of much of the facility's waste into bio fuels, it also cut waste pick-ups from three a week to one or two a fortnight. This reduced hassle, cut costs and enabled the prison to remove many three- and six-metre bins from site.

Other changes included acquiring a bailer to compress and bail cardboard for ease of transportation; producing a custom-designed receptacle for collecting recyclable waste, such as plastics and cans, and installing recycling bins to collect office cardboard and paper.

"We're currently looking into ways to build on the experience we've gained – we're talking to waste companies, discussing the potential for earning fees by sorting waste for them on a contract basis. We could actually end up turning recycling from a marginal cost into a profitable venture!"

Since the project began in April 2009, more than 363 tonnes of waste has been recycled. Currently around 88% of the site's total waste is saved from landfill. Borallon is well on the way to its ultimate target – 100% recycling.

Reducing our carbon footprint, helping the community

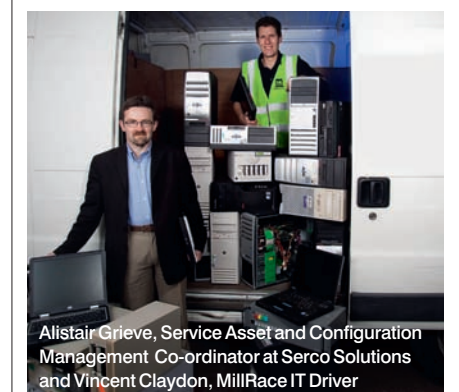
Employees at Serco's offices in Birmingham, UK, are making sure that old computer equipment is not just disposed of responsibly but that, where possible, it is reused by charities or those in need.

Around 1,600 items including laptops, printers, servers and monitors were donated in the last six months of 2010 via the Birmingham office to be recycled or prepared for reuse in partnership with not-for-profit organisation, MillRace IT.

"The environmental benefits of such a scheme are irrefutable. By disposing of our equipment in this responsible way as opposed to sending it to a landfill site, we have recorded 76,992kg of CO₂ savings in the last six months," says Alistair Grieve, Service Asset and Configuration Management Co-ordinator, who organises the MillRace collections.

Following donation, MillRace securely wipes the data on any reusable equipment and redistributes it. This equipment is used in a number of ways: for example to train the long-term unemployed, providing them with skills to help them back to employment. And charities needing computer technology get better equipment without having to devote hard-won funds to it.

One beneficiary of Serco's donations has been charity Rays of Sunshine, which helps children living with life-threatening illnesses. It has received a laptop from Serco via MillRace. Olivia Woolf, the charity's Event and Fundraising Manager says: "We are very grateful to MillRace and Serco for the donation of the laptop. Rays of Sunshine grants wishes for seriously ill children in the UK from age three to 18. Volunteer co-ordinators come into the office to help organise wishes, and it is fantastic to have another laptop for them to use."



Alistair Grieve, Service Asset and Configuration Management Co-ordinator at Serco Solutions and Vincent Claydon, MillRace IT Driver

Our role in the services marketplace

We take full responsibility for the way we do business. We have processes to ensure responsible supply chain management, and are committed to treating customers, partners and suppliers fairly, and developing sustainable services

Some of the policies and standards we apply in our dealings in the marketplace are based on our legal obligations. Some constitute good business sense and reflect our ethos of building trusted relationships. Some are rooted in ethical principles: our belief in the fundamental importance of being a good corporate citizen.

We have clear formal processes in place to ensure that every Serco manager has a full and accurate understanding of the standards of behaviour required in all dealings with customers, partners and suppliers. Each must sign to confirm that understanding, and then take personal responsibility for their actions.

Our relationship with customers

Our customers are incredibly important to us and, as a result, our ability to develop long-term, trusted relationships is a central part of our business model.

Day-to-day responsibility for meeting our customers' needs lies with our contract directors, but we also endeavour to maintain positive, trusted relationships at all levels with our customers. This ensures we can provide products and services of a consistent, reliable and high quality, as well as meeting or exceeding our customers' needs and achieving complete customer satisfaction.

Working with our partners

Consortium bidding is now an integral part of

our strategy. In certain circumstances, forming strategic partnerships can help us provide integrated solutions and services for complex opportunities, entering into new geographical markets or filling specific capability gaps.

Serco will only team with partners whose culture, values, integrity and working practices align with ours and who are likely to be both financially and commercially viable.

Working with suppliers

Our suppliers play a critical role in our business and also contribute to our sustainability and environmental goals. We select our suppliers on merit and expect them to meet our compliance and ethical standards. We aim to minimise the risk of social exploitation within our supply chain and we recognise the importance of small firms, voluntary and community organisations, social enterprises and ethnic-minority businesses, which contribute to local economies and to social cohesion. We require each of our managers to:

- procure goods and services which deliver value for money
- follow rules governing when bids, contracts, purchases, capital expenditure and leases need to be reviewed or approved by our procurement and supply chain team
- follow the defined supplier selection and registration process

- use preferred suppliers, unless an exception has been agreed
- only enter into fair and ethical contracts that result in no compromise on service, commercials, competitive advantage, cost management or our Governing Principles
- properly approve purchase orders before committing to a supplier
- follow the Serco Procure to Pay process
- behave responsibly and use sustainable procurement to enhance the social, environmental and economic wellbeing of our communities.

Serco maintains strong relationships with its suppliers and is constantly looking for ways to make further improvements.

During the last quarter of 2010, we produced a Supplier Relationship Management strategy that identifies initiatives to improve the engagement and management of our top strategic suppliers, as well as the many small and medium enterprises (SMEs) that play a key role in delivering services to our customers. These improvements, such as instigating a formal Serco SME Advisory Body to better understand the requirements of SMEs, will be rolled out across the business during 2011.

Our relationship with investors

We seek long-term relationships with our investors based on transparency, honesty and clarity. Our website is the principal means of keeping investors up-to-date, as we post all stock



Dubai Metro continues to achieve high levels of availability and punctuality. See page 30 for more information

Serco memberships

Serco is a member of many think tanks and trade organisations. These include:

- UK**
 - Business Services Association
 - ACEVO (Association of Chief Executives of Voluntary Organisations)
 - Business in the Community
 - Institute of Business Ethics
 - Corporate Responsibility Group
 - All Party Parliamentary Corporate Responsibility Group
 - Confederation of British Industry
- Australia**
 - Committee for Economic Development of Australia
 - Infrastructure Partnerships Australia
 - Australian Strategic Partnership Institute
 - CEO Forum
- India**
 - NASSCOM (National Association of Software and Services Companies)
 - Business Process Industry Association (BPIA) which is part of CII (The Confederation of Indian Industry)
- USA**
 - Defense Industry Initiative on Business Ethics and Conduct (DII)
 - Professional Services Council.

Working with suppliers

Helping BAME organisations do business

Serco's approach to delivering employment services is to combine our strengths as a prime contractor with the knowledge and expertise of local providers and stakeholders. We support our subcontracted providers to assist the optimum number of jobseekers into sustained employment. One way in which we do this is by helping subcontractors develop and build on what they do within a supportive contract management framework.

For example: black, Asian and minority ethnic (BAME) jobseekers in Manchester, UK, face a disadvantage gap of 12-21% compared with their white counterparts. Working with CEMVO (Council for Ethnic Minority Voluntary Organisations), ACEVO (Association for Chief Executives of Voluntary Organisations), Salford City Council and Manchester Metropolitan University, Serco jointly developed a groundbreaking pilot to achieve provider commissioning readiness among Manchester's BAME voluntary organisations.

The programme involves an initial three-month phase to help equip attendees with all the skills necessary for a performance-driven scheme, including meeting the demands of performance management, achieving rapid change in small organisations and managing commissioner expectations. A second phase of 'organisational mentoring', covering everyone in the business ranging from CEO to frontline, aims to embed key disciplines deep within the organisation.

The model has been designed to be generic, enabling its easy adaptation to any region or sector. The ultimate objective is to equip organisations with the infrastructure and skills to pitch for, win and successfully undertake contracts – not just with Serco in Salford on Welfare to Work, but with many other organisations – anywhere, and on anything.

The pilot programme is due to finish in March 2011, and feedback so far has been overwhelmingly positive.

exchange announcements and press releases on it as well as other company information, such as a live feed of our share price. In addition, the annual report is sent to all shareholders and the annual general meeting (AGM) provides an opportunity for shareholders to meet the Board. We also conduct meetings with large shareholders as part of an extensive investor relations programme.

Bribery and corruption

The UK's proposed Bribery Act, due to be enforced in 2011, seems certain to increase the consequences of corruption for UK businesses wherever they operate in the world. For Serco, with ambitions for new sectors and regions with higher perceived risks, it is of particular relevance.

Our recently reissued Code of Conduct, based on the Governing Principles and the Group Policies and Standards laid down in the Serco Management System, outlines the standards of behaviour expected of all Serco staff, suppliers and partners. Though effective, we acknowledge room for improvement.

A rigorous risk assessment across all Serco's operations has been completed. One action has been the review of agents' contracts in the Middle East, and we are talking to other companies operating in India to learn about how they address these issues in the region.

Any employees likely to be affected by the new legislation will receive appropriate training, and we will also be improving our decision tree and review processes for new operations and markets to ensure all ethical issues are considered.

Government relations and lobbying

It is our policy to be politically impartial and not to comment publicly on political issues. Like many companies, we engage with all the major trade bodies relevant to our business. We regularly meet with government politicians and officials in all our markets to share our expertise on implementing public policy and developing world-class public services.

Our in-house think tank, the Serco Institute (www.serco.com/institute), studies competition and contracting in public services and shares its findings through a range of publications. These aim to enhance understanding, in the wider community and governments, of the role competition and contracting can play in improving public services, and of the conditions and practices that deliver the best outcomes.

We also produce a corporate magazine called *Ethos* twice a year (www.ethosjournal.com), with more regular email broadcasts that invite leading commentators and Serco experts to discuss issues affecting our markets.

How we manage our business

“We want to be a company that is recognised as: the leader in the delivery of public services; the natural choice to help governments and companies revolutionise themselves; one that maximises the benefits of economy of scale; the company that delivers on its promises. We want to be the world’s greatest service company.”

Christopher Hyman, Chief Executive, Serco Group plc

Serco has more than 700 contracts with responsibility devolved in the context of the Serco Management System. This encourages a customer-centred, entrepreneurial management approach, meaning decisions, tasks and responsibilities are undertaken by the people best placed to do so within a management framework that is fully understood.

Our business structure

For such a complex business, Serco has a very simple structure, its components being group, divisions, business units and contracts, in addition to statutory boards. This reinforces our open culture and ensures decisions can be made with a minimum of bureaucracy, in order that we can continue to be responsive to customer needs.

At the top, the Serco Group plc Board sets strategy and objectives for profitable growth, acting in the interests of shareholders and relevant stakeholders. It carries out detailed

scrutiny of certain key areas and has formally delegated authority to a number of standing boards and executive committees to deal with matters in accordance with written terms of reference. These include the Audit Committee, Remuneration Committee, Nomination Committee, Approvals and Allotment Committee, and the Executive Committee.

The Executive Committee is responsible for the day-to-day running of the organisation. It sets strategic direction, appropriate controls, assesses key risks, monitors health and safety, drives growth across the portfolio and in new markets, enables significant margin improvement and creates a high-performance culture. It is supported by a number of sub-committees:

■ Group Risk Management Committee (GRMC), which manages and reviews the group risk register and the health and safety, environment and security reports on a quarterly basis, and oversees significant changes to corporate policy

- Executive Remuneration Committee
- Executive Nomination Committee
- Investment Committee, which ensures appropriate governance and the management of risk associated with large or high-risk bids, acquisitions or significant capital expenditure
- Ethics Committee, which determines our position in relation to markets, opportunities and activities that have been identified as presenting a significant ethical dilemma.

Beneath the Executive Committee we are organised into five divisions, each directed and controlled by a Divisional Board, focused on maximising long-term value and growth from the markets and products in their division. In some cases Divisional Boards are also legal entity boards, retaining legal, compliance and other responsibilities relating to the jurisdiction in which the division is registered.

Divisions are structured into business units – generally no more than four. These are distinct business areas within a division, distinguishable because they serve a defined external market. They focus on maximising the long-term value and growth from their particular market.

Contracts are responsible for client engagement, service excellence, organic growth and efficiency. Contracts with a turnover above £25m, and large projects, have dedicated boards reporting to the Divisional Board.

Corporate functions focus on setting and enabling the achievement of strategic ambitions for the group to ensure we maximise returns, while maintaining the appropriate controls on the underlying business. Through engagement with divisional representatives, corporate functions have established arrangements to address key risk areas, review performance and develop strategic direction. These include:

- Serco Management System Steering Group
- Health, Safety and Environment Oversight Group, which is supported by:
 - Environment Oversight Group
 - Aviation and Transport Safety Oversight Group
 - Health Panel
- Corporate Responsibility Steering Group
- HR Directors Forum

In summary, Serco management has three basic elements:

- 1** Elements providing the corporate governance essential to a large plc;
- 2** A clear organisational structure with defined delegated powers, which manages day-to-day operations and drives our growth as a business;
- 3** A network of oversight and working groups that unifies the business and provides links with the corporate functions to enable clear, consistent direction and control in each operational area, which can then be taken up by the operational structure, and delivered through their respective units in a way appropriate to their business.

Developing our business strategy

Our strategy is the means for delivering our vision. To ensure our strategy remains on course, we have a planning process that follows a four-stage, annual cycle: people (March), strategy (June), business planning (October), financial commitments (November). Each stage informs the next and is clearly defined in terms of outcomes and expectations and managed as discrete programmes of work. Group, divisions and business units all have a specific role to play in contributing to strategy development and the process is run in an inclusive, integrated manner.

The Serco Group plc Board is responsible for setting the vision and corporate strategy: what and where we want to be, and how we are going to get there. The Executive Committee is individually and collectively responsible for supporting the vision and corporate strategy.

Divisions are responsible for creating five-year strategic plans on a rolling annual basis that cover, among other things: detailed market and capability analysis; sources of competitive advantage; growth plans, both organic and through acquisition; and the associated talent, resource and systems plans. These plans are aligned to the vision and corporate strategy, and executed through business plans that translate the rolling five-year strategies into revenue and costs. Divisions then implement processes that enable them to meet the requirements and timescales of the strategic planning cycle.

Corporate functions are responsible for the overall corporate strategic plan, with each developing specific objectives and targets for their areas of responsibility.

Progress towards the vision is measured by the achievement of our medium-term goals.

One management system

The Serco Management System (SMS) is the group’s management framework within which all parts of Serco must operate. The framework defines what we want to achieve (our vision), what we intend to do (our strategy), how we manage our business (our policies and standards), and how we operate and behave (our five foundation stones). It is global in application, and all divisional and local management systems are incorporated into it. Operating within the SMS we:

■ **Embed our Governing Principles.** Each policy area of the SMS reflects one or more aspect of our Governing Principles.

■ **Reinforce ‘One Serco’.** As Serco grows and expands, the SMS protects our heritage by ensuring we all behave and operate to minimum standards wherever we do business, thus providing a cultural ‘glue’, so that wherever we work, it is recognisably Serco.

Drive standardisation and reduce risk.

The policies and standards and associated processes and standard operating procedures contained within the SMS are built on proven best practice. As such, they enable consistent governance, service delivery and quality.

■ **Enable growth and efficiency.** Common standards enable the business to function more effectively. A commonly understood and shared framework means the different parts of Serco do not have to invent their own. This saves time and money and reduces sources of error through misunderstanding or misinterpretation.

While the SMS was launched in June 2002 and refreshed at the start of 2006, we recognise the importance of ensuring it remains current, reflecting the growth and increasing diversity of our business, caused by geographic spread and changing legal and regulatory requirements. We therefore completed a comprehensive review of the SMS during 2010. The result is a refreshed, simplified SMS that enables effective operations through better governance and less bureaucracy.

The policies and standards at the core of the SMS, as well as all the accompanying material, have gone through a significant engagement process. All corporate functions and all divisions have been involved in reviewing the material, offering comments and revisions. This has led to the refreshed SMS being signed off by all divisions and approved by the Executive Committee. Launched in January 2011, this system now forms the core single management system, mandated wherever we operate.

We are now in the process of ensuring all management processes throughout the business – functionally and geographically – are aligned with the updated SMS. Every manager has received an accessible top-level guide to

what the system is, the nine areas covered by it, and what is required of them. Every manager is also required to visit our intranet – Our World – read the nine policy statements and 17 group standards, and tick online to confirm they have read and understood these documents.

As part of the refreshed system, a new governance structure has been implemented to ensure the SMS remains current, and that changes are properly reviewed and approved by the business. This SMS governance structure has been developed around two key roles: the policy sponsor and the policy owner. These roles relate to each policy area within the SMS policy framework and are applied at both group and divisional levels. Overall control of the SMS is through the SMS Oversight Group, reporting to the Executive Committee.

The revised document set for the SMS comprises the group policy statements and supporting standards seen in the table below. Further details on the SMS and copies of our policy statements and standards are available at www.serco.com.

So, we have challenged, we have refreshed, we have stripped out excess and injected absolute clarity. And we have restructured our intranet to ensure the new SMS is easy to find.

Embedding our management system

Having a clear, single management system applied across our operations is integral to ensuring we operate in a consistent manner that reflects our Governing Principles. Our SMS also means that we can effectively manage risk through the application of consistent controls and have a robust internal audit process providing the assurance that we are meeting the standards we have set ourselves.

The SMS therefore provides the foundations

Group policy statements		Supporting group standards
Health, safety and environment	People	Employee lifecycle Employee wellbeing Travel
	Governance, conduct and ethics	Health, safety and environment Business conduct and ethics Insider information Internal boards and governance Whistleblowing
	Business lifecycle	Business lifecycle Reputation and communication
Finance and commercial	Procurement and supply chain	Finance Commercial Procurement and supply chain
Information Systems (IS)	Security	Security management
Quality management	Information Systems (IS)	Information Systems Acceptable use Quality management

upon which we both manage risk and provide appropriate assurance through internal audit. From a risk perspective, the SMS defines the controls that are applied to manage or mitigate the key risks faced by the business. It is these controls that are then reviewed by internal audit to provide assurance that we are effectively managing and controlling business operations and the key risks faced by the business.

This ensures we have a single system embedded across our operations.

Dealing with ethical issues

To achieve our vision we must be clear about the markets in which we want to work, win the contracts that deliver most value and then retain and grow them. To achieve this, we must understand the ethical and reputational issues involved and be clear about where we stand.

This business lifecycle can be complex and we need to manage it effectively, to mitigate risks and maximise opportunities. Understanding ethical and reputational issues is an important part of our approach and may cover issues relating to a new country or service line, or any situation in which we, one of our partners, or someone in our supply chain may:

- infringe human rights
- compromise legal and regulatory compliance, business integrity or cultural sensitivity
- put our staff in harm’s way
- breach our Governing Principles.

If a business opportunity raises any of the issues above, they are referred to management for review. If the issue is significant, it will be referred to the Ethics Committee for a final decision.

The Ethics Committee determines our stance on new markets, opportunities and activities that present an ethical dilemma with implications across Serco, or a significant reputational risk for us. It also assists if a division or group function has asked for clarification of our position.

The Ethics Committee regularly reviews and approves a ‘watchlist’ of countries with poor human rights records. All opportunities in countries on the watchlist must be approved first by the Ethics Committee.

Our Code of Conduct

Serco has a unique culture, based on our shared values and public service ethos. We are passionate about doing the right thing. Behaving in the right way is also good business sense. Our success depends on it.

We have therefore, alongside the relaunch of the refreshed SMS, comprehensively reviewed, updated and refreshed our Code of Conduct. A copy of our new Code was issued to all staff in January 2011 and is available at www.serco.com.

While our management system defines the

way we run our business, our Code of Conduct defines what we expect from everyone working for Serco. Applying the Code enables us to live by our Governing Principles, work legally and ethically and comply with our policies and standards. By doing the right thing, we protect our reputation and benefit everyone connected with Serco – our customers, partners, suppliers, communities, shareholders and workforce. The Code, along with our policies and standards, applies wherever Serco operates around the world.

There must be no gap between what we say and what we do. Any employee who is unsure what to do or has a concern that the Code is being broken, has a responsibility to speak out. To help with this, we have put in place new arrangements to enable employees to report concerns. If they feel uncomfortable about speaking to their manager, employees can call a free confidential ‘Speak Up’ line or report online, by email or in writing. We have a formal procedure for handling any concerns raised.

Our stakeholders

What, exactly, is a ‘stakeholder’? At Serco, we hold a stakeholder to be any person or organisation that is or can be affected by the actions Serco takes. We consider our key stakeholders to be as follows (order should not be taken to imply importance or priority):

- **Our people** – 70,000 employees around the world
- **Our shareholders** – those institutions and individuals that invest in us
- **Our customers** – the organisations that contract our services
- **Our customers’ customers** – the people who ultimately ‘consume’ the services we provide
- **Our suppliers** – organisations from which we procure goods and services
- **Our partners** – both commercial and non-commercial organisations with which, on some contracts, we work on a co-operative basis
- **Our communities** – those we are located in, serve directly under contract, or the wider communities, such as a prison and its inmates and staff. Also the families of those inmates and staff
- **Our society** – in the broadest sense – all those who are affected by our actions, as an employer, a supplier, directly in any other capacity, or indirectly, simply as an organisation.

Health, safety & environment

HSE policy

As part of the Serco Management System refresh, we have reviewed and updated our health, safety and environment (HSE) policy (see www.serco.com). In brief, it means we:

- define policy and procedures to protect the environment and the health and safety of those to whom we owe a duty of care
- meet and, where appropriate, exceed any legal and other requirements that apply
- identify and assess HSE hazards, impacts and risks from our activities and services
- set HSE objectives and targets that reflect legal requirements and any identified risks, and show that we are seeking to continuously improve
- consider the input of employees and others when making decisions on HSE matters, and understand local sustainability challenges
- develop and introduce plans to agreed objectives and manage identified risks
- identify, train and use necessary, competent resources within a defined structure, and allocate HSE responsibilities to people who have the necessary skills
- investigate and report on incidents to identify areas where we need to make improvements and prevent further problems
- monitor, review and report on our performance at group, division and contract level, measured against set objectives and targets
- regularly review our systems’ suitability and effectiveness, identify any procedural improvements needed, and share best practice.

We believe that strong HSE performance ensures the safety of our staff and can bring differentiation and enhanced reputation. This demands consistent, co-ordinated and properly resourced initiatives, driven from within divisions, with best practice shared across the group.

We already have an effective HSE management system and processes, but are working to implement a single, company-wide HSE integrated management system – to drive consistency and efficiency.

We have also redefined the HSE group standard supported by group and country-specific standard operating procedures. These were developed and approved after full consultation with the business.

We operate in a number of safety-critical areas that are heavily regulated, which place stringent requirements upon us. We have the systems in

place to deliver these requirements, and this is reflected in the regulatory approvals and licences we have to operate under. This also means that we have regular regulatory oversight. Together, this gives us a strong controls framework with which to manage our HSE responsibilities.

HSE governance

Strong HSE governance is crucial to Serco because wherever we work, we have a duty of care for our people, our customers, our partners and contractors. The safety-critical areas we operate in present a broad range of risks that we must manage. Zero harm is our aspiration – no compromise is acceptable. We aim to deliver this through a management system that ensures risks are identified, quantified, prioritised, and dealt with sensibly, responsibly and proportionately.

To address this, we have a robust governance framework that allows appropriate devolution of responsibility to those best placed to manage HSE risks while ensuring appropriate reporting and oversight. Delivering our HSE policy commitments is an essential part of risk management and is led by the plc Board, but every Serco employee has a part to play.

Key components of HSE governance:

- Overall commitment and leadership on HSE comes from the plc Board, which reviews HSE performance at each board meeting
- Tasked with managing the business, the Executive Committee reviews HSE performance and is responsible for agreeing strategy, objectives and targets
- A sub-committee of the Executive Committee, the Group Risk Management Committee (GRMC) is responsible for the formal review and oversight of HSE. GRMC receives a HSE report quarterly on incidents, performance and delivery of strategic initiatives across the business
- Health, Safety and Environment Oversight Group regularly brings together the HSE leads from each division to discuss issues, performance and delivery of strategic objectives. This is supported by a number of sub-groups focused on specific high-risk areas, for example, aviation and transport
- Each divisional HSE Director reports quarterly to their Divisional Boards on HSE performance, incidents and key initiatives. A similar review is undertaken in our larger contracts where Contract Boards are in place. More than 150 assurance professionals are employed across our contract base. They have the training to provide competent health and safety advice at all levels, and ensure company policy and management systems are properly applied and continue to reflect business requirements.

The Group Director HSE, as part of the governance team, provides leadership and co-ordination between divisions to ensure delivery

of the group’s HSE strategy. Formal interfaces are established with regulators. For example, our Defence, Science and Nuclear’s Aviation Safety Governance Committee interfaces with the UK Civil Aviation Authority Safety Group.

■ HSE matters are included within our internal audit programmes delivered at contract, division and group levels. We maintain external certifications that provide independent review and certification to key HSE systems. We also report externally via Business in the Community, the Carbon Disclosure Project and this Corporate Responsibility Review.

HSE strategy

Our HSE strategy is regularly reviewed and updated annually. It is formulated in the context of a changing business environment. Current factors that have been considered include:

1) Working practices

We have seen a step-change in working conditions and practices. Greater application of technology is changing how and where we work; employees work from home or hold multiple jobs, while working relationships are becoming more varied, complex and fragmented; different environments and working methods present different HSE risks.

2) Climate change

Focus has shifted from the business’s impact on the environment to the environment’s impact on the business: so-called ‘climate proofing’. The onus is on us to develop an accurate understanding of the risks and opportunities we face alongside our environmental impacts; to assess and manage those impacts; and to measure our performance and demonstrate improvement.

3) Health issues

We need to better understand the links between work and health, and focus on preventing illness, promoting health and wellbeing, and acting quickly and effectively when people become unwell. We must also be prepared for potential pandemics and the impact they may have.

4) Legislation and governance

Legal and regulatory change is continual; we need to make sure that we comply, and can demonstrate it. The trend is toward greater transparency – key stakeholders increasingly demand evidence of compliance, particularly in sustainability.

5) Political and social drivers

There is an increasing political emphasis on sustainability from governments worldwide, while public demands for improved corporate HSE performance continue to grow.

6) Increased scrutiny

As a FTSE 100 company we face intense scrutiny. We must be clear about how we manage HSE issues, understand the risks we face and actively manage them, and be able to demonstrate

compliance and continuous improvement.

Our activities have serious risks. A serious incident or accident will impact our reputation. We must be prepared to manage this. As our business develops these risks are changing. We are operating in new markets and undertaking larger contracts, often in conjunction with partners. This may extend the risks we face. We must understand these risks and manage them.

HSE performance & objectives

Health

The health and wellbeing of our staff is a clear commitment, embodied in our policies and management system and reflecting our governing principles. We have a strong safety culture, but we need to strengthen our commitment to the health and wellbeing of our staff.

We must manage health risks proactively, just as we manage safety currently, towards an overriding objective of a fit workforce working in a healthy environment, with zero absence.

In the UK, under the leadership of HR, the provision of occupational health has been the subject of a detailed review, with Serco Health appointed as the UK occupational health provider and a health panel established to provide oversight and strategic direction. In North America, work focusing on reducing time off due to incidents has succeeded in reducing insurance premiums.

In support of our targets, our priorities are:

- to reduce the amount of lost time due to incidents through active rehabilitation
- to offer a consistent level of occupational health support to all Serco employees
- to monitor KPIs: musculoskeletal, mental and behavioural and reportable diseases.

Health: 2010 objective & performance

Days lost objective: to reduce the amount of lost time as a result of incidents through active rehabilitation. Our challenging target is for a 50% reduction by the end of 2012 against the 2008 baseline (average 15 days)

Result: target off track

At an average of 18.6 days in 2010 we are not on track, having shown a year-on-year increase in lost time. This partly reflects an increase in higher risk business operations. Significant management effort is helping to redress this situation with a focus on: early intervention to rehabilitate employees and help them back to work; more timely handling of long-term disability cases; and root-cause analysis.

Health: 2011 objectives

■ **To continue to focus on reducing the amount of lost time as a result of incidents to achieve our target.** We aim to be back on trajectory to

reach our target of 50% reduction in lost time per incident (against 2008 benchmark) by 2012.

Safety

We are committed to eliminating accidents and near misses. We will continue to strengthen our safety culture through leadership, oversight, stakeholder engagement and effective policies, systems and processes. We will meet safety legislative and regulatory requirements and build pride in the job that we do.

We have identified safety responsibilities throughout Serco and put in place clear systems and processes to manage them. This is reflected in our good safety record and performance.

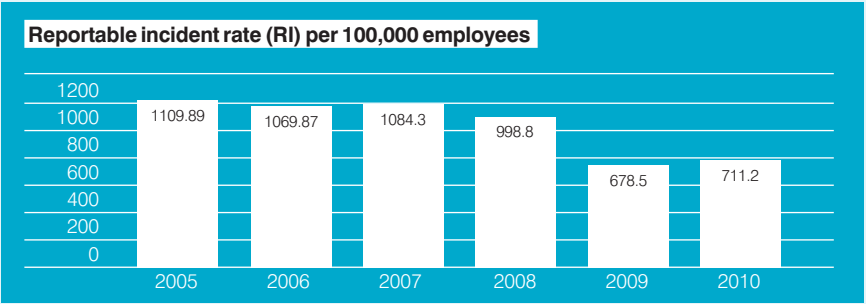
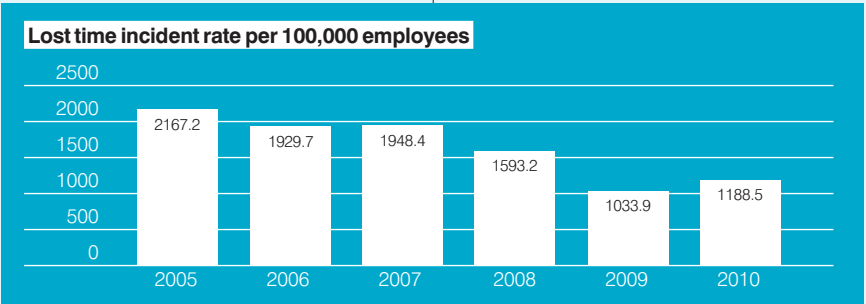
Our goal is to achieve zero harm to people through our business operations. We will achieve this through a strong safety culture with clear leadership and effective management systems that maintain safe operations.

In support of our targets, our priorities are:

- a continued focus on reducing reportable incidents
- developing systems and processes to manage and monitor near-miss events
- embedding a single HSE management system and standard operating procedures across all operations
- ensuring minimum competency in H&S management and consistent training standards.

Safety: 2010 objectives & performance

Lost time: while we saw a slight increase in our lost time incident rate (per 100,000 employees) in 2010 compared to 2009, the longer term trend is positive, see below. Over the past five years we have seen a 45.2% improvement.



This is in the context of a business that has moved into operating environments where there is a higher risk of lost time incidents. This positive movement reflects the impact of improved leadership and implementation of a number of initiatives. Ongoing pressure remains to meet our challenging target of 796 by 2012.

Reportable incidents objective: to continue focusing on reducing reportable incidents to achieve our target of a 30% reduction in our staff reportable incident (RI) rate by end of 2012 against the 2008 benchmark (998.8). The target for 2010 was a 20% reduction (799). Result: target met

We are pleased to report our RI rate was 711 per 100,000 employees. This achieves our 2010 target and is only 1.2% short of our 2012 target. It also reflects good performance against external benchmarks. The UK's Labour Force Survey for all-industries benchmark is 820 per 100,000.

Near miss events objective: to develop systems and processes to manage and monitor near miss events more effectively. Our target is to establish a baseline for future improvements to be achieved by 2012. Result: target on plan

Work is ongoing to establish the systems and processes to deliver this.

Safety: 2011 objectives

- **Reducing reportable incidents remains an important objective.** Based on current performance we have revised our target to 599 to reflect a 40% reduction in staff RI rate by 2012 against the 2008 benchmark.
- **During 2011 we will continue to develop**

our systems and processes to manage and monitor near miss events more effectively. Our target remains to establish a baseline for future target improvements to be achieved by 2012.

Environment

We have been trying to better understand, measure and manage our environmental impacts, recognising that while Serco has pockets of excellence, the picture across the organisation as a whole remains mixed.

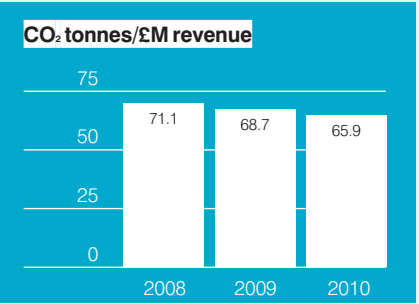
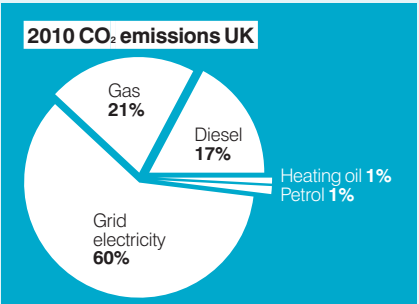
Our long-term aspiration is to be at the forefront of our business sectors in reducing our carbon emissions and other environmental impacts, and integrating sustainability into our strategic and operational decision-making processes.

We must, of course, comply with legal and regulatory requirements, even as they tighten, for example, in the UK Government's Carbon Reduction Commitment. But we look to go beyond this bare minimum, with a continuous improvement programme aiming towards ISO 14001 throughout the business.

As with health and safety, we recognise the need for a multi-faceted approach, with each division developing dedicated initiatives to deliver identified strategic objectives. These are to be supported by group initiatives providing benefit across the company.

To support the achievement of our environmental targets, we will over the next three years prioritise:

- accurate consumption reporting on energy, business fuel, business travel, waste and water
- understanding environmental aspects and impacts of current and future business



- implementing formal programmes to reduce our energy, fuel and water consumption
- embedding a single environmental management system and set of operating procedures across all operations.

Environment: 2010 objectives & performance Carbon emissions objective: to achieve a 10% reduction in CO₂ tonnes/£m revenue by the end of 2010 against the 2008 benchmark. Result: target missed

We achieved a 7.26% improvement and continue to seek ways to further improve our performance. We are very proud to have achieved the UK's Carbon Trust Standard (requiring an absolute reduction, or a minimum of 2.5% year-on-year reduction in our carbon emissions for three consecutive years relative to revenue); this significant achievement is external recognition of our progress in this important area. To go further and retain our certification, we are improving our understanding of where we make the greatest impact to reduce our carbon footprint, and where we can invest to lower our energy consumption and emissions.

Management system objective: to embed a single environmental management system and operating procedures across all operations. Result: target met

The Environmental Management System is an integral part of our revised Serco Management System (launched 2011) and applies globally.

Carbon reporting objective: to implement carbon accounting system to ensure accurate consumption reporting on energy, fuel used for business, travel, waste and water. Result: target met

The Greenstone Acco₂unt enterprise system went live in the UK in 2010 and will be implemented across non-UK regions in 2011.

Environment: 2011 objectives

■ **We aim to achieve a 15% reduction in CO₂ tonnes/£m revenue by end of 2012 against 2008 benchmark. Ensuring we achieve, as a minimum, a 2.5% year-on-year reduction.**

By implementing Greenstone's Acco₂unt enterprise system, clarifying scope boundary, capturing data at a higher level of granularity than before, and getting external verification of the data by the Carbon Trust Standard, we hope to further improve our environmental performance in 2011.

- **To retain the Carbon Trust Standard.**

People

People policy

Our success is a reflection of our people; being a great business depends on having great people.

People flourish when they are inspired and motivated to give their best. To support our people in meeting their potential and working to the best of their ability, we have effective policies, standards, systems and processes for recruiting, developing, rewarding, reviewing and managing them. These reflect our Governing Principles, comply with all applicable laws and regulations, and build trust in our working relationships.

We are committed to:

- ensuring we have the skills and resources to meet current and future needs by recruiting and inducting high-quality people who reflect the communities in which we work
- rewarding our staff and providing agreed benefits as appropriate
- honouring people's rights and treating all our people fairly and consistently to promote good working relationships and respecting equal opportunities
- recognising and reviewing employee performance and engagement, and developing skills to meet current and future business needs
- promoting constructive working relationships and dealing with unions and employee representatives in line with established rules
- assessing, supporting and promoting the health and wellbeing of our people
- dealing fairly with staff who are being transferred to another part of, or leaving the company
- supporting and contributing to the social and economic wellbeing of the communities in which we work, and encouraging people to take part in projects that strengthen these communities.

People governance

Governance for human resources (HR) is headed by the Group HR Director supported by an HRD (Human Resources Directors) Forum which includes representations from all divisions and group functions. Each division reports quarterly on its key activities to the Executive Committee and the plc Board. Each division has its own HR Director who sits on the Divisional Board and is supported by a team of HR professionals.

The HRD Forum is supported by specialist groups that focus on such things as reward, remuneration, talent and employee relations.

People commitments

People policies, systems and processes support our business objectives. We value difference and work to create an inclusive and fair environment.

STRUCTURE & PERFORMANCE

Decisions concerning employment, recruitment, selection, promotion, assignment, development and the application of these policies themselves will not be influenced by an applicant's or employee's sex, race, colour, sexual orientation, gender identity/expression, trade union activity, political belief, religion, marital status, caring responsibilities, national or ethnic origin, disability, age or citizenship except as required by or justified by any applicable laws.

Employees will be informed of their rights and responsibilities under the law, and the behaviours expected of them. Where appropriate, they will receive equal opportunities training to ensure they do not discriminate (knowingly or otherwise).

We will promote equality by taking positive measures (where allowed by law) to recruit and retain individuals from disadvantaged groups, such as those with disabilities.

We will never use forced, compulsory or child labour. All labour is freely given, adheres to minimum ages stated in national labour laws or international standards, and employees are free to leave in accordance with established rules.

Reasonable adjustments will be made for those with disabilities. We will do everything possible to ensure that employees who become disabled while working for us can continue to do so.

People strategy

We have a process to establish, implement and maintain documented HR strategy, objectives and targets. This ensures that the people strategy, objectives and targets set corporately are adopted by Divisional Boards and that all objectives and targets:

- are measurable, documented, communicated
- are monitored and reviewed by senior management team/s
- are aligned with business context and strategy and vision
- are aligned with people strategy, policy, and legal requirements
- consider the interests of stakeholders
- are supported by annual programme(s) with designated responsibility for achieving objectives and targets.

The group's people strategy and group-wide people objectives and targets are incorporated into divisional/regional strategies, objectives, target setting and monitoring processes.

The strategy aims to achieve:

Leaders fit for the future

- who know what is expected of them and develop experience across Serco, with a healthy pipeline of successors
- who create the environment for a successful workforce and enhance our reputation for great service.

People who bring service to life, and are:

- highly engaged, living our values, passionate

about service. People who share a sense of responsibility for delivering great customer outcomes, and achieve them time after time

- attracted to work for a highly respected employer with a reputation for encouraging and enabling its employees to excel and for nurturing relationships of trust and respect.

The best in people management

- with universal and consistent application of a world-class system for managing people that is repeatable and scalable, drives down cost and boosts productivity
- with processes, tools and services that are easy and intuitive to use.

A supportive working environment

- that enables new capabilities and new business models to thrive
- that is open and inclusive, with best knowledge and best practice systematically brought to bear on each issue through interoperability.

People: staff turnover

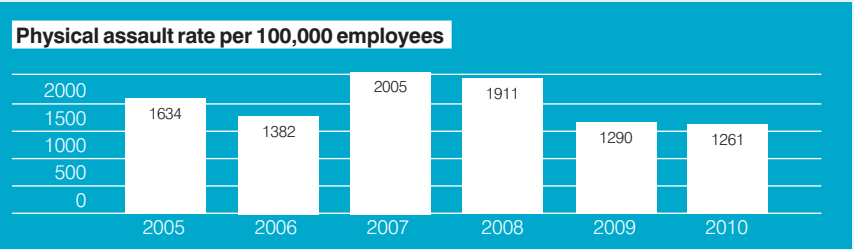
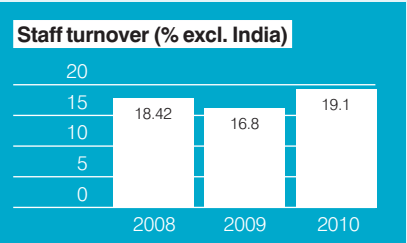
We were disappointed that staff turnover (excluding India) had increased to 19.1% which was due to resignation levels returning to pre-recession levels and a planned increase in casual workers and redundancies. Staff turnover in India increased slightly in 2009 to 46.6% as opposed to 45.2% in 2008.

People: 2010 objectives & performance

Physical assaults: The verbal assault rate has fallen by 6.5% and physical assaults by 2.3%. It is pleasing to note the continued reduction which is the result of many initiatives in very different environments. These have included:

- additional training for frontline staff at risk
- use of DNA testing kits to identify offenders
- introduction of alternative working methods.

For the more serious physical assaults we have set a target of 1,200 (per 100,000 employees) by



2012. We remain on plan to achieve this.

People management objective: to make managing people easier

Result: target on plan

A major investment decision in improving people management across the whole company was made during 2010. The programme, called 'Empower – Transforming People Management', commenced in January 2011 and will complete in 2012 delivering common processes, tools, and shared services across the employee lifecycle.

Leadership development objective: to develop leaders who are fit for the future

Result: target on plan

During 2010 we profiled 200 of our most senior leaders. Career and development planning is currently underway and this will be incorporated into the objective setting and appraisal process that will be take place in Q1 of 2011. This profiling and assessment process has now also been extended to our emerging leaders. Succession planning was also conducted across the whole business and a focus at divisional level has been to develop the talent pipeline.

Engaging employees objective: to motivate and engage employees to bring service to life

Result: target on plan

An online module called 'Discover Serco' was launched company-wide during 2010. We have also developed an online induction toolkit which launched on our intranet in January 2011. The company-wide employee Viewpoint survey was conducted again in 2010 and 78% of employees responded (the survey did not include employees in joint venture companies). Work has progressed to link engagement to performance. We have also contributed to the UK government sponsored task force on employee engagement.

People: 2011 objectives

■ **To make it easier to manage people**

The focus is to develop and implement 'Empower – Transforming People Management' (above)

■ **To develop leaders who are fit for the future**

We shall be looking to further embed the talent review and succession planning process across a wider proportion of our management population

■ **To motivate and engage employees to bring service to life**

We shall continue to research and analyse linking engagement to performance.

Community

Community policy

Serco is an integral part of the communities in which it works. Around 70% of our people will come from those communities. They are serving their friends and neighbours; it is important that they should be able to take pride in the way they do so.

The diverse market sector and geographic locations of our group-wide business provides us with a unique opportunity to make an impact on the wider society. We do this by empowering our businesses to respond to local needs that are linked to our community strategy rather than developing centralised programmes.

In return for empowering them, we expect all of our business operations to ensure that:

- stakeholders are actively consulted and involved in the way we engage with the communities in which we work
- the design and development of business opportunities accounts for social considerations and the wellbeing of the community
- systems and programmes are established to effectively manage and develop community engagement
- we share our expertise, skills and resources, and create partnerships that have a positive impact on the wider community
- employees engage as volunteers in a broad range of initiatives in the communities in which they live and work
- we evaluate, review and report on community activities against strategic community engagement objectives
- our community investment is measured and reviewed against agreed targets to demonstrate continuous improvement.

Community governance

Governance for community is led by the Head of Social Responsibility and supported by a steering group, which includes representation from all divisions and group functions. The group is chaired by the CEO of Serco Global Transport. Each division reports quarterly on its key activities and community investment statistics to Serco External Affairs. Consolidated into one report, the information is provided to the Executive Committee for inclusion in the CEO's report to the plc Board.

This basic structure is replicated throughout the business. Each division has a senior manager who is responsible for, and formally reports on, community investment and activities to their division's CEO on a quarterly basis as part of the agenda at all Divisional Board meetings.

Community strategy

Our overall community strategy is simple. Our businesses and contracts located within a community are in the best position to understand what its needs are and how best to support them. However, to be sustainable, we encourage our businesses to consider how activities are aligned to the broader business of our customers and of Serco. For example, offering work placement schemes to young people clearly offers real benefits to those who take part; but our people also gain line management skills that can benefit their day-to-day work, and our customers' reputation is enhanced.

We also face a unique challenge. Quite often we are contracted to deliver social outcomes that for other companies would be considered as their contribution to helping society. We are therefore continuously reviewing our strategy to ensure that we understand the difference between those activities we are contracted to deliver and those we deliver as part of our own social responsibility commitments.

Adopting this approach presents its own challenges in how we make our achievements visible and assure our stakeholders of our continued commitment to the wider society.

Our strategic objectives have been agreed to ensure we gain this visibility by:

- developing and maintaining a governance structure
- promoting the agreed company-wide theme of employability
- continuing to reinvest 1% of pre-tax profits back into society
- improving the sharing of best practice across the divisions and at a local level
- ensuring divisions continue to develop, regularly review and report on their strategies to their board
- continuing to improve reporting by the divisions
- continuing to promote localism and the support of key programmes in conjunction with the divisions
- developing better internal and external communications, including the publication of an annual corporate responsibility report, regularly updating our website, www.serco.com, and participating in Business in the Community's Corporate Responsibility Index.

The overarching theme of our community strategy is employability. Agreed in 2003, it has three strands that our businesses can engage with.

The first strand concerns providing opportunities for our people to develop themselves, improve their skills and reach their full potential.

In 2004, supported by Business in the Community and KPMG, we instituted a programme called 'Skills4U' to provide a learning

opportunity to help UK employees develop their standards of literacy, numeracy and IT skills. The programme is run locally and on our behalf by West Nottinghamshire College. Formerly an in-house programme, we appointed an external provider during 2010 so that we could gain maximum impact across our UK divisions. As this was a year of transition, activity was limited. However, we anticipate that in 2011 this new arrangement will provide increased opportunity for employees to take advantage of the courses being offered.

The second strand involves helping the long-term unemployed into work. Although we have been awarded contracts to do this – many involving the most intractable and challenging cases such as homeless people, those with limited education and few skills, and those who've never worked – we encourage our businesses to consider what else they can do. In trying to reach and help people from disadvantaged backgrounds, we have developed relationships in the UK with organisations such as Jobcentre Plus nationally, and The Prince's Trust at a local level.

The third strand is about helping young people prepare for the world of work. A number of activities are underway. Examples include: giving students experience of finding solutions to real business issues through the Schools Challenges run by Serco Local Government and Commercial; providing young people with work experience and placements in Serco Defence, Science and Nuclear; providing continued support to the Military Child Education Coalition in the US; and fundraising and promoting volunteering in India to support orphaned children.

Throughout the business, our people devote their time, skills and energy to helping young people get into the world of work.

We are a chartered member of the UK charity The Duke of Edinburgh's Award which administers a bursary on Serco's behalf to help disadvantaged young people (including young offenders) develop the team-working skills, trust, confidence and self-esteem that will equip them for life as productive members of the community. In 2010, our bursary helped 846 young people in the UK to participate in this award.

We also support Business in the Community, and our CEO is a Trustee Director of the charity and Chair of its programme 'The Prince's Seeing is Believing', which encourages business leaders to find solutions to social issues.

While our emphasis is on supporting local communities, from time to time we engage with group-wide efforts to support the global community, mostly through fundraising, when significant disasters call for a rapid, large-scale financial response.

Community investment 2010 (GBP)		
Donations	814,722	35%
Gifts in kind	362,473	16%
Employee volunteering expertise and management time	1,094,380	49%
TOTAL	2,271,575	

Community: 2010 objectives & performance

Community investment objective: to invest in the communities in which we work and serve

Result: target met

We reinvested £2,271,575 back into society through a wide range of activities, which equates to 1.1% of our pre-tax profits in 2010.

Employment opportunities objective: to provide employment opportunities for the long-term unemployed and young people

Result: ongoing

Project Search was expanded from one UK hospital to four. This is a joint partnership with the NHS and other organisations to help people with learning difficulties into the workplace. A project was also initiated in our UK divisions to identify current work placement opportunities for students and to encourage the creation of new and meaningful opportunities. The results of a survey identified current practice and data to help future planning. This will be an ongoing objective.

Responsible business objective: to build trust in the communities in which we operate through responsible business operations and behaviour

Result: ongoing

During 2010 we were able to better identify current UK working practices in relation to working with the third sector. In December 2010 we participated in a pilot project to help build the capacity of black, Asian and minority ethnic organisations in Manchester (see case study on page 33).

Community: 2011 objectives

■ **To continue to invest 1% of pre-tax profits back into the wider society**

■ **To continue to promote the theme of employability and to encourage our businesses to consider how they can engage with the three strands as described, left**

■ **To continue to develop our relationships with charities, social enterprises and community organisations**

■ **To promote employee volunteering**

■ **To promote payroll giving.**

Recognised and rewarded

Employee engagement and recognition are vital to our company culture. External awards for Serco and its people are further evidence of our endeavours

As a service organisation, employee engagement and recognition are crucial to us. Serco has a number of schemes to incentivise and reward performance, and to monitor our employee engagement.

Viewpoint, Serco's regular global employee survey, is an opportunity to give opinions and help shape the company's character and direction.

Serco's global employee recognition programme includes the Pulse and Envy awards. The Pulse Awards recognise outstanding performance and excellence across the company, with nominations assessed at divisional level, and global awards presented at a prestigious annual ceremony. In 2010, we recognised 152 individuals and teams. Visit www.serco.com/pulse to read about their achievements.

Envy Awards are one element in a flexible scheme that lets managers make awards to their people in recognition of achievements aligned to the company's Governing Principles, exceptional performance, long service – anything 'beyond the call'. Rewards range from simple 'Thank You' cards to Envy Experiences such as the chance to drive a racing car.

Corporate recognition

Serco often receives corporate awards, which we gratefully acknowledge as the sum of our collective efforts around the world. Awards from 2010 include three major *Management Today* awards. Serco was rated Britain's 2nd Most Admired Company by sector competitors, including recognition of its environmental responsibility work. It also won, for the fifth time running, the Most Admired Support Services Company award, as well as the Best Admired Quality Management category.

Serco also won the 2010 *Hariri Award for Operations and Maintenance*, recognising our work with Dubai's Roads and Transport Authority on their Metro. Serco organised 1,200 people of 26 nationalities to manage and maintain the project.

Serco's UK Court Escort Custody Services,



HMP & YOI Doncaster and Colnbrook Immigration Removal Centre scooped three **British Safety Council Sword of Honour** awards in November. The award is presented for exemplary standards in health and safety management.

Serco Americas was named as a finalist twice in the 2010 **Greater Washington Government Contractor of the Year Awards**, which recognises innovation, dedication and commitment to the US government contracting community. The division also won the 2010 **GovStar 'Industry Star' award**. The award honoured Serco as 'a large Virginia business providing superior service to the federal government and contributing to the contracting industry as a whole', and for community service.

In March, Serco Asia Pacific won the 2010 **Operator and Service Excellence award** at Infrastructure Partnerships Australia's prestigious national infrastructure awards, for high standard of service at Acacia Prison. Also, Great Southern Rail, a Serco Asia Pacific subsidiary, won **Best Luxury Rail Journey** in the *Luxury Travel* magazine awards, beating even the Orient-Express.

Once again, Serco achieved **Gold Rating in the Business in the Community's Corporate Responsibility Indices** in the UK and Australia.

Clockwise from left: John Biggin, UK Public Servant of the Year; Christopher Hyman presenting a Global Pulse Award to members of our Middle East HR and Training Team; Martin Wakenell, The Prince's Trust Young Achiever



Outstanding individuals

Our people's outstanding work is often recognised by society at large. From 2010, three examples: John Biggin, Director of HMP & YOI Doncaster, UK, was voted **Public Servant of the Year** in the *Guardian* newspaper's 2010 Public Services Awards. John won for his outstanding leadership, commitment and creativity. Duncan Mackison was named **Outsourcing Professional of the Year** in the UK's 2010 National Outsourcing Association's awards, for his leadership of Serco's partnership with Glasgow City Council. Martin Wakenell won **The Prince's Trust 2010 East of England Young Achiever** award. With dyslexia and few qualifications, he struggled to find work. However, the Trust's Get into Hospital Services course run at Norfolk and Norwich University Hospital in partnership with Serco, found Martin a work placement. He excelled and is now employed full-time as a catering assistant.

2011 key objectives

People

- » To make it easier to manage people by implementing the HR programme 'Empower – Transforming People Management' (as described on page 9)
- » To develop leaders who are fit for the future by embedding the talent review and succession planning process across a wider proportion of our management population
- » To motivate and engage employees to bring service to life by linking engagement to performance

Health & Safety

- » To be on target for a 50% reduction in lost time per incident (against 2008 benchmark) by 2012
- » To achieve a 40% reduction in staff reportable incident rate by 2012 against 2008 benchmark
- » To develop systems and processes to manage and monitor near miss events more effectively. Our target remains to establish a baseline for future improvements for 2012.

Community

- » To continue to invest 1% of pre-tax profits back into the wider society
- » To continue to promote the theme of employability
- » To continue to develop our relationships with charities, social enterprises and community organisations
- » To promote employee volunteering
- » To promote payroll giving

Environment

- » To achieve a 15% reduction in CO₂ tonnes/£m revenue by the end of 2012 against 2008 benchmark
- » To retain the Carbon Trust Standard

BACK COVER, from top: Anthony Fafane, Redistribution Operative at London's Barclays Cycle Hire Scheme; Peter Morrissey, Aircraft Welder at the Royal Navy's Culdrose base, UK; Mariana Kajen, Environment Manager at the Dubai Metro





TELL US WHAT YOU THINK

If you have any feedback after reading this report, please email us at corporateresponsibility@serco.com



serco



Serco Group plc
Registered Office
Serco House
16 Bartley Wood Business Park
Bartley Way, Hook
RG27 9UY, United Kingdom
T +44 (0)1256 745900

www.serco.com



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