



Serco Investor Pack

Serco Group plc

Issued Spring 2017



2016 Full Year Results

Serco Group plc

22 February 2017



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Agenda

Overview

Rupert Soames, CEO

Financial Review

Angus Cockburn, CFO

Operational Review

Rupert Soames

Q&A

Ed Casey, COO
Rupert Soames
Angus Cockburn

FY16 Overview

Rupert Soames
Group Chief Executive

Good progress in 2016; strategy delivery on track

- **Trading result ahead of expectations at start of 2016**

- Revenue of £3.0bn and Underlying Trading Profit (UTP) of £82m
- UTP (£14m) versus FY15; (£19m) from private sector BPO exit, +£9m from FX; net of these movement (£4m)
- Expectations 'beat' driven largely by non-recurring commercial matters in H1 and FX
- Trading Profit of £100m, £18m higher than UTP; includes net £14m release from reduction in estimates of future losses and liabilities
- Good progress on loss-making contracts: OCP utilisation £30m lower than FY15; UTP pre-utilisation improved to (£2m) from (£18m)

- **Encouraging performance on wins and pipeline development**

- £2.5bn signed contracts, +40%; £8.4bn pipeline, +30%; order book stable at £9.9bn
- Competing vigorously on 6 very large tenders to be decided in next 12 months

- **Strong balance sheet**

- Closing net debt of £109m; leverage 0.7x EBITDA, similar to last year

- **Good headway on the Transformation stage of our Strategy Plan**

- Costs down by ~£450m, and in proportion with revenue reduction; >£50m of shared services and overhead savings
- Improved employee engagement, operational delivery on key contracts, systems and processes

- **Outlook for 2017 unchanged**

- 2017: ~£3.1bn Revenue and £65-70m UTP; range of possible outcomes significantly wider and a number of major bid outcomes and other risks to work through
- 2018: to come more into focus with this year's bids and transformation actions; expect only modest year-on-year margin progress

FY16 Financial Review

Angus Cockburn

Chief Financial Officer

Income statement – Revenue and Trading Profit

Revenue excludes share of JV&A revenue; Trading Profit measures include share of JV&A PAT

Trading Profit measures include the performance of discontinued operations; Underlying measure strips out Contract & Balance Sheet Review impacts and one-time items

£m	FY16	FY15
Revenue	3,011	3,177
Include: discontinued operations	37	338
Revenue including discontinued operations	3,048	3,515
Trading Profit	100.3	137.5
Exclude: Contract and Balance Sheet Review release	(14.2)	(20.9)
Exclude: one-time profit on contract termination	(3.5)	(9.0)
Exclude: Assets held for sale D&A benefit	(0.5)	(11.7)
Underlying Trading Profit (UTP)	82.1	95.9

- **Favourable currency impact in FY16: Revenue +£189m; UTP +£8.7m**
- **Translational FX sensitivity:**
 - FY16 £:US\$ av. rate of 1.37; 5c move = ~£35-40m Revenue, ~£2m UTP (based on Americas + Middle East)
 - FY16 £:Aus\$ av. rate of 1.84; 5c move = ~£15-20m Revenue, ~£0.7m UTP (based on AsPac)
- **Estimated FY17 favourable currency impact: Revenue ~£170m; Underlying Trading Profit ~£8m**
 - Assumes FY17 £:US\$ av. rate of 1.25 and £:Aus\$ av. rate of 1.63, which are spot rates at date of presenting

Revenue – divisional analysis

Organic decline driven by contract attrition in LRG (principally Suffolk Community Healthcare, NCS, Thurrock, changes on health procurement contracts), Americas (National Benefits Centre, VDOT), and CG (DSTL)

Disposals include sale of Global Services offshore private sector BPO (Dec 2015) and GSR in AsPac (May 2015)

Revenue - growth composition

£m	FY15					FY16	
	Reported Currency	Organic	Disposed /Discont.	FX	TOTAL	Reported Currency	Constant Currency
UK CG	742	(9%)	-	-	(9%)	679	679
UK&E LRG	906	(25%)	-	+2%	(23%)	696	683
AsPac	545	+4%	(2%)	+12%	+14%	620	555
Middle East	291	(1%)	-	+12%	+11%	325	289
Americas	693	(11%)	-	+11%	0%	691	617
Continuing	3,177	(11%)	-	+6%	(5%)	3,011	2,823
Global Services	338	-	(89%)	-	(89%)	37	36
Total	3,515	(11%)	(8%)	+6%	(13%)	3,048	2,859
FY16 v FY15		(£344m)	(£312m)	+£189m	(£467m)		

Underlying Trading Profit – divisional analysis

UTP decline of £14m, driven by the £19m reduction from the Global Services exit; excluding this and the £9m FX benefit, the decline was £4m

Net impact of contract attrition broadly offset by good progress on existing contract base, cost management and resolution of commercial matters

Underlying Trading Profit and margin

£m	FY16 UTP			FY15 UTP		Change	
	Reported Currency	Constant Currency	Reported Margin	Reported Currency	Reported Margin	Reported Currency	Constant Currency
UK CG	52.2	52.2	7.7%	53.1	7.2%	(0.9)	(0.9)
UK&E LRG	(6.5)	(6.2)	(0.9%)	4.7	0.5%	(11.2)	(10.9)
AsPac	24.9	22.0	4.0%	11.9	2.2%	13.0	10.1
Middle East	16.6	15.2	5.1%	18.9	6.5%	(2.3)	(3.7)
Americas	43.0	38.4	6.2%	44.3	6.4%	(1.3)	(5.9)
Divisions continuing	130.2	121.6	4.3%	132.9	4.2%	(2.7)	(11.3)
Corporate costs	(43.5)	(43.5)	(1.4%)	(51.3)	(1.6%)	7.8	7.8
Total continuing	86.7	78.1	2.9%	81.6	2.6%	5.1	3.5
Global Services	(4.6)	(4.7)	(12.5%)	14.3	4.2%	(18.9)	(19.0)
Underlying	82.1	73.4	2.7%	95.9	2.7%	(13.8)	(22.5)

- Note: Margin enhancement of equity accounting**

- If JV&A revenue of £481m was included and JV&A interest and tax cost of £7.3m was excluded, FY16 Group margin would decrease from 2.7% to 2.5% (FY15: 2.7% to 2.4%)
- Impact principally UK CG – FY16 margin would decrease from 7.7% to 5.3% (FY15: 7.2% to 4.1%)

OCPs and other Review adjustments

Commitment to report transparently the effect on profits and cash flows of 2014 Contract & Balance Sheet Review

Overall adjustment to OCPs and other Review items resulted in a £14m benefit to Trading Profit in FY16

Guidance continues to be on the basis of Underlying Trading Profit (ie before any OCP adjustments, and other one-time items)

- FY14 total operating profit charge of £1,299m, of which £745m within Trading Profit
 - £433m of OCPs were the main items which impact future profits and cash flows (£447m inc. exceptionals)
 - £312m of other charges to Trading Profit, mainly contract-related, reflecting asset impairments, together with other charges to accruals and provisions
- FY16 overall adjustment a net £14m benefit to Trading Profit
 - Continued progress on reducing the OCP liabilities; largest releases relate to COMPASS (£34m), ACPB, HMP Ashfield, FPMS and YJB
 - Increase on Ontario DES (£29m) re IT and PECS (£7m) re assumption of 1 of 3 possible extension years
- OCP utilisation of £84m compared to £114m the previous year
- OCP liability stands at £220m at 31 December 2016, vs £447m at 31 December 2014
 - Includes adverse £12m FX and £14m acquisition impact in FY16
- Detailed table of provision movements and future OCP profile included at Appendix 11

Income statement

Income statement combines continuing and discontinued operations

Operating profit before exceptionals of £95.2m

Net finance costs reduced to £12.6m, driven by reduction in average net debt; includes a net pension credit of £4.7m reflecting strong pension funding position (accounting pre-tax net asset of £133m)

£m	FY16	FY15
Trading Profit	100.3	137.5
Amortisation and impairment of intangibles arising on acquisition	(5.1)	(4.9)
Operating profit before exceptionals	95.2	132.6
Net finance costs (NFC) before exceptionals	(12.6)	(31.9)
PBT before exceptionals	82.6	100.7
Tax on UTP and NFC before exceptionals	(24.4)	(30.5)
Tax on other non-underlying items	8.5	(6.1)
PAT before exceptionals	66.7	64.1
Exceptional items, net of tax	(67.8)	(217.2)
Profit/(loss) after tax	(1.1)	(153.1)

Tax

Underlying Effective Tax Rate of 35%, remaining high due to absence of tax credit on UK losses; lower than initial ~50% guidance due to higher proportion of JV&A profits

Cash tax of £5.6m

Estimated unrecognised deferred tax assets of gross £1.0bn (net £187m) potentially available to offset against future taxable profits; only £10m UK tax asset currently recognised, with remainder being a contingent asset

- Tax of £24.4m, which, on UTP (£82.1m) less pre-exceptional net finance costs (£12.6m), is a 35% effective tax rate (ETR), versus 48% in FY15
 - Absence of deferred tax credit for losses in the UK is the key driver of a high ETR
 - Tax charge on overseas profits blends to 30%+, driven by US and Australia local rates
 - Calculation significantly affected by proportion of JV&A profits which are consolidated within Underlying PBT but on an after tax basis; FY16 ETR better than originally anticipated due to higher mix of JV&A profits
- FY17 anticipate rate potentially reverting back to ~50%
 - Assumes continued absence of deferred tax credit in the UK and lower proportion of JV&A profits
- Future years' effective tax rate will be high until UK tax losses can be recognised based on IAS12 technical requirements
- Cash tax rate continues to be low
 - £5.6m paid in FY16; low rate includes the effect of losses on onerous contracts overseas as well as in the UK region, together with refunds and sale of losses to JV entities
 - Anticipate cash tax of ~£10m in FY17

Exceptional items

£18.3m restructuring;
other exceptionals
predominantly driven
by non-cash
impairments

The net cash impact of
exceptionals was
£40.2m in FY16, which
includes the cash timing
of exceptional charges
taken in prior years such
as the payments to the
DLR pension scheme
and the exit of residual
UK private sector BPO
operations

£m	FY16	FY15
Profit/(loss) on disposals inc. discontinued	0.1	2.8
<i>Other exceptional operating items:</i>		
Restructuring costs inc. discontinued	(18.3)	(21.9)
Impairment of goodwill inc. discontinued	(17.8)	(153.4)
Impairment of other assets and HFS movements	(10.5)	(14.9)
Movement in indemnities provided on disposals	(13.7)	-
Defined benefit pension obligation transfer	(10.7)	-
UK frontline clinical health contract provisions	0.6	2.8
Aborted transaction costs	(0.1)	(1.7)
Costs re UK Government reviews	(0.1)	(1.2)
Other exceptional operating items	(70.6)	(190.3)
Exceptional operating items	(70.5)	(187.5)
Exceptional net finance costs inc. discontinued	(0.4)	(32.8)
Tax on exceptional items	3.1	3.1
Total exceptional items, net of tax	(67.8)	(217.2)
<i>Memo: cash flow on exceptional items</i>	<i>(40.2)</i>	<i>(88.4)</i>

EPS and DPS

EPS combines continuing and discontinued operations

Underlying EPS reflects the Underlying Trading Profit measure, after deducting pre-exceptional net finance costs and related tax effects

As previously indicated, the Board is not recommending a FY16 dividend; resumption will continue to depend on appraisal of financial performance and prevailing market outlook

	FY16	FY15
Weighted average share count for basic EPS	1,088.3m	986.5m
Underlying EPS	4.13p	3.44p
Impact of non-underlying items	1.99p	3.11p
Statutory EPS before exceptional items	6.12p	6.55p
Impact of exceptional items	(6.23p)	(22.02p)
Statutory EPS	(0.11p)	(15.47p)
DPS	0p	0p

Free Cash Flow and Trading Cash Flow

Other non-cash movements and FCF restated for FX on investment and financing, with balancing effect below FCF

Underlying cash profitability offset principally by the cash outflows on OCP contracts as reflected within the provisions movement

Working capital outflow driven by reduction in receivables financing facility utilisation from £30m to £8m; lower outflows for interest and capex

£m	FY16	FY15
Operating profit before exceptionals	95.2	132.6
Share of profit of joint ventures and associates	(33.4)	(37.0)
Depreciation, amortisation and impairment	52.4	71.5
Working capital movement	(23.7)	(22.6)
Provisions movement	(118.4)	(116.0)
Other non-cash movements	11.1	11.4
Tax paid	(5.6)	(2.7)
Net cash flow from operating activities	(22.4)	37.2
Dividends from joint ventures and associates	40.0	32.5
Net interest paid	(19.0)	(32.7)
Net capital expenditure	(31.6)	(72.5)
Free Cash Flow (FCF)	(33.0)	(35.5)
Add-back: tax, as above	5.6	2.7
Add-back: non-cash R&D expenditure	0.4	0.7
Add-back: net interest, as above	19.0	32.7
Trading Cash Flow	(8.0)	0.6
Underlying Trading Profit	82.1	95.9
Trading cash conversion	n/a	1%

Free Cash Flow reconciliation to movement in net debt

Net debt restated to now include hedging effect of derivatives, which aligns with covenant definitions

Closing net debt of £109m; average net debt of £119m over the year and peak net debt of £183m

Cash exceptional items driven by timing of restructuring costs and DLR pension payment

Disposal proceeds include final BPO completions

£m	FY16	FY15
Free Cash Flow	(33.0)	(35.5)
Exceptional items	(40.2)	(88.4)
Net disposal/(acquisition) of subsidiaries	19.2	184.9
Net proceeds of rights issue	-	530.3
Purchase of own shares net of option proceeds	-	4.4
Movement in finance leases	(0.5)	0.5
Movement in non-recourse loans	-	24.0
Other movements on investment balances	2.9	(1.9)
Cash movements on hedging instruments	47.0	19.3
Foreign exchange movement on net debt	(41.8)	(29.0)
Movement in net debt	(46.4)	608.6
Opening net debt	(62.9)	(671.5)
Closing net debt (inc. held for sale)	(109.3)	(62.9)
<i>Memo: restatement included within the above for value of derivatives related to net debt components</i>	18.1	14.6
<i>Memo: closing net debt before restatement</i>	(127.4)	(77.5)

Net debt and leverage

Leverage ratio per covenant 0.7x; on a pro forma basis to remove EBITDA benefit of non-underlying items, leverage would be 0.8x

Forecast net debt increase and EBITDA reduction in FY17 would see leverage on an underlying basis of ~1.2-1.7x at the end of 2017

£m	FY16	FY15
Net debt (including held for sale)	(109.3)	(62.9)
Less: loan note, encumbered cash and other adjustments	(28.5)	(28.8)
Covenant adjustment for average FX rates	23.0	-
Net borrowings per covenant	(114.8)	(91.7)
EBITDA		
EBITDA per covenant (see Appendix 8)	165.1	209.5
Less: adjustment for EBITDA of FY15 BPO disposal	-	(37.0)
Less: adjustments for non-underlying items	(17.7)	(29.9)
EBITDA underlying pro forma	147.4	142.6
Leverage ratio per covenant (not to exceed 3.5x)	0.70x	0.44x
Leverage ratio on underlying pro forma basis	0.78x	0.64x

Outlook and modelling assumptions

- Forecasts assume current FX spot rates continue for the rest of the year
- 2017 Revenue ~£3.1bn (2016: £3.0bn)
 - Net contract attrition ~£0.1bn; estimate of favourable FX ~£0.2bn
- 2017 Underlying Trading Profit of £65-70m (2016: £82m)
 - Range of potential outcomes significantly wider, given margin sensitivity, bidding progress and other risks; weighting to H2, and tough H1 comparator
- 2017 Net Finance Costs (pre-exceptional) ~£15m (2016: £13m)
 - Anticipate a rise in average net debt and lower net pension credit
- 2017 underlying effective tax rate of ~50% (2016: 35%)
 - Rate reflects extent to which UK tax losses not recognised and higher international tax rates
 - Lower proportion of JV&A profits anticipated, reversing the benefit in the 2016 ETR
 - Cash tax broadly similar at ~£10m (2016: £6m)
- Impact of higher ETR will result in a considerably greater reduction in Underlying EPS than the reduction anticipated for Underlying Trading Profit
- Weighted average number of shares unchanged at ~1.1bn
- 2017 closing net debt of ~£150-200m, underlying leverage of ~1.2-1.7x EBITDA
- 2018 trading outlook to come into focus as we progress through this year, but only modest year-on-year margin progress anticipated

FY16 Operational Review

Rupert Soames

Group Chief Executive

FY16 highlights & lowlights

Highlights

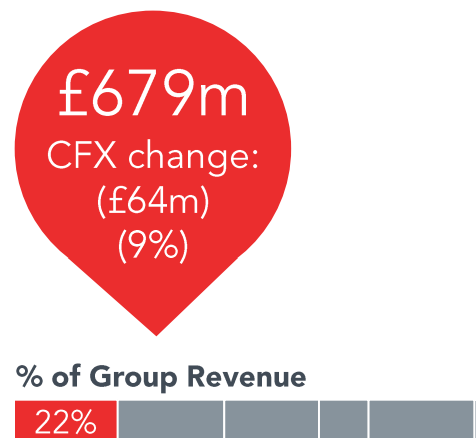
- Better trading performance than we expected
- Cost savings delivered; ~£450m reduction and in proportion with revenue; £50m+ reduction from shared services and overheads
- Rate of losses on OCP contracts reducing; £30m lower utilisation in 2016; estimates of future losses and liabilities reduced by £14m
- Order intake +40%; pipeline reloaded and increased to £8.4bn, +30%; order book stabilised
- £450m Barts win
- 6 further very large new business opportunities
- Cleanly exited the private sector BPO business
- Strong Balance Sheet: better net debt and leverage; pension accounting surplus increased by £17m
- Employee engagement at a record high
- Further strengthening of customer relationships, systems and processes
- Outlook for 2017 = revenues stabilised

Lowlights

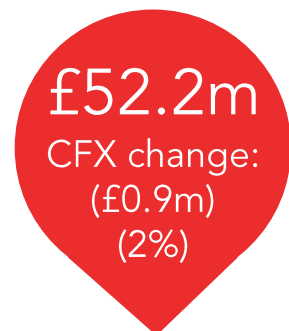
- Significant proportion of the better than expected trading performance in H1 was due to items that will not recur
- H2 profits much lower than H1 and more reflective of run-rate
- Bid losses: Passport (US), Court Escorting (Australia), Clyde & Hebrides Ferries (UK)
- Pipeline very front-loaded; >80% due in next 12 months; challenge to reload it
- New administration in US brings uncertainty: risks on CMS contract, potential opportunities in Defence
- Continuing issues at Ontario DES
- Needed to takeover Orchard & Shipman business to assure COMPASS services in Scotland
- Challenges faced by UK Civil Service to deliver public service reform agenda whilst implementing Brexit

UK Central Government

FY16 Revenue



Underlying Trading Profit



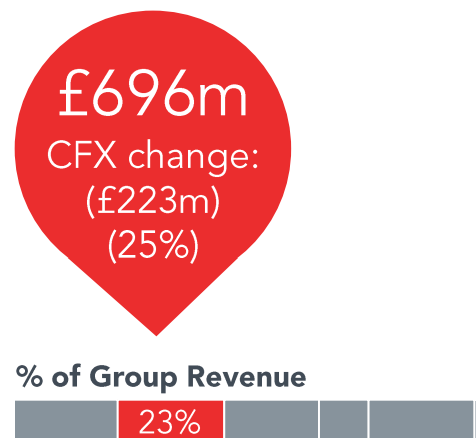
Sectors

Defence, Justice & Immigration, Transport

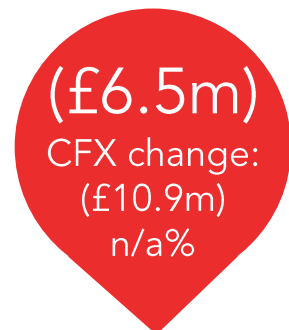
- **Revenue decline:** -9%. Transfer of DSTL and DBS, end of two other small defence contracts, end of EM support; only partially offset from growth elsewhere (COMPASS and Sleeper).
- **UTP margin up:** +50bps to 7.7%, or 5.3% JV&A-adjusted. Strong AWE and Northern Rail contributions in H1; contract attrition more than offset by improvements elsewhere and reductions in overheads.
- **OCPs:** £37m utilisation (FY15: £57m). Releases on COMPASS, FPMS, Ashfield and YJB; increased charge on PECS and Sleeper.
- **Contracts awards:** ~£300m (ex. AWE). COMPASS extension; LCHS rebid; other smaller rebids/extensions. Clyde & Hebrides ferries unsuccessful.
- **FY17 outlook and future rebids:** small revenue decline from attrition. Greater profit pressure from JV&A reductions. 10 major rebids/extensions 2017-19, ~30% of revenue base.
- **Pipeline:** DFRMO; immigration escorting; HADES; Gatwick IRC.

UK & Europe, Local and Regional Government

FY16 Revenue



Underlying Trading Profit

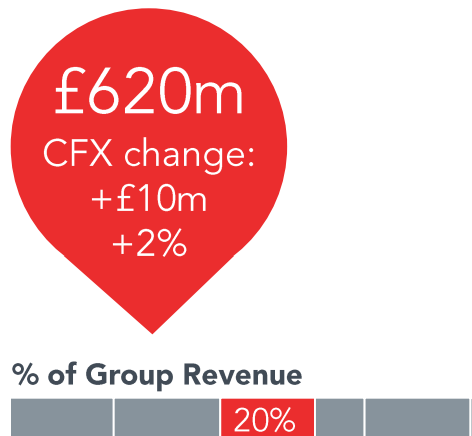


Sectors

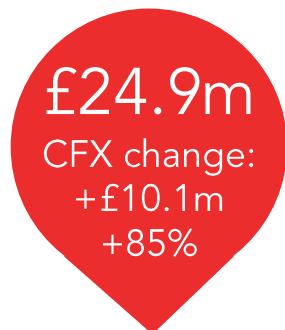
Health, Citizen Services including Enviro and Leisure

- **Revenue sharp decline:** -25% CFX. Successful exit of loss-making contracts: Suffolk Community Healthcare, NCS. Health procurement revenue no longer recognised. Early exit of Thurrock and reducing scale of CMG. Limited in-year growth elsewhere.
- **UTP margin turns negative:** -140 bps to -0.9%. Contract attrition, cost investment to deliver longer term efficiencies and £3m impairments and write-downs on a European agency contract.
- **OCPs:** £23m utilisation (FY15: £11m); increase reflects Lincs CC anticipated cost peak for new ERP system, now in service.
- **Contract awards:** ~£750m. New Barts health FM (~£450m/7yrs). A smaller health FM and 2 enviro bids unsuccessful. Rebid/extensions for Anglia Support Partnership, 3 enviro contracts, Skills Funding Agency, Public Health England, ESA and CERN.
- **FY17 outlook and future rebids:** small revenue decline (Barts win offset by attrition and health procurement change) but progress on profitability. 12 major rebids/extensions 2017-19, ~20% of revenue base (excl. ACCESS).
- **Pipeline:** further Enviro Services and Health FM bids.

FY16 Revenue



Underlying Trading Profit



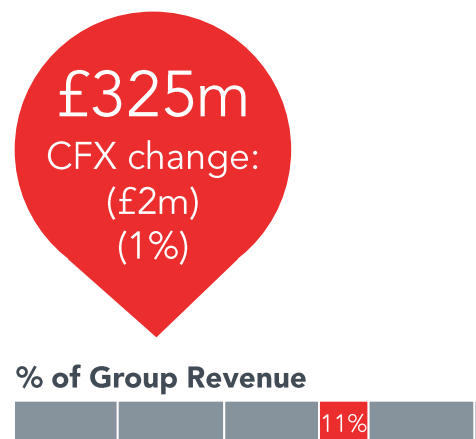
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Justice, Immigration, Defence, Health, Citizen Services, Transport

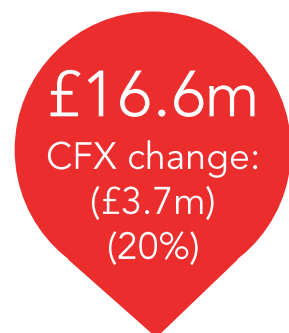
- **Organic revenue growth:** +4%. Increases on ACPB, scope of contact centre operations and expansion of Acacia prison; immigration services broadly flat.
- **UTP margin improves:** +180bps to 4.0%. Mount Eden losses neutralised by OCP; progress on cost efficiencies offset other cost and margin pressures.
- **OCPs:** £12m utilisation (FY15: £20m); releases on ACPB.
- **Contracts awards:** ~£600m. 'Icebreaker' initial ~£160m TCV; Acacia Prison and South Queensland Correctional Facility extensions worth ~£200m; rebid of health FM in Hong Kong.
- **FY17 outlook and future rebids:** ~10% organic decline (Court Escorting, ACPB), broadly offset by FX benefits at current rates. 7 major rebids/extensions 2017-19, ~50% of revenue base (incl. DIBP).
- **Pipeline:** Justice incl. Grafton and John Morony prisons; case management and defence support services; health FM opportunities.

Middle East

FY16 Revenue



Underlying Trading Profit



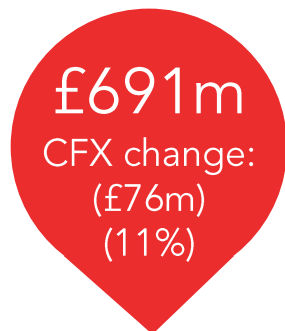
Sectors

Transport, Defence, Health, Citizen Services

- **Revenue broadly flat:** (1%) CFX; some growth from defence logistics volumes, expansions at Dubai Metro and health FM operations; offset by scope reduction incl Dubai Air Navigation Services.
- **UTP margin pressure:** -140bps to 5.1%; driven by significant investment in BD/bidding and some contract scope reduction.
- **OCPs:** no material existing or new OCPs.
- **Contracts awards:** ~£200m. New contracts for Dubai Airport FM, defence base support and health FM; Rebids/extensions include other health FM, MELABS and Baghdad ANS.
- **FY17 outlook and future rebids:** modest net effect from existing work; outlook to be shaped by major Transport bids. 10 major rebids/extensions 2017-19, >50% of revenue base (incl. Dubai Metro).
- **Pipeline:** Qatar and Riyadh major rail/tram opportunities with 2017 decisions due; smaller opportunities in defence support and health FM.

Americas

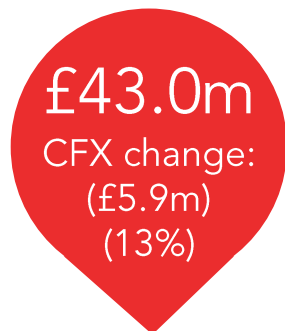
FY16 Revenue



% of Group Revenue



Underlying Trading Profit



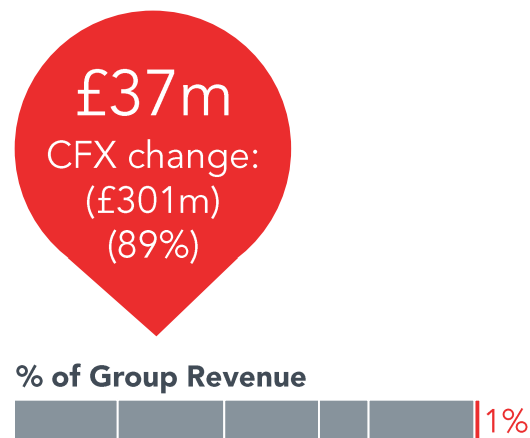
Sectors

Defence, Citizen Services, Transport

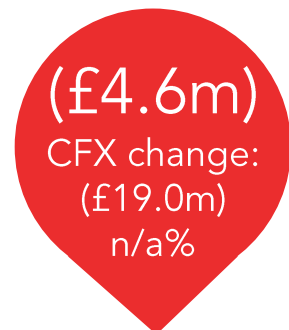
- **Revenue decline:** -11% CFX. Driven by National Benefits Centre rebid loss and VDOT hand-back; some reductions elsewhere and limited growth to offset these effects.
- **UTP margin broadly flat:** -20bps to 6.2%. Attrition impact largely offset by favourable FX and cost efficiencies.
- **OCPs:** £9m utilisation (FY15: £10m); £29m upward revision to Ontario DES for latest cost estimate of IT systems implementation and reassessment of ongoing operating costs and benefits.
- **Contract awards:** >£600m. New work for USAF HEMP ballistic missile radar upgrades and LADOT transport support; defence task orders totaling >\$260m; rebid of Goose Bay Canada; unsuccessful on 2 processing bids.
- **FY17 outlook and future rebids:** low organic growth to be supplemented by FX benefit at current rates. ACA assumed flat. 8 major rebids/extensions 2017-19, ~50% of revenue base (incl. ACA).
- **Pipeline:** several large defence bids, including USN NAWCAD; other smaller opportunities in transport, processing and immigration services.

Global Services (discontinued operations)

FY16 Revenue



Underlying Trading Profit



Sectors

Private Sector Business Process Outsourcing

- **Clean exit substantially concluded:** sale of majority of offshore operations completed on 31 December 2015; two smaller Middle East operations completed in FY16; exit of remaining UK onshore progressed well. Revenue decline as expected.
- **UTP loss from residual contracts and 'stranded' costs:** improved on plans to mitigate with transfer of contracts and property liabilities. Modest loss in H2; no material residual effect beyond.
- **OCPs:** £3m utilisation. No remaining OCP balance.
- **One small contract remaining:** will exit or retain depending on terms.

- Trading result ahead of expectations at start of 2016
- Encouraging performance on wins and pipeline development
- Strong balance sheet
- Good headway on Transformation stage of our Strategy Plan
- Outlook for 2017 unchanged

A detailed illustration of a city landscape, rendered in a flat, stylized art style. The scene is composed of various elements arranged in layers. In the foreground, a grey road with white dashed lines runs horizontally. On the left, a white building with a red cross and the word 'HOSPITAL' is visible. Next to it is a red fire truck. Further right, a red bus is stopped at a crosswalk where several small human figures are standing. To the right of the bus is a tall, grey skyscraper with many windows. On the far right, a red truck is parked. In the middle ground, a red train with multiple cars is traveling across a bridge. Below the train, a red bus is also visible. To the left of the bus, a white lighthouse stands on a small island. In the background, there are grey mountains, a grey city skyline, and a grey sky with a large grey sun. Various other elements are scattered throughout, including a red helicopter, a red airplane, a red boat, a red car, a red bicycle, a red house, a red tree, a red satellite dish, and a red satellite in the sky. The overall color palette is dominated by red, grey, and white, with small accents of blue and green.

Questions and Answers

Rupert Soames

Group Chief Executive

Ed Casey

Chief Operating Officer

Angus Cockburn

Chief Financial Officer

Appendix 1 – Notes and definitions

- Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Revenue including that from discontinued operations is shown for consistency with previous guidance.
- Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of acquisitions or disposals.
- Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit excludes Contract and Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), as well as the beneficial treatment of depreciation and amortisation of assets held for sale, and other material one-time items such as the pension scheme settlement in the first half of 2016 and the profit on early exit from a UK local authority contract that occurred in the second half 2015. Trading Profit measures include discontinued operations for consistency with previous guidance.
- Change at constant currency for Revenue and Underlying Trading Profit is calculated by translating non-Sterling values for the year to 31 December 2016 into Sterling at the average exchange rate for the year ended 31 December 2015.
- Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs (including those for discontinued operations) and related tax effects.
- Trading Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement and is stated after net capital expenditure on tangible and intangible asset purchases, adding dividends we receive from joint ventures and associates, and adjusting to remove net tax paid.
- Free Cash Flow is Trading Cash Flow after adjusting to deduct net interest paid and net tax paid.
- Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance on a two-point average basis. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures and associates; trade and other receivables; and inventories. All other assets are excluded from Invested Capital, being: retirement benefit assets; tax assets; derivative financial instruments; and cash and cash equivalents. Of the total liabilities on the balance sheet, Invested Capital liabilities are trade and other payables. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans. Assets and liabilities classified as held for sale are also included in Invested Capital.
- The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.
- The pipeline is defined as new bid opportunities with estimated Annual Contract Value (ACV) of at least £10m or a Total Contract Value (TCV) of at least £100m, and which are expected to be bid and adjudicated within a rolling 24-month timeframe. The TCV of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities. FOR IDIQs or MACs, only the potential value of any individual task order is included.

Appendix 2 – The Strategy phases presented in March 2015, with update at the December 2016 CME

Our Ambition

To be a superb provider of public services by being the best managed business in our sector

2014 Stabilise

- Hire new management
- Develop strategy and plan
- Identify issues
- Undertake Contract and Balance Sheet Review
- Stabilise morale
- Roll out corporate renewal

2015-17 Transform

- Rationalise portfolio
- Strengthen balance sheet
- Mitigate loss-making contracts
- Re-build business development
- Strengthen sector propositions
- Improve risk management
- Rebuild confidence and trust
- Build differentiated capability
- Improve execution

2018-20 Grow

- Build out geographical footprint
- Move into new sub-segments
- Leverage scale and capability
- Harvest benefits of transformation
- Continuously review portfolio

Planned Outcome

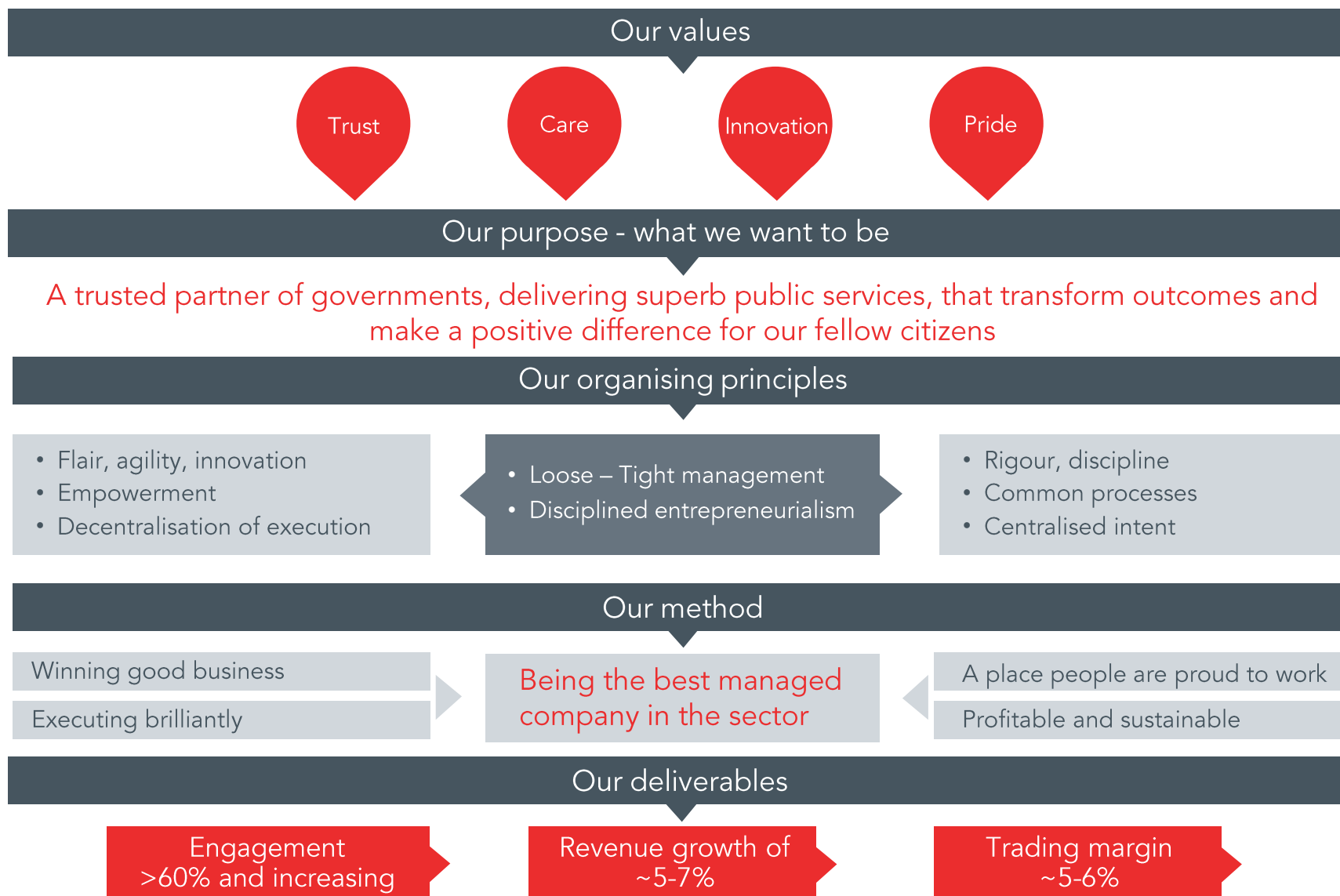
Chosen sectors will grow at ~5-7%

Industry margins in our sectors ~5-6%

Update December 2016

We reconfirm our view that in the long term we can build a business that can grow at ~5-7% and achieve margins of ~5-6%. How quickly we achieve those ambitions will, naturally, depend on market conditions, the actions of our competitors, and of course our own efforts, but we expect that between 2018 and 2020 we will make good progress towards them.

Appendix 3 – Our performance framework



Appendix 4 – Focus on five sectors across four regions

FY16 revenue from continuing activities, including share of JV&As

£m	Sector	UK & Europe	Americas	Middle East	Asia Pacific		
	Defence	632	327	40	113	£1,112m	32%
	Justice & Immigration	253	-	-	316	£569m	16%
	Transport	290	86	194	36	£606m	17%
	Health	229	-	34	91	£355m	10%
	Citizen Services	445	278	57	71	£850m	25%
	Total	£1,849m 53%	£691m 20%	£325m 9%	£627m 18%	£3,492m	

Note: Revenue reflects £3,011m for Continuing Operations only (therefore excluding the discontinued £37m Global Services division, consisting of private sector BPO operations that are in final stages of exit) and adjusted to include Serco's share of joint ventures and associates revenue of £481m.

Appendix 5 – costs analysis

£m	FY14	FY15	Change	% Change	FY16	Change	% Change
Revenue	3,955	3,515	(440)	(11%)	3,048	(467)	(13%)
Underlying Trading Profit	113	96			82		
Exclude: share of profit from JV&As	(30)	(37)			(33)		
Underlying Trading Profit ex. JV&As	83	59	(24)	(29%)	49	(10)	(17%)
Implied total costs	(3,872)	(3,456)	(416)	(11%)	(2,999)	(457)	(13%)
Include: costs offset by OCP utilisation*	(41)	(125)	84		(84)	(41)	
Total costs	(3,913)	(3,581)	(332)	(8%)	(3,083)	(498)	(14%)

- Cost challenge in FY16: to match revenue reduction of £0.5bn with equivalent cost reduction
- Within the outcome of £82m of Underlying Trading Profit, the total cost base has also reduced by £0.5bn, or 14%
 - Direct costs broadly volume-adjust for contract attrition and disposal impacts
 - Shared service and overhead costs have volume-adjusted or have been scale-adjusted through our programme of specific cost actions, delivering a further £50m+ reduction

* FY14 reflects £2m OCP utilisation of previously established provisions together with £27m of in-year costs on the ACPB contract that were written off as part of the Contract and Balance Sheet Review and £12m of loss recognised within exceptionals for UK clinical health; FY15 reflects total OCP utilisation on both Trading (£114m) and exceptional (£11m) to reflect the total cost base.

Appendix 6 – cash flow breakdown 1 & breakdown 2

£m	FY16	FY15
Breakdown 1 – depreciation, amortisation and impairment		
Depreciation	24.8	28.9
Amortisation (non-acquisition)	21.8	24.1
Depreciation and amortisation	46.6	53.0
Impairment of PPE	0.7	2.1
Impairment of intangibles	-	11.5
Amortisation of intangibles arising on acquisition	4.4	4.9
Impairment of intangibles arising on acquisition	0.7	-
Total depreciation, amortisation and impairment before exceptional items	52.4	71.5
Breakdown 2 – other non-cash movements		
Share-based payment expense	9.7	9.8
Loss on disposal of PPE and intangible assets	1.2	1.6
Non-cash R&D expenditure	(0.2)	0.1
FX impact and other non-cash movements	0.4	(0.1)
Other non-cash movements	11.1	11.4

Appendix 7 – cash flow breakdown 3

£m	FY16	FY15
Breakdown 3 – exceptional items cash costs		
Finance costs related to refinancing and early repayment	(0.3)	(31.8)
Restructuring and costs related to Strategy Review	(16.5)	(28.4)
Break and exit costs re residual UK private sector BPO operations	(15.2)	-
Lease break costs on termination of GSR lease	-	(12.9)
UK frontline clinical health exit costs	-	(11.7)
Costs re DLR pension deficit settlement	(8.3)	(8.3)
Rights issue costs moved to reserves on completion	-	8.4
Aborted transaction costs	(0.1)	(1.3)
Costs associated with UK Government reviews	0.2	(2.4)
Exceptional items cash costs	(40.2)	(88.4)

Appendix 8 – leverage covenant calculation

£m	FY16	FY15
Trading Profit	100.3	137.5
Exclude: share of joint venture and associate post-tax profits	(33.4)	(37.0)
Exclude: Foreign exchange credit on investing and financing arrangements	1.2	0.1
Include: dividends from joint ventures and associates	40.0	32.5
Add-back: DA including impairment (excluding acquisition intangibles)	47.3	66.6
Add-back: share-based payments charge	9.7	9.8
EBITDA per covenant	165.1	209.5
Net debt (closing), including assets held for sale	(109.3)	(62.9)
Less: disposal vendor loan note, encumbered cash and other adjustments	(28.5)	(28.8)
Covenant adjustment for average FX rates	23.0	-
Net borrowings per covenant	(114.8)	(91.7)
Leverage ratio per covenant (not to exceed 3.5x)	0.70x	0.44x

Appendix 9 – interest cover covenant calculation

£m	FY16	FY15
Net finance costs before exceptional items	(12.6)	(31.9)
Exclude: Foreign exchange credit on investing and financing arrangements	(1.2)	(0.1)
Exclude: net interest receivable on retirement benefit obligations	(4.7)	(4.9)
Exclude: movement in discount on other debtors	(1.0)	(0.1)
Add-back: movement in discount on provisions and deferred consideration	2.4	5.6
Net finance costs for covenant calculation	(17.1)	(31.4)
EBITDA per covenant (Appendix 8)	165.1	209.5
Interest cover per covenant (at least 3.0x)	9.7x	6.7x

Appendix 10 – FY15 provisions movement

Overall provision movements were in line with expectations for FY15

Contract and Balance Sheet Review OCPs charged in FY14 of £447m; OCPs reduced to £300m by end of FY15; movement included utilisation of £125m and £nil net charge/release

£m	Total OCPs	Other contract provisions	Held for sale Adj.	Total contract provisions	Employee, Property and other	Total reported provisions
31 December 2014	(447.1)	(4.9)	21.6	(430.4)	(147.5)	(577.9)
Charge – Trading	(91.8)	(10.1)	12.8	(89.1)	(33.7)	(122.8)
Charge – exceptional	-	-	-	-	(35.8)	(35.8)
Release – Trading	88.8	2.7	(1.3)	90.2	15.0	105.2
Release – exceptional	2.8	-	-	2.8	2.2	5.0
Utilised – Trading	114.1	16.6	(24.7)	106.0	33.3	139.3
Utilised – exceptional	10.8	-	-	10.8	-	10.8
Unwinding of discount	(5.5)	-	-	(5.5)	(0.1)	(5.6)
Disposals	6.5	0.4	(6.9)	-	-	-
FX	8.2	0.3	-	8.5	(2.8)	5.7
Transfer re working cap.	-	(4.5)	4.5	-	(15.9)	(15.9)
Transfer re held for sale	-	-	4.9	4.9	5.4	10.3
Reclassifications	13.3	(13.6)	-	(0.3)	0.3	-
31 December 2015	(299.9)	(13.1)	10.9	(302.1)	(179.6)	(481.7)

Appendix 11 – FY16 provisions movement and future profile

Overall provision movements in line with expectations

Contract and Balance Sheet Review OCPs originally charged in FY14 of £447m; liability now reduced to £220m

FY16 movement included utilisation of £84.2m and £9.6m net release

£m	Total OCPs	Other contract provisions	Held for sale Adj.	Total contract provisions	Employee, Property and other	Total reported provisions
31 December 2015	(299.9)	(13.2)	11.0	(302.1)	(179.6)	(481.7)
Charge – Trading	(56.1)	(0.5)	-	(56.6)	(53.7)	(110.3)
Charge – exceptional	(0.6)	-	0.6	-	(23.1)	(23.1)
Release – Trading	65.7	7.6	(8.4)	64.9	22.8	87.7
Release – exceptional	0.6	-	-	0.6	0.2	0.8
Utilised	84.2	0.9	(3.1)	82.0	41.4	123.4
Unwinding of discount	(2.4)	-	-	(2.4)	(0.1)	(2.5)
Arising on acquisition	(14.0)	-	-	(14.0)	(0.6)	(14.6)
Eliminated on disposal	-	-	-	-	1.7	1.7
FX	(11.6)	0.3	(0.1)	(11.4)	(13.5)	(24.9)
Transfer re working cap.	11.5	-	-	11.5	8.3	19.8
Transfer re held for sale	-	-	-	-	(3.3)	(3.3)
Reclassifications	2.4	4.9	-	7.3	(2.0)	5.3
31 December 2016	(220.2)	-	-	(220.2)	(201.5)	(421.7)

- Closing balance at 31 December 2016 of largest OCPs: COMPASS £56m; FPMS £35m; DES £32m; ACPB £20m; Lincolnshire £17m; PECS £15m; Hong Kong £15m; Sleeper £8m; all others in aggregate £22m, or ~10% of total
- Utilisation phasing: 2017 ~£80m, 2018 ~£60m, 2019 ~£35m, 2020 ~£15m, 2020+ ~£30m
- Revenue base: 2017 ~£380m, 2018 ~£360m, 2019 ~£270m, 2020 ~£150m

Appendix 12 – Pensions

- Serco sponsor a number of defined benefit pension schemes
 - Non contract specific – not related to specific contracts or franchises, largest of which is main Group scheme (SPLAS)
 - Contract specific – related to specific contract or franchise where the deficit is expected to pass back to the customer or next contractor. Intangible asset is recognised at the start of the contract and amortised over the contract life
- Total net balance sheet asset (before tax) across defined benefit schemes as at 31 December 2016 of £133m (31 December 2015: £116m) on asset base of £1.6bn
- £1.4bn assets, equivalent to 90%, allocated to conservative liability driven investments (LDIs)
- Main Group scheme (SPLAS) has an estimated actuarial deficit of approximately £34m (31 December 2015: £28m)
- Most recent triennial full actuarial valuation of SPLAS was a deficit of £4m as at 5 April 2015 (5 April 2012: deficit of £24m)

Appendix 13 – Balance sheet summary

Goodwill increase
reflects currency
movements

Loans reduction
driven by repayment of
USPP notes with
disposal proceeds

Provisions reduction
driven by OCP
utilisation

Held for sale removal
reflects completion of
disposal programme for
non-core businesses

£m	FY16	FY15
Goodwill	577.9	509.9
Other intangible assets	83.6	89.8
Property, plant and equipment	69.3	73.2
Trade and other receivables	587.9	569.9
Inventories	22.4	26.4
Interest in joint ventures and associates	14.4	13.8
Invested capital assets (before assets held for sale)	1,355.5	1,283.0
Cash and cash equivalents	177.8	323.6
Other assets (tax, fin. instruments, ret. benefit assets)	231.3	193.1
Total assets (before assets held for sale)	1,764.6	1,799.7
Invested capital liabilities (trade & other payables)	(541.3)	(567.1)
Loans	(299.9)	(381.9)
Provisions	(421.7)	(481.7)
Other liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(102.9)	(94.2)
Total liabilities (before liabilities held for sale)	(1,365.8)	(1,524.9)
Assets held for sale (net)	-	7.3
Net assets	398.8	282.1

Appendix 14 – Return on Invested Capital

ROIC based on Trading Profit reduces from 15.9% to 13.0%, but reflects in part the different scale of non-underlying adjustments

ROIC based on Underlying Trading Profit reduces marginally from 11.1% to 10.7%; FY15 on pro forma basis to remove Trading Profit re BPO disposal and on closing IC would be ~10%, therefore on a pro forma basis ROIC has marginally improved in FY16

£m	FY16	FY15
Invested capital assets	1,355.5	1,283.0
Invested capital liabilities	(541.3)	(567.1)
Assets held for sale (net)	-	7.3
Invested Capital (IC)	814.2	723.2
Average IC (two-point)	768.7	862.4
Trading Profit	100.3	137.5
Trading Profit for rolling 12 months	n/a	n/a
Underlying Trading Profit	82.1	95.9
Underlying Trading for rolling 12 months	n/a	n/a
Pre-tax ROIC:		
Trading Profit / Average IC	13.0%	15.9%
Underlying Trading Profit / Average IC	10.7%	11.1%

Appendix 15 – Currency rates

	Average rates			Spot rates 21 Feb 2017	Closing rates		
	FY16	HY16	FY15		31 Dec 2016	30 Jun 2016	31 Dec 2015
£:US\$	1.37	1.44	1.53	1.25	1.23	1.35	1.47
£:Aus\$	1.84	1.96	2.04	1.63	1.70	1.81	2.02
£:Eur	1.23	1.30	1.38	1.17	1.17	1.21	1.36

- Favourable currency impact in FY16: Revenue +£189m; UTP +£8.7m
- Translational FX sensitivity:
 - FY16 £:US\$ av. rate of 1.37; 5c move = ~£35-40m Revenue, ~£2m UTP (based on Americas + Middle East)
 - FY16 £:Aus\$ av. rate of 1.84; 5c move = ~£15-20m Revenue, ~£0.7m UTP (based on AsPac)
- Estimated FY17 favourable currency impact: Revenue ~£170m; Underlying Trading Profit ~£8m
 - Assumes FY17 £:US\$ av. rate of 1.25 and £:Aus\$ av. rate of 1.63, which are spot rates at date of presenting

Appendix 16 – FY14 Contract and Balance Sheet Review

(Note: slide as presented in March 2015)

Total impact of Contract & Balance Sheet Review broadly in line with November 2014 expectations

All charges represent necessary revisions to accounting estimates rather than errors arising from prior years

- Review undertaken in H2 2014 with support of EY
- Risk-based review of contracts and balance sheets across Serco
 - 19 full scope reviews
 - 114 specific scope reviews
- Outcome broadly in line with November 2014 guidance of 'around £1.5bn'
- Onerous contract Provisions (OCPs), impairments and other balance sheet charges total £1.3bn of review items
 - Separate exceptional items for DLR pension settlement and GSR impairments and charges; these total £0.1bn and were included within our previous guidance
- Key line item within the review items are the OCPs due to their future cash flow impact
 - Additional ~£100m identified since November 2014, more than offset by lower non-cash impairment of goodwill

Appendix 17 – FY14 Review items

(Note: slide as presented in March 2015)

Total impact of Contract & Balance Sheet Review broadly in line with November 2014 expectations

OCPs represent the estimated cumulative future losses for 2015 to end of contract, and are the major element of the charge with a future cash flow impact

Cash flow impact ~£100m higher than originally expected

£m	Onerous contract losses and related impairments	Other impairments and charges	Total charge to operating profit
Items charged to Trading Loss:			
OCPs for future year contract losses	(433)	-	(433)
Intangible fixed asset impairments and write-downs	(9)	(18)	(26)
Property, plant and equipment impairments	(19)	(3)	(22)
Impairment of receivables and other assets	(87)	(62)	(149)
Other provisions and accruals	(10)	(105)	(115)
Total items charged to Trading Loss	(558)	(188)	(745)
Impairment of intangibles arising on acquisition	(6)	(6)	(12)
Total items charged to loss before exceptionals	(564)	(194)	(758)
Exceptional items:			
UK clinical health OCP	(14)	-	(14)
UK clinical health other charges	(2)	-	(2)
Other provision for legal claims	-	(20)	(20)
Impairment of Global Services re held for sale	-	(39)	(39)
Impairment of goodwill	-	(466)	(466)
Total items charged to exceptionals	(16)	(525)	(541)
Total charge to operating loss	(580)	(719)	(1,299)

Appendix 18 – FY14 OCPs and related charges

(Note: slide as presented in March 2015)

£447m Onerous Contract Provisions (OCPs) represent the estimated cumulative future losses for 2015 to end of contract, and have a future cash flow impact

£133m of related impairments and charges, non-cash

£m	Onerous contract provisions for future year contract losses	Related impairments and charges	Total charge to operating profit
Items charged to Trading Loss:			
ACPB	(136)	(60)	(196)
COMPASS	(112)	(3)	(115)
FPMS	(50)	(15)	(65)
PECS	(14)	(13)	(27)
Ashfield	(15)	(4)	(19)
Five largest	(327)	(95)	(422)
Other	(106)	(29)	(135)
Total items charged to Trading Loss	(433)	(124)	(558)
ACPB - Impairment of intangibles arising on acquisition	-	(6)	(6)
Total onerous contracts charged to operating loss before exceptional items	(433)	(130)	(564)
UK clinical health exceptional charges	(14)	(2)	(16)
Total onerous contract charges to operating loss	(447)	(133)	(580)

Appendix 19 – FY14 background to OCPs 1/2

(Note: slide as presented in March 2015)

- £447m of OCPs charged in 2014 reflecting estimate of anticipated future losses from 2015 to the end of each individual contractual obligation
- Assumed aggregate losses of £139m in 2015 on a revenue base of ~£600m reflects a (23%) contract loss margin, improving in 2016
- The equivalent aggregate loss that these contracts made in 2014 was £95m. Only £54m of this was within 2014's £113m Underlying Trading Profit, as
 - £27m of loss was charged as write-down of in-year accrued income (ACPB)
 - £12m of loss was recognised within exceptionals (UK clinical health)
 - £2m of loss was offset by utilisation of provisions established prior to 2014

Appendix 20 – FY14 background to OCPs 2/2

(Note: slide as presented in March 2015)

- Estimated utilisation phasing of the £447m charge (which, together with a discount unwind of £21m, is a proxy for future cash outflow) is as follows:

£m	2015f	2016e	2017 onwards	Total
Utilisation	139	83	225	447

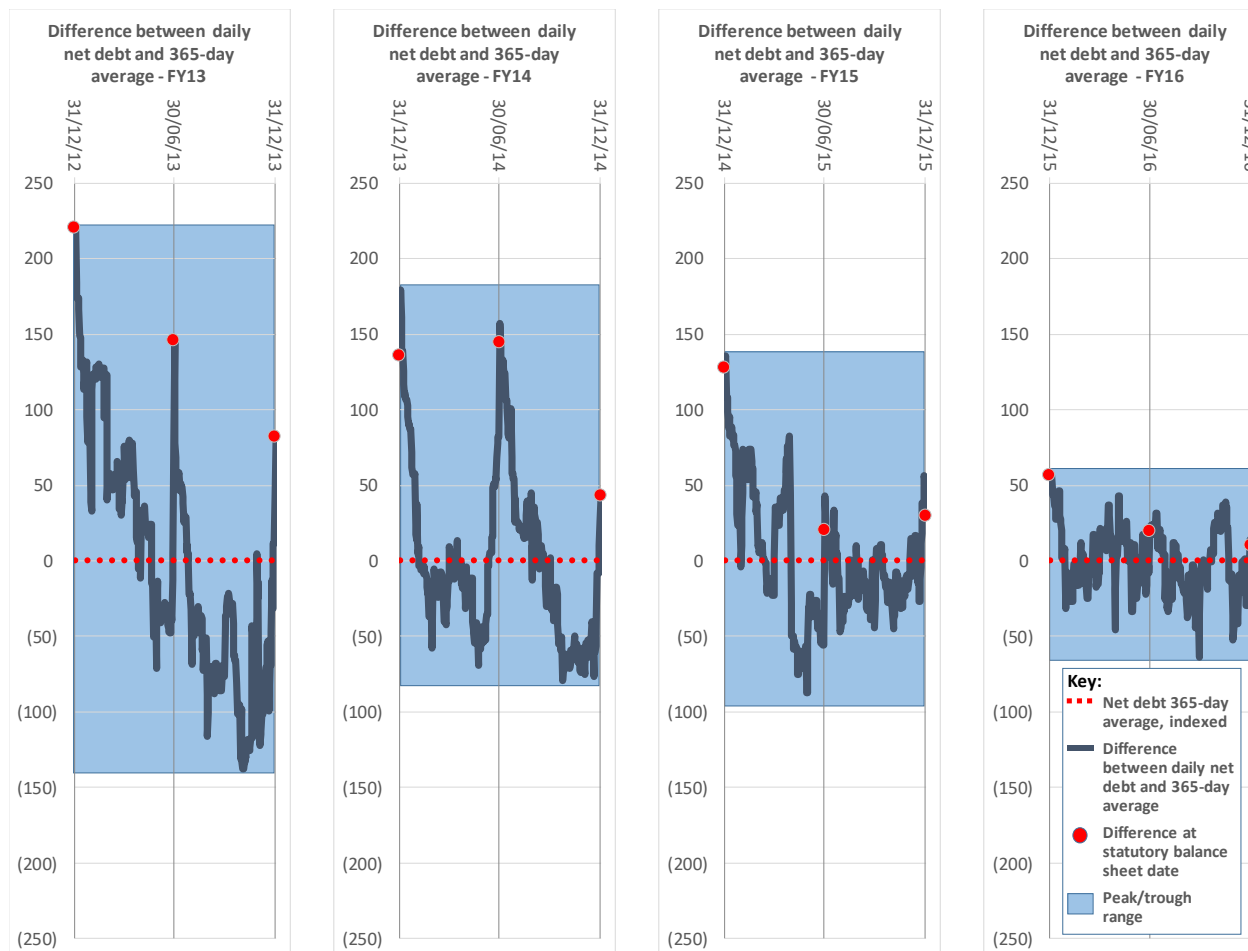
- 2015 higher than initial phasing estimates following detailed work on COMPASS volume and cost assumptions and ACPB work schedules
- 2016 reduction includes end of loss-making contracts such as Suffolk Community Health and NCS
- Further phasing reductions each year as the rate of loss improves on certain contracts and/or contracts roll-off
- The income statement will reflect the aggregate of
 - Profitable contracts ie ~£90m in 2015
 - Loss-making contracts ie ~£139m in 2015, neutralised by OCP utilisation of ~£139m
- Cash flow will be lower than 2014 given OCP utilisation
- Commitment to report transparently the impact of OCPs

Appendix 21 – Cash management normalisation

Previous cash management now largely unwound, removing optical benefit at the open/mid/closing statutory dates and narrowing the in-year cash cycle swings

For FY13, the 3-point statutory average net debt was £149m better than the 365-day average

By not repeating previous actions this had reduced to £108m for FY14, £59m for FY15 and £29m for FY16



The impact of net proceeds from the May 2014 Placing, the April 2015 Rights Issue and refinancing, and the December 2015 BPO disposal are all removed from the net debt average used in the above charts. FY13-15 chart as previously presented, not restated for the change in accounting policy to include within net debt the hedging effect of derivative financial instruments.

The following pages are a selection taken from Serco's Capital Markets Event held in December 2016.

The full pack and a webcast of the main presentation sessions are available at:

<https://www.serco.com/investors/results-report-events>

The turnaround plan presented March 2015 in summary

Our Ambition

To be a superb provider of public services by being the best managed business in our sector

2014 Stabilise

- Hire new management
- Develop strategy and plan
- Identify issues
- Undertake Contract and Balance Sheet Review
- Stabilise morale
- Roll out corporate renewal

2015-17 Transform

- Rationalise portfolio
- Strengthen balance sheet
- Mitigate loss-making contracts
- Re-build business development
- Strengthen sector propositions
- Improve risk management
- Rebuild confidence and trust
- Build differentiated capability
- Improve execution

2018-20 Grow

- Build out geographical footprint
- Move into new sub-segments
- Leverage scale and capability
- Harvest benefits of transformation
- Continuously review portfolio

Planned Outcome

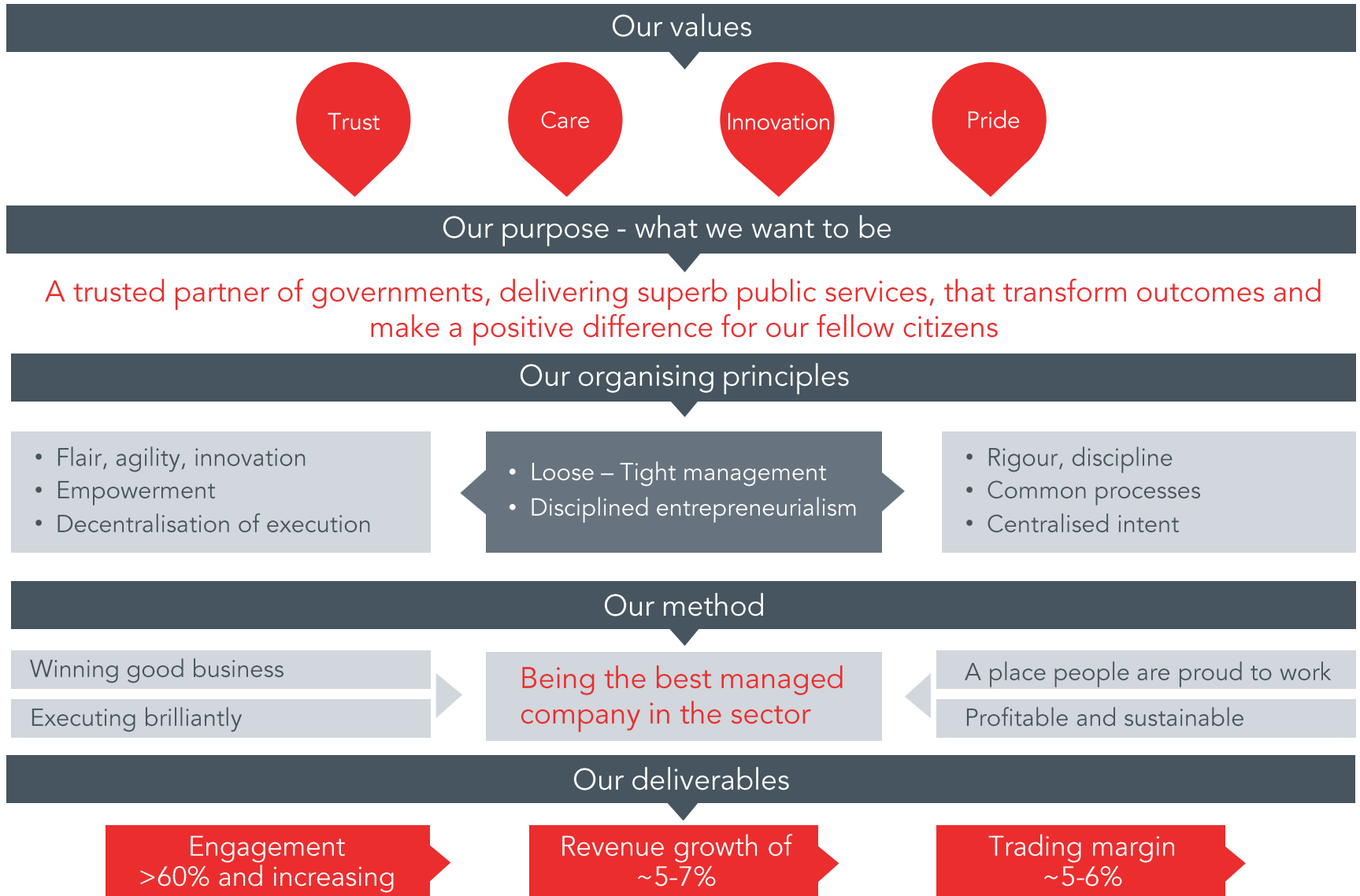
Chosen sectors will grow at ~5-7%

Industry margins in our sectors ~5-6%

Update December 2016

We reconfirm our view that in the long term we can build a business that can grow at ~5-7% and achieve margins of ~5-6%. How quickly we achieve those ambitions will, naturally, depend on market conditions, the actions of our competitors, and of course our own efforts, but we expect that between 2018 and 2020 we will make good progress towards them.

Our performance framework



Strategy Review Conclusions – March 2015

- 1 Stabilise
- 2 Exit private sector and other non-core businesses through divestment
- 3 Focus on being a public service provider: 5 sectors and 4 regions

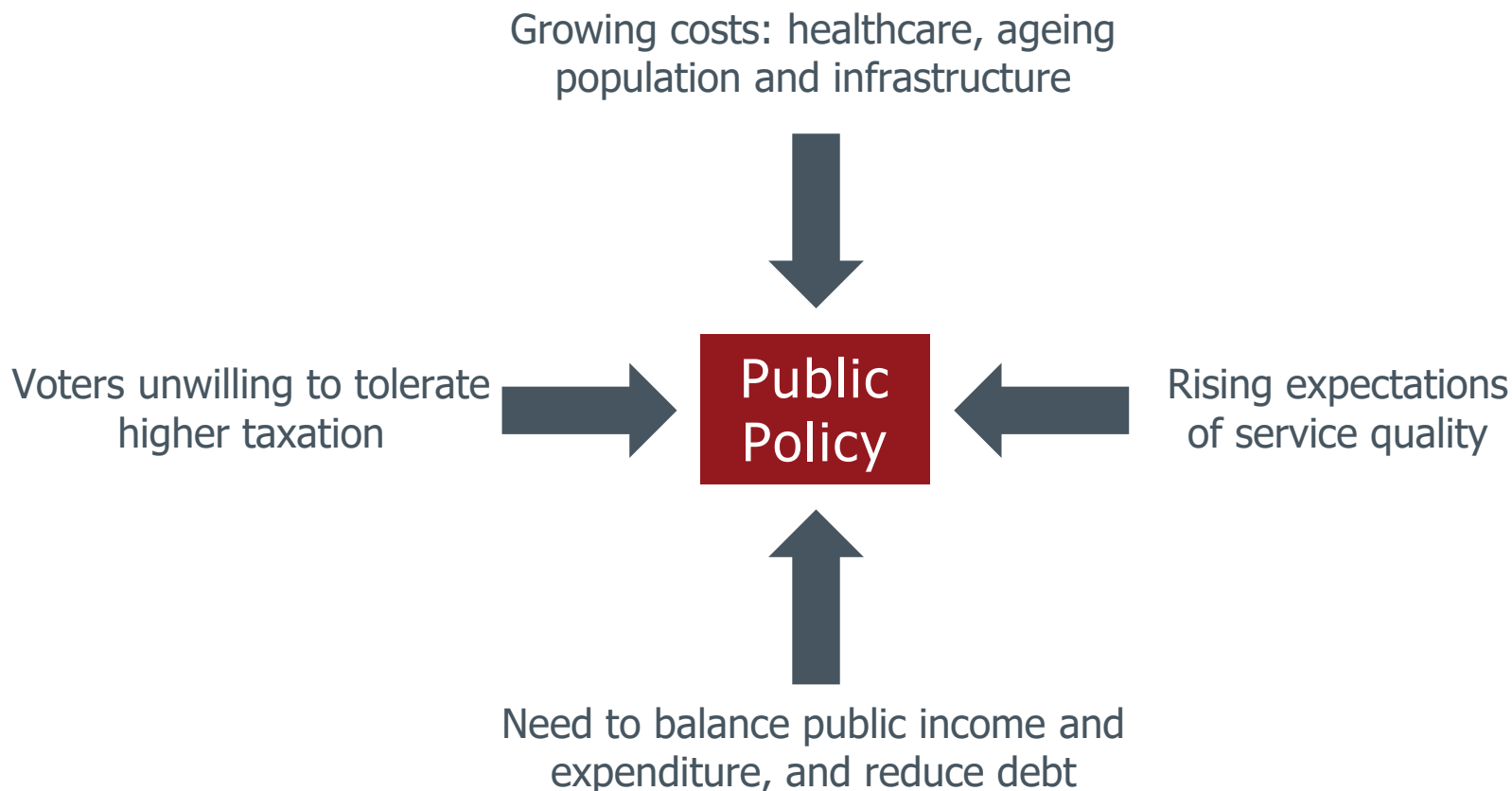
The 'Bingo Card'				
Sector	UK & Europe	Americas	Middle East	Asia Pacific
Defence	Strong	Strong	Foundation	Strong
Justice & Immigration	Strong	Exploring	Exploring	Strong
Transport	Strong	Foundation	Strong	Foundation
Health	Strong	Exploring	Foundation	Foundation
Citizen Services	Strong	Strong	Foundation	Foundation

● Strong

● Foundation

● Exploring

Four forces creating pressure on governments, and driving long term structural market growth



Fierce pressure on governments to deliver more, and better, for less

Strategy update of 2016 – the process

- 6 months' work, all internal
- Covered 5 Divisions
- 20 Business Units
- 65 different segments in at least 1 geography
- 98 segments analysed in total
- Over 20 teams involved
- Strategic analysis and detailed plans built at segment, BU, Division, global sector, and Group level
- But consistent process across all, covering in detail:
 - Full market analysis
 - Competitor analysis
 - Internal analysis
 - Market prioritisation
 - Choice making and ambition setting
 - Detailed action plans to achieve ambition
 - Risk and mitigation analysis

Strategy Review of 2016...

Some key achievements and questions answered...

We have **verified the ambitions** stated in 2014 of ~5-7% revenue growth and ~5-6% margins in long term

We have **prioritised investments** and efforts across our different sectors and geographies

We have defined our **competitive advantage** in each of our markets

We have defined how we can **successfully compete** in our 5 sectors

We now **have clearer areas of focus** in each of our sectors

We know how to maximise the **benefits of being international**

We have detailed, **actionable, strategic plans** for every part of our business

We are evolving to a clearer, more efficient and effective **organisational model**

We know the right size for our **sector CoEs** and are looking at capability CoEs

Across all our key **functions, we have redefined excellence** and how we achieve it

We have identified how to **become more cost competitive** and know the competitive intensity of each of our markets

Benefits of competing public services

– how we can relieve governments from the four forces

UK example

1 Costs and the economy

- **Reducing government costs:** on average 11% savings are made when public services are first competed (Oxford Economics)
- **Wider benefits to the economy:** private sector providers of outsourced services bring other indirect benefits - around one in ten jobs in the UK & Ireland, over 8% of the economy, and ~£30bn in tax

2 Better outcomes

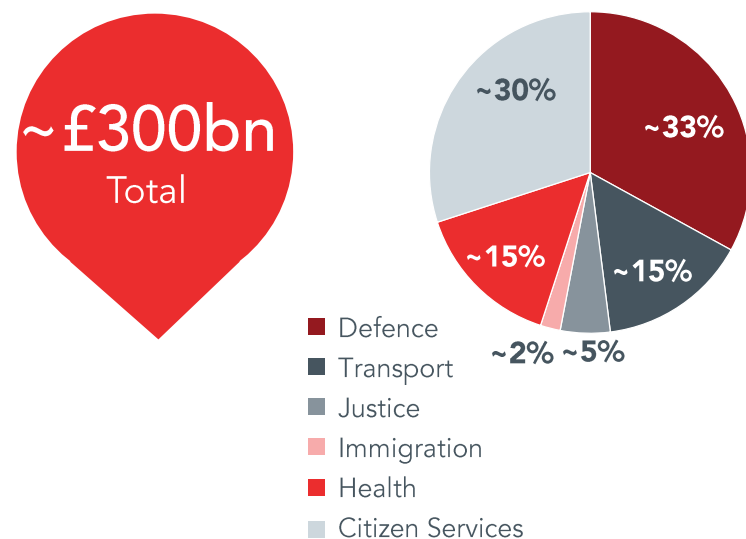
- **Productivity:** UK public sector productivity has increased by only ~0.2% a year since 1997 (ONS)
- **Empowerment:** We employ some of the best former public servants, reduce bureaucracy and input based requirements, and provide commercial expertise, freedom to innovate, and incentives based on client outcomes
- **International best practice:** Limited funds and limiting structures mean governments struggle to identify and share global best practice – as an international government provider we can achieve this more easily
- **Technology & digital:** Governments are often poor at rolling out innovation and technology. We can invest and test across sectors and countries with greater ease

3 Greater accountability

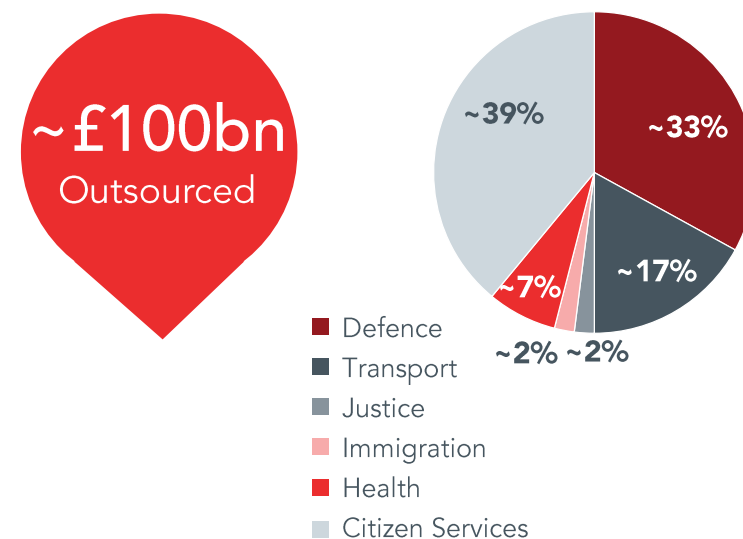
- When public service contracts are properly implemented, a greater level of accountability and incentivisation is achieved – often through a series of KPIs against which delivery is measured

Our market analysis shows significant opportunity for a public services provider...

Internally estimated total market size for our current & target segments 2017 (~%)



Internally estimated outsourced market size for our current & target segments 2017 (~%)



- Only ~30% of Serco's target market internationally is outsourced and shaping the market to increase this further is a key priority
- In terms of the outsourced market, Citizen Services is largest but highly diverse and fragmented with few cross-regional synergies; second largest is Defence at ~33%; this is followed by Transport at ~17%, then Health at ~7%, Immigration at ~2% and Justice at ~2%

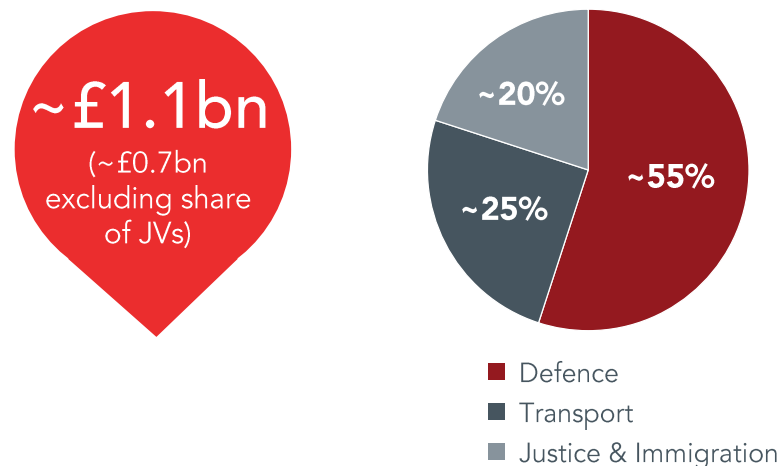
Assessing our sectors is highly complex and nuanced but we have examined each in detail and developed plans accordingly



Health	Citizen Services	Justice & Immigration	Transport	Defence
<ul style="list-style-type: none"> Serco revenue ~£0.4bn Current underlying margin typically at lower end of our sectors Operations concentrated in 2 or 3 segments Internal estimate of outsourced market size for Serco target countries and segments ~£5bn Strong international synergies and repeatable solutions 	<ul style="list-style-type: none"> Serco revenue ~£0.9bn Current underlying margin typically at lower end of our sectors Operating in ~11 segments Internal estimate of outsourced market size for Serco target countries and segments ~£40bn Diverse array of very regionally specific markets 	<ul style="list-style-type: none"> Serco revenue ~£0.5bn Current underlying margin typically at higher end of our sectors Operating in ~13 segments Internal estimate of outsourced market size for Serco target countries and segments ~£6bn Strong international synergies and repeatable solutions 	<ul style="list-style-type: none"> Serco revenue ~£0.6bn Current underlying margin typically at lower end of our sectors but strong cash flows and ROIC Operating in ~10 segments but >50% rail Internal estimate of outsourced market size for Serco target countries and segments ~£20bn Strong international synergies and repeatable solutions 	<ul style="list-style-type: none"> Serco revenue ~£1.1bn Current underlying margin typically at higher end of our sectors Operating in ~16 segments Internal estimate of outsourced market size for Serco target countries & segments ~£30bn Large regional variations

Our UK Central Government Division today

2016F Revenue and Sector Mix



Key segments

- **Defence:** C6ISTAR, Base Support, Engineering, Maritime, Enterprise Transformation
- **Transport:** Heavy Rail, Ferries, Cycle Hire
- **Justice:** Secure Escorting, Prisons, Police
- **Immigration:** Secure Detention, Community Accommodation & Support, Border Protection






Margin

- 2016F Divisional Underlying Trading margin of ~7% (or ~5% adjusting to include share of JV revenue)
- This reflects higher margin segments of C6ISTAR, Defence Engineering and Prisons
- Lower margin segments include Ferries and Immigration Secure Detention
- In 2016, OCP contracts represented ~£200m+ revenue and ~£40m OCP utilisation, including COMPASS, PECS, Caledonian Sleeper and FPMS

Key facts

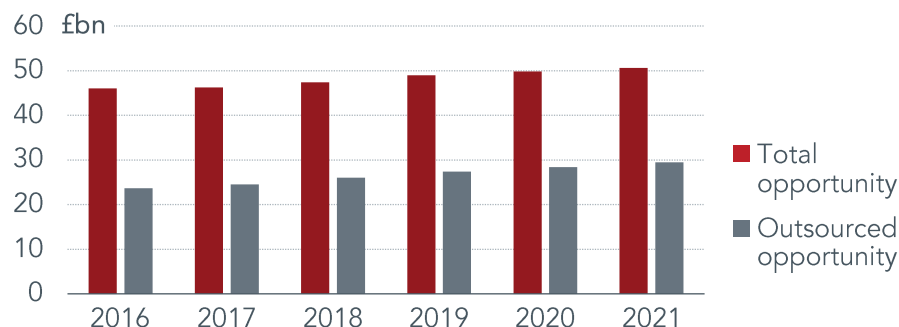
- Three sectors
- ~9,000 employees (excl JVs)
- Operations in UK, Falkland Islands, Sweden
- ~100 contracts

Our UK Central Government major customers

Ministry of Defence	Ministry of Justice	Home Office	Transport Scotland	Merseytravel
Sector: Defence	Sector: Justice	Sector: Immigration	Sector: Transport	Sector: Transport
 Ministry of Defence Key contracts <ul style="list-style-type: none"> • AWE (JV with Lockheed Martin and Jacobs) • FPMS • Brize Norton 	 Ministry of Justice Key contracts <ul style="list-style-type: none"> • PECS • HMP Dovegate • HMP Thameside • HMP Doncaster • HMP Ashfield 	 Home Office Key contracts <ul style="list-style-type: none"> • COMPASS • Yarl's Wood • Cyclamen 	 Key contracts <ul style="list-style-type: none"> • Northern Isles Ferries (NorthLink) • Caledonian Sleeper 	 Key contracts <ul style="list-style-type: none"> • Merseyrail (JV with Abellio)
% of Sector Revenue ~70%	% of Sector Revenue ~85%	% of Sector Revenue 100%	% of Sector Revenue ~35%	% of Sector Revenue ~30%

Our UK Central Government market

Estimated market size and growth*



Key market trends

Divisional:

- Severe spending constraint across departments: eg MoJ ~30% reduction, MoD to reduce civilian staff by 30,000
- Continued requirement for new solutions – constraints in delivering outcomes, talent gaps, cross-departmental silos

By Sector:

- **Defence:** increased investment in equipment and C6ISTAR; adoption of Whole Force Approach; large-scale procurements
- **Justice:** 'New for old' prisons, re-procurements of escorting and EM; reforms of youth justice; transformation of courts
- **Immigration:** Rising asylum and immigration volumes; need for more integrated and efficient border protection
- **Transport:** rising passenger volumes, investments in infrastructure, labour/union unrest
- **Enterprise Transformation:** Budget pressures; move to asset sales, JVs etc

Key observations on market potential*

- Outsourced market size ~£20bn, growing ~5% p.a.
- Outsourcing rate ~60%
- Largest sector outsourced market: Transport ~£16bn by 2021, lower margin
- Second largest: Defence at ~£8bn, average margin
- Third largest: Justice at ~£3bn, higher margin
- Above average growth expected in Enterprise Transformation and Immigration

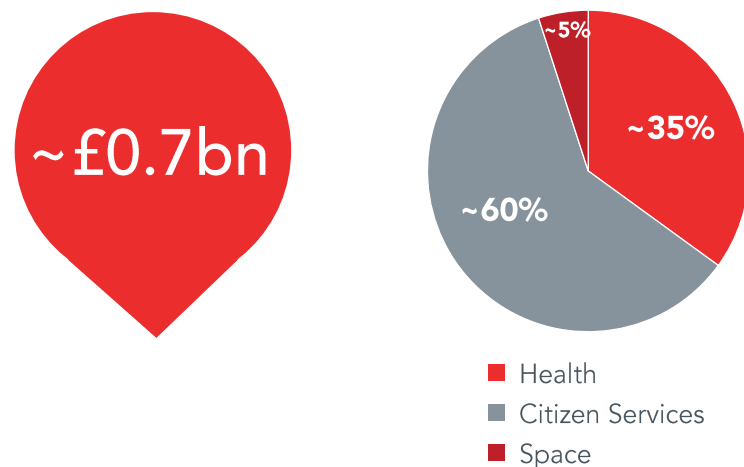
Key competitors*

- **Defence:** Babcock, BAE, Lockheed Martin, Interserve
– Serco market share: ~10%
- **Justice:** G4S, Sodexo, Interserve, GEO
– Serco market share: ~10%
- **Immigration:** G4S, Mitie, VF Worldwide, TLS Contact
– Serco market share: ~20%
- **Transport:** Stagecoach, Go-Ahead, Abellio, Arriva
– Serco market share: ~5%
- **Enterprise Transformation:** Babcock, Capita, Lockheed Martin
– Serco market share: ~10%

* based on Serco's current and target segments only

Our Local & Regional Government Division today

2016F Revenue and Sector Mix



Key segments

- **Citizen Services:** Waste & Recycling, Contact Centres, Back and Middle Office, Employment Services, Skills Development, Leisure Services
- **Health:** Facilities Management, Corporate Services, Clinical Support
- **Space:** Space Information Services (Europe)






Margin

- 2016F Divisional Underlying Trading margin of ~nil%
- This reflects modest sector margins of ~4 to 5% and the impact of some contract remediation costs within UTP in 2016
- In 2016, OCP contracts represented ~£100m+ in revenue and ~£25m utilisation
- Utilisation driven by Lincolnshire CC which is only ~£12m in revenue; other larger revenue contracts have very small OCPs

Key facts

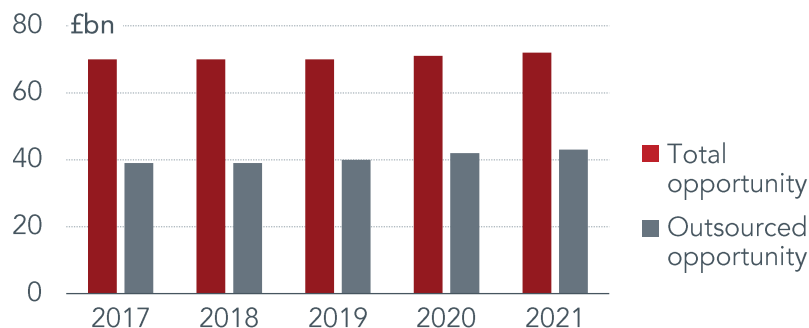
- Three sectors
- ~14,000 employees
- Major sites in England, Scotland, Wales, Belgium, Italy, Netherlands, Germany and France
- ~140 contracts

Our Local & Regional Government major customers

Norfolk & Norwich University Hospitals	Department of Work and Pensions	Glasgow ACCESS	Hertfordshire County Council	European Space Agency
Sector: Health	Sector: Citizen Services	Sector: Citizen Services	Sector: Citizen Services	Sector: Space
 <p>Key services</p> <ul style="list-style-type: none"> • Facilities management; • Strategic procurement 	 <p>Key contracts</p> <ul style="list-style-type: none"> • Child Maintenance Group • Personal Independent Payment CC • Work Programme • Warm Homes 	 <p>Key services</p> <ul style="list-style-type: none"> • Strategic partnership 	 <p>Key services</p> <ul style="list-style-type: none"> • Strategic partnership 	 <p>Key services</p> <ul style="list-style-type: none"> • Critical support services assisting Europe's space programme
% of Sector Revenue ~15%	% of Sector Revenue ~10%	% of Sector Revenue ~15%	% of Sector Revenue ~7%	% of Sector Revenue ~80%

Our Local & Regional Government market

Estimated market size and growth*



Key market trends

Divisional:

- Helping regional and local governments deal with austerity impact
- Rising demand for health and care services amid falling productivity levels
- Citizen and customer appetite growing for digital transformation
- Devolution shifting power from central to regional and local governments

By Sector:

- **Citizen Services:** spending cuts still hitting hardest on local government; employment and skills provision is targeting hardest to help
 - **European Agencies:** Brexit impact to be worked through; political and budgetary pressures leading to increase in outsourcing
- **Health:** significant financial pressure is impacting frontline delivery; Carter Report and Sustainability and Transformation Plans (STPs) driving centralised change

Key observations on market potential*

- Outsourced market size ~£40bn, growing <5% p.a.
- Outsourcing rate >50%
- Largest sector outsourced market: Citizen Services at £29bn, however most diverse covering 14 segments across local and regional government; higher margins in contact centres and European managed services but lower average margin in sector due to competitive intensity and market maturity
- Second largest is Health at £8.5bn representing range of support services; FM lower average margin compared to higher margin corporate services and clinical support segments

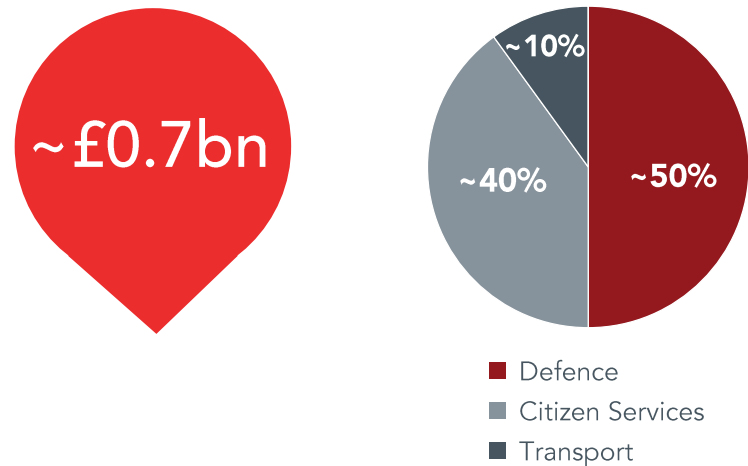
Key competitors*

- **Health:** Sodexo, ISS, Capita, NHS SBS
 - Serco market share: ~5%
- **Citizen Services** (Customer Services, Management & Admin): Capita, Agilisys, Arvato, Civica
 - Serco market share: ~5%
- **Citizen Services** (Public Environment excluding commercial waste): Veolia, Biffa, Amey, Sita Suez
 - Serco market share: ~10%
- **Citizen Services** (Welfare & Work): Staffline, Ingeus, Working Links, Seetec
 - Serco market share: <1%
- **Space:** Telespazio, Airbus, ACRI, CS-SI
 - Serco market share: <5%

* based on Serco's current and target segments only

Our Americas Division today

2016F Revenue and Sector Mix



Key segments

- **Defence:** Ship Modernisation, Shore/Base Modernization, Hardware Integration, Acquisition & Program Management, Logistics, Personnel Readiness
- **Transport:** Intelligent Transportation Systems, Fleet Maintenance, Aviation, Rail
- **Citizen Services:** Case Management






Margin

- 2016F Divisional Underlying Trading margin of ~6%
- This reflects some higher margins in Defence and some lower margins in Transportation
- In 2016, OCP contracts represented ~£70m in revenue and ~£12m in utilisation, driven by VDOT (ended H1 2016) and DES II contracts

Key facts

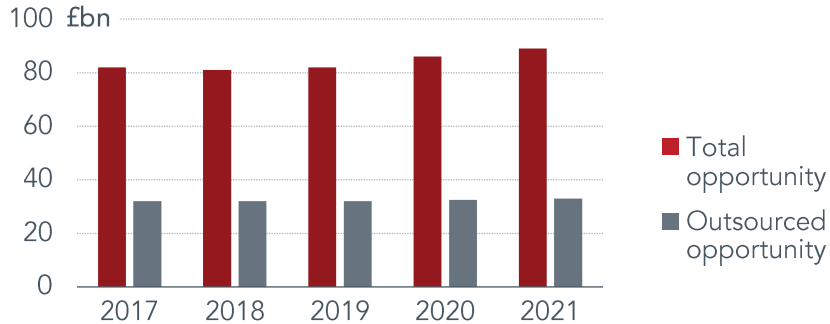
- Headquarters in Reston, Virginia
- 200+ contracts
- 86% prime / 14% subcontract
- 58% fixed price / 42% cost-type
- ~8,500 employees
- Operate in the US and Canada and support the US military in 12 further countries
- Forbes 2016 - 'One of Americas Best Large Employers'

Our Americas major customers

US Navy	US Air Force	US Army	Health & Human Services	State & Local DoT
Sector: Defence	Sector: Defence	Sector: Defence	Sector: Citizen Services	Sector: Transportation
 <p>Key contracts</p> <ul style="list-style-type: none"> • GIC • ATPF • ADNS • NESS • NIEF • CANES 	 <p>Key contracts</p> <ul style="list-style-type: none"> • Thule-HEMP • LMSS • NETCENTS • OASIS 	 <p>Key contracts</p> <ul style="list-style-type: none"> • SFL-TAP • Korea MPD • ARDEC 	 <p>Key contracts</p> <ul style="list-style-type: none"> • CMS-ES 	 <p>Key contracts (ITS)</p> <ul style="list-style-type: none"> • GDOT • LADOT • ALDOT
<p>% of Sector Revenue</p> <p>~65%</p>	<p>% of Sector Revenue</p> <p>~10%</p>	<p>% of Sector Revenue</p> <p>~5%</p>	<p>% of Sector Revenue</p> <p>~80%</p>	<p>% of Sector Revenue</p> <p>~40%</p>

Our Americas market

Estimated market size and growth*



Key market trends

Divisional:

- Significant uncertainty as to spending priorities following election; Defence and Transport likely to be beneficiaries; Affordable Care Act threatened
- Small-business set-aside limitations may ease
- Consolidation in services sector

By Sector:

- **Defence:** Threat from nation states/terrorists, cybersecurity; military rebuilding is priority which may translate into increased spending on ships, aircraft, and troop size
- **Citizen Services:** Ageing population, digital on-demand services, and increased expectation for greater levels of government services; changes to Affordable Care Act (e.g. mandates and subsidies) could impact CMS work
- **Immigration:** Increased emphasis on deportation and border security could increase demand for detention centers and foreign visitor registration
- **Transport:** Ageing infrastructure, smart technology enabling cities and urban transit. Less emphasis on renewable energy and more emphasis on building infrastructure

Key observations on market potential*

- Outsourced market size >£30bn, growing <5% p.a.
- Outsourcing rate ~40%
- Largest sector outsourced market: Defense at ~£20bn
- Second largest: Citizen Services at ~£8bn
- Third largest: Transportation at ~£4bn
- Highest growth expected in Transportation

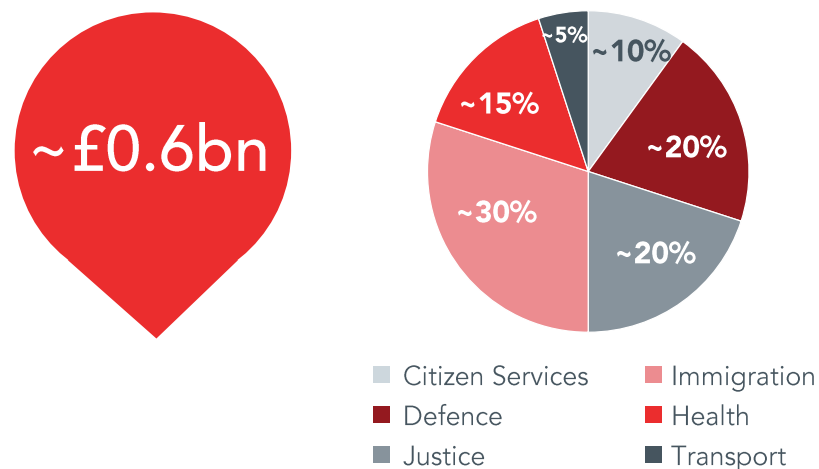
Key competitors*

- **Defence:** VT Milcom, General Dynamics, SAIC, CACI, Huntington Ingalls
 - Serco market share ship and shore modernization: <5%
- **Citizen Services:** CGI, FCI, General Dynamics, Lockheed Martin, Hewlett Packard, Deloitte
 - Serco market share is case management: <5%
- **Transport:** AECOM/URS, Atkins, TransCore, Parsons
 - Serco market share: <5%

* based on Serco's current and target segments only

Our Asia Pacific Division today

2016F Revenue and Sector Mix



Key segments

- **Justice:** Full prison management, secure youth establishments, escorting
- **Immigration:** Secure detention, escorting, immigration case management
- **Defence:** Vessel operations, vessel maintenance, military training and simulation
- **Health:** Facilities management, corporate services, ICT
- **Citizen Services:** Citizen contact centres, transactional back and middle office services, grounds and streets
- **Transport:** Other roads, parking, intelligent transportation systems, light rail and metro (shadow operations)






Margin

- 2016F Divisional Underlying Trading margin of ~4%
- Higher margin sectors include Immigration and Citizen Services, and lower margin sectors include Justice and Health
- In 2016, onerous contracts (including ACPB, Mt Eden, Hong Kong) represented ~£100m in revenue and ~£15m in OCP utilisation

Key facts

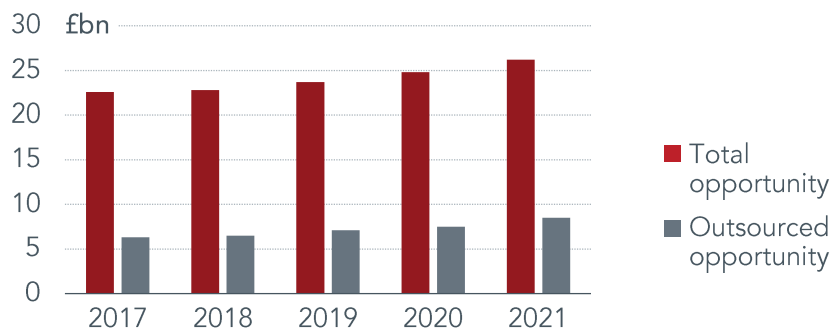
- 6 sectors
- ~10,000 employees
- 3 countries
- 42 contracts, 26 customers, 26 locations

Our Asia Pacific major customers

Department of Immigration & Border Protection	Department of Health, Western Australia	Department of Corrective Services, Western Australia	Department of Defence, Australia	Australian Tax Office
Sector: Immigration	Sector: Health	Sector: Justice	Sector: Defence	Sector: Citizen Services
 <p>Australian Government Department of Immigration and Citizenship</p> <p>Key contracts</p> <ul style="list-style-type: none"> • Detention Facilities and Detainee Services • Status Resolution Support Services 	 <p>Government of Western Australia Department of Health</p> <p>Key contracts</p> <ul style="list-style-type: none"> • Fiona Stanley Hospital 	 <p>Government of Western Australia Department of Corrective Services</p> <p>Key contracts</p> <ul style="list-style-type: none"> • Acacia • Wandoo Young Adults Facility • WA CSCS 	 <p>Australian Government Department of Defence</p> <p>Key contracts</p> <ul style="list-style-type: none"> • ACPB • FMSC • PCPB 	 <p>Australian Government Australian Taxation Office</p> <p>Key contracts</p> <ul style="list-style-type: none"> • Australian Tax Office Contact Centers
% of Sector Revenue 100%	% of Sector Revenue ~85%	% of Sector Revenue ~65%	% of Sector Revenue ~50%	% of Sector Revenue ~50%

Our Asia Pacific market

Estimated market size and growth*



Key market trends

Divisional:

- Large variation in appetite between Australian States; WA and NSW most committed to private provision
- Lively political environment with loud opposition to private provision in some areas, eg New Zealand, Queensland
- Consolidation amongst providers led by international operators

By Sector:

- **Justice:** Significant opportunities with tenders in progress
- **Immigration:** Highly contentious policy area, but Government committed to robust control of immigration inflows
- **Defence:** Major investment in new capital projects (eg submarines); demand for maritime subdued, greater opportunity in other defence areas
- **Citizen Services:** Significant reforms, eg digitisation of government services
- **Health:** Low levels of private participation, strong market growth anticipated
- **Transport:** Strong growth in major rail infrastructure investment

Key observations on market potential*

- Outsourced market size ~£6bn, growing >5% p.a.
- Outsourcing rate ~30%
- Largest sectors include Transport, Citizen Services and Immigration
- Justice expected to be highest growth, Immigration lowest
- Citizen Services and Immigration typically higher margins, Justice and transport typically lower

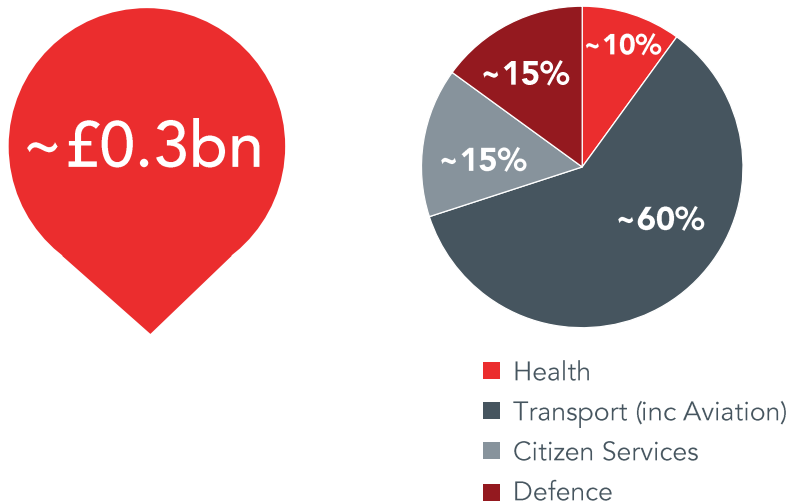
Key competitors*

- **Justice:** GEO, G4S, Sodexo, Broadspectrum
 - Serco market share: ~25%
- **Immigration:** Broadspectrum, BUPA (Visa Medical)
 - Serco market share: ~15%
- **Defence:** Broadspectrum, Austal, UGL, Babcock
 - Serco market: ~10%
- **Health (FM only):** Spotless, ISS, Compass, Ventia
 - Serco market share: ~25%
- **Citizen Services:** Stellar, Salmat, Datacom, Tenix
 - Serco market share: ~5%

* based on Serco's current and target segments only

Our Middle East Division today

2016F Revenue and Sector Mix



Key segments

- **Defence:** Base Operations and Logistics
- **Transport:** Light Rail & Metro, Heavy Rail, Air Navigation Services
- **Health:** Facilities Management
- **Citizen Services:** Facilities Management (Commercial Real Estate, Education)






Margin

- 2016F Divisional Underlying Trading margin ~5%
- Reflects higher sector margins in Defence and Citizen Services and lower margins in Health
- Margin in 2016 includes pressure from increase and timing of bid costs
- No OCP contracts

Key facts

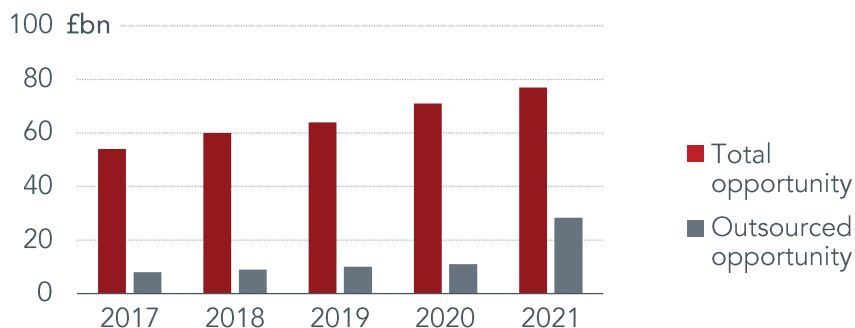
- 4 sectors
- ~5,000 employees
- 5 countries (UAE, KSA, Bahrain, Iraq, Qatar)
- 27 contracts

Our Middle East major customers

RTA	Mubadala	Saudi Railways Company	Dubai Airports (inc DANS)	Australian Defence Force
Sector: Transport	Sector: Health & Citizen Services	Sector: Transport	Sector: Transport (Aviation)	Sector: Defence
 <p>Key contracts</p> <ul style="list-style-type: none"> • Dubai Metro • Dubai Tram 	 <p>Key contracts</p> <p>Health</p> <ul style="list-style-type: none"> • Cleveland Clinic and Healthpoint <p>Citizen Services</p> <ul style="list-style-type: none"> • ADGM Square • Zayed University • Khadamat • Paris Sorbonne University 	 <p>Key contracts</p> <ul style="list-style-type: none"> • Management and Technical assistance for infrastructure management and Rail Operations for North South Railway 	 <p>Key contracts</p> <ul style="list-style-type: none"> • Dubai Air Navigation Services (DANS), Automatic People Mover and Facilities Management 	 <p>Key contracts</p> <ul style="list-style-type: none"> • MELABS
% of Sector Revenue ~45%	% of Sector Revenue Health ~60% CS ~70%	% of Sector Revenue ~15%	% of Sector Revenue ~20%	% of Sector Revenue ~80%

Our Middle East market

Estimated market size and growth*



Key market trends

Regional:

- Across the Middle East, in all of Serco's target sectors, there is significant growth, both economic and population
- Short term visitor levels are increasing through tourism, creation of travel hubs (e.g. Dubai/Doha), major events and businesses establishing regional headquarters

By Sector:

- **Defence:** The overall market is expected to grow at ~5% CAGR during 2017-21, driven by growth in military expenditure and conscriptions in UAE and Qatar
- **Transport:**
 - Rail: The total market is estimated to grow at >10% CAGR during 2017-21, primarily driven by a strong pipeline of projects in KSA (both light rail and heavy rail) and Qatar (light rail) due to a strong demand in alternative modes of passenger transport, driven by rapid population growth, urbanisation, events and tourist growth
 - Aviation: The total market is expected to grow at >5% CAGR during 2017-21, driven by significant passenger traffic, pipeline of new airports and expansion of existing ones
- **Citizen Services:** The total market is expected to grow at >5% CAGR during 2017-21, driven by strong pipeline of grade A commercial projects (UAE) and planned mega projects (Dubai Expo 2020 and Qatar World Cup 2022)
- **Healthcare:** Total market is expected to grow at >5% CAGR during 2017-21; driven by strong pipeline of public (65 new hospitals) and private (12 new hospitals) Healthcare centres in KSA

Key observations on market potential*

- Outsourced market size ~£7bn but expected to grow by ~50% by 2021
- Outsourcing rate to increase but still <20%
- The largest outsourced market is Defence at ~£3.8bn in 2017 of which 10-15% is likely to be addressable by Serco
- Citizen Services at ~£2.6bn and Healthcare at ~£0.7bn also represent key markets for Serco
- Transport is a significant outsourced market for Serco. There are a limited number of major opportunities in this market with binary outcomes and long-term contractual durations

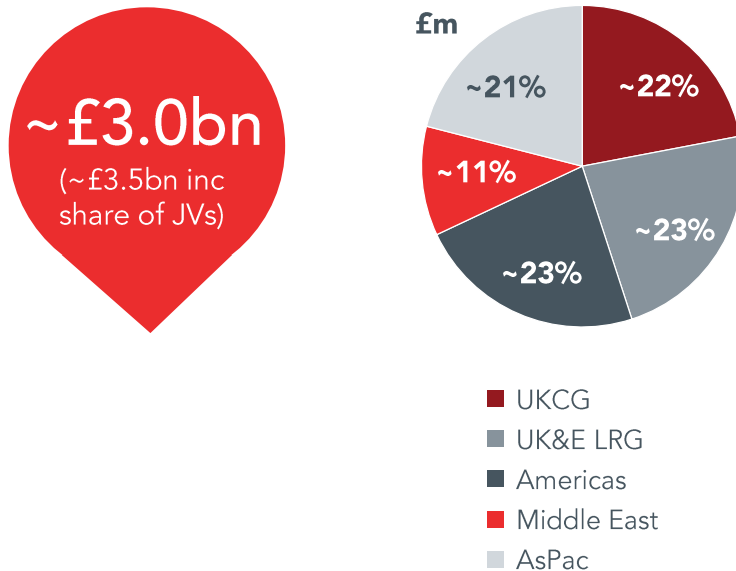
Key competitors*

- **Defence:** BAE Systems, Lockheed Martin, Babcock, KBR
- **Rail:** RATP, MTR, Keolis, Arriva
- **Aviation:** NATS, GAL, DFS, Washington Consulting
- **Citizen Services:** ADN Compass, Emrill, Carillion, Cofely Besix
- **Healthcare:** ADN Compass, Emrill, Carillion, Sodexo

* based on Serco's current and target segments only

Serco's Divisions today

2016F Revenue and Division Mix



2016F Underlying Trading Margin

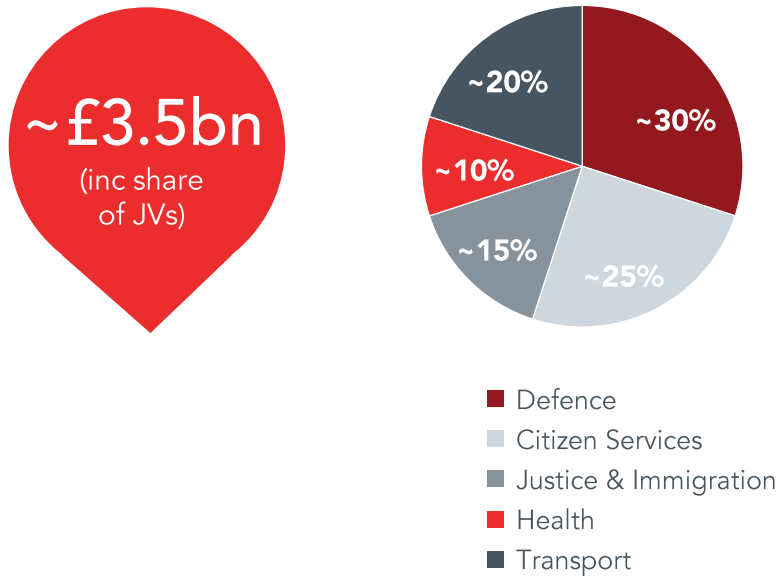
- **UKCG:** ~7% (or ~5% adjusted to include share of JV revenue)
- **UK&E LRG:** ~nil %
- **Americas:** ~6%
- **Middle East:** ~5%
- **AsPac:** ~4%

Key statistics

- 5 divisions
- 4 regions
- Over 20 countries
- ~50,000 employees
- Over 500 contracts

Serco's Sectors today





2016F Revenue and Sector Mix



Margin

- Serco's current regional sector level underlying contract margins range from ~8-14%
- Higher margin sectors include Immigration, Justice and Defence
- Lower margin sectors include Transport, Health and Citizen Services
- However, both Transport and Health generally involve longer term contracts, with modest capital requirements leading to higher through-contract ROIC

Our international footprint gives us opportunity and diversification

UK & Europe	Americas	AsPac	Middle East
			
<p>Strong position in large and mature market covering central, local and regional governments. Serco successfully rebuilding its reputation, and pipeline strengthening. Customers under extreme pressure, which is both a threat and opportunity. Focus on delivering excellent operational performance, and improving financial performance of loss-making contracts.</p>	<p>Huge market with sustainable margins in which we have a small position in discrete niches. Plenty of opportunities to expand into new areas, but we need to see implications of new administration before making any moves.</p>	<p>Strong position in market which has adopted private provision of public services across many sectors. Plenty of opportunity, with strong pipeline in Justice. Need to drive further efficiencies to improve margins.</p>	<p>As an early-mover in a young market, Serco has a unique position, with an established reputation and important customers. Currently dominated by very large rail opportunities, but long term plenty to go after in other sectors</p>
<p>Overall</p> <ul style="list-style-type: none">• The UK is our largest business, and from a low base our pipeline is growing, in part because demand is focused in areas in which we have strong positions – Justice, Health, Defence and Enterprise Transformation.• However, our unique international footprint gives us diversification and numerous opportunities at a time when geo-politics makes individual governments unpredictable			

We believe our revenue growth ambition of ~5-7% is achievable

Internal estimates of average annual outsourced market growth 2017-2021...

Sector	UK & Europe	Americas	Middle East	Asia Pacific
Defence	Medium	Low	High	Low
Justice	Medium	Low	Low	High
Immigration	Low	Low	Low	Low
Transport	Medium	Medium	High	High
Health	Medium	Low	Medium	Medium
Citizen Services	Low	Low	High	High

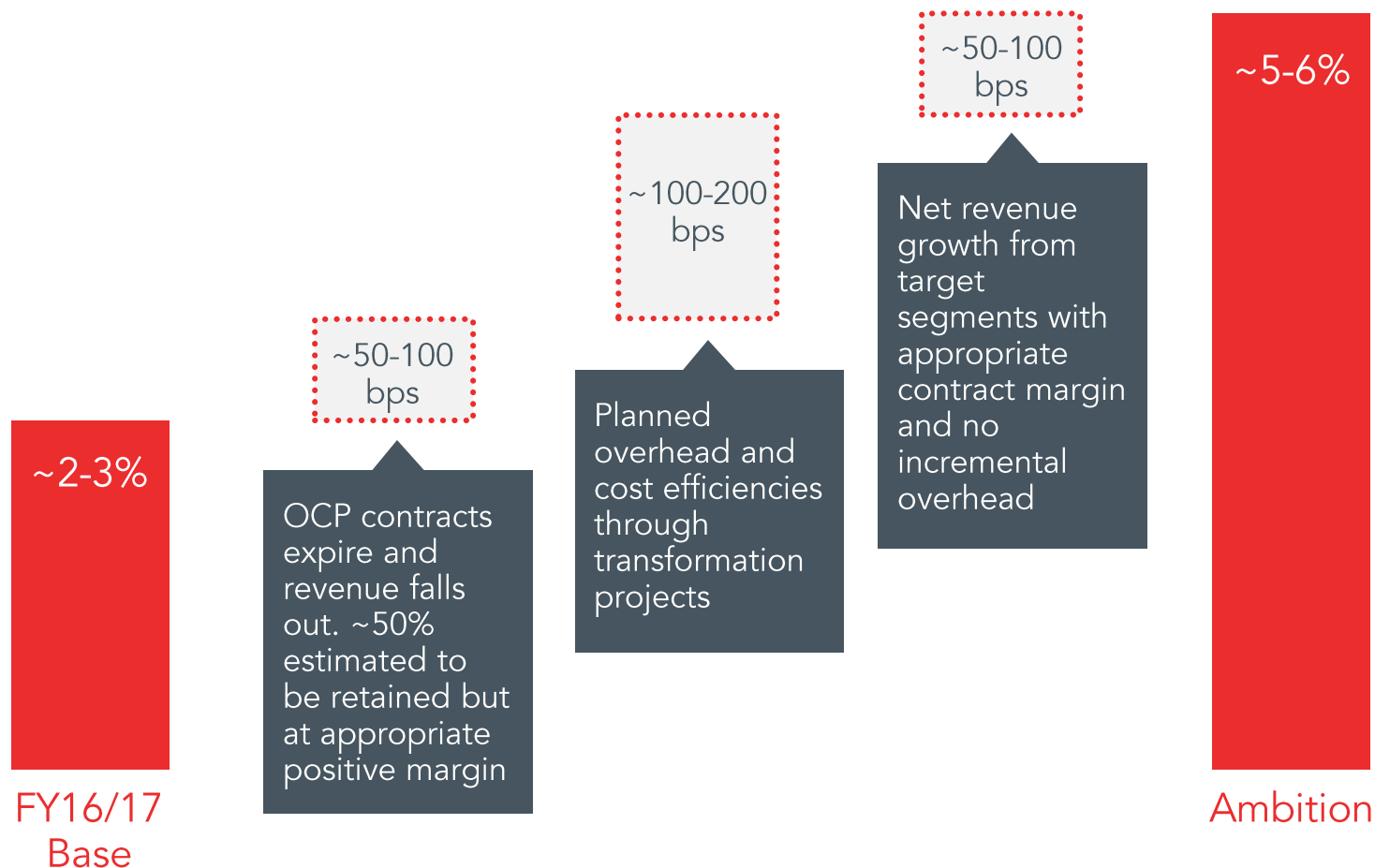
Expected growth rates

- Low
- Medium
- High

- Figures are internal estimates and represent current target segments only
- Some sectors are politically volatile and particularly unpredictable e.g. UK Justice after new Government, US Defence after election (figures are pre-Trump)
- Overall ~4% average annual growth expected across our current outsourced markets

We believe we can beat our current markets' overall average annual growth rate of ~4%, through shaping the market towards increased outsourcing, focussing on our highest growth segments, and winning more than our fair share through excellent propositions

We believe through 3 key steps our underlying trading margin ambition of ~5-6% is achievable



Key initiatives under our four themes

Our themes

Winning good business

Executing brilliantly

A place people are proud to work

Profitable & sustainable

Key initiatives

The right prioritised portfolio

- Following our in depth analysis, prioritise resource on our best sectors, geographies, and segments

Customer intimacy, focussed bidding and differentiated propositions

- Clearly prioritised and allocated BD spend to reflect market priorities
- Optimum sales methodologies and greater customer intimacy
- Unique propositions and thought leadership to enhance competitive advantage

Lean and efficient

- Transform our organisational model
- Continue to improve Shared Services and accelerate Finance transformation
- Reduce overheads and contract costs

Establishing world class competencies and capabilities

- Attract, train and retain the very best talent
- Boost sector CoEs as appropriate e.g. global rail bid team. Lighter touch but formal mechanisms for sharing insight in sectors not warranting CoE
- Establish CoEs for key competencies and cross-sector services

Operational Excellence as our foundation

- Operational Excellence, delivering world-class service to customers and end-users
- Build expertise in Continuous Improvement into our DNA
- Focus on safety and rigorous contract management

Our differentiation is sector-specific, but Serco also offers Group-wide capabilities that governments value

Transferable global experience

Our international reach, scale and cross-sector experience allows us to draw on specialist expertise, tried and tested processes, emerging best-practice and technological innovation from across the globe, within and across our sectors.

Strong governance and risk management

Improved corporate standards, organisation-wide training, clear operating procedures and disciplined management processes ensure strong governance, risk management, operational excellence, clear accountability and excellent performance.

Public service ethos

We uniquely focus on public services and our specialist teams, who are drawn from strong public sector and commercial backgrounds, are committed to serving government and making a positive difference to the lives of the citizens we serve, bringing to life our values of trust, care, innovation and pride.

Scalable and customised solutions

Our global spread, deep expertise, dynamic culture and flexible operating model allows us to rapidly scale-up and deliver critical services to a high quality standard. We design, customise and flex services according to customer need.

Trusted partnership

We aim to be trusted partners of government, citizens, communities, and organisations we work with. We demonstrate accountability, bring deep understanding and form close relationships. Often we integrate seamlessly into government organisations, acting as an extension of them, not just a contractor. We also form close partnerships with small business and NGOs.

Ability to test and innovate

We're agile and able to innovate. We invest in R&D, thought leadership, and design and trial new technologies and processes to enhance our operations which can be adopted more widely by governments once proven.

Full service integration

We have a breadth of service expertise that is almost unrivalled. Often separately, but sometimes together, we are expert at designing and operating anything from vital frontline to back-office services. Yet whatever we are doing, we offer integrated solutions, seamlessly knitting together whole operations for government to transform delivery and efficiency.

Citizen-centred, outcome focused

We design solutions around citizens and outcomes. We deliver more efficient and effective public services through our research, measuring, and deep understanding of the needs and experience of service users, and a focus on outcomes not inputs.

Expert and empowered people

We recruit expert talent and the best sector specialists who have deep experience in different areas of public services. We then empower them, giving them the freedom to be entrepreneurial, and the investment and corporate support to put good ideas into action across our operations.

Our ambition

Our values

Trust

Care

Innovation

Pride

Our purpose - what we want to be

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

Our organising principles

- Flair, agility, innovation
- Empowerment
- Decentralisation of execution

- Loose – Tight management
- Disciplined entrepreneurialism

- Rigour, discipline
- Common processes
- Centralised intent

Our method

Winning good business

Executing brilliantly

Being the best managed
company in the sector

A place people are proud to work

Profitable and sustainable

Our deliverables

Engagement
>60% and increasing

Revenue growth of
~5-7%

Trading margin
~5-6%

American Depositary Receipt (ADR) program

Serco Group has recently upgraded to a sponsored Level 1 ADR program, for which Deutsche Bank act as the depositary bank and custodian

Ticker: SCGPY

Exchange: OTC

CUSIP: 81748L209

ISIN: US81748L2097

Ratio: 1 ADR : 1 Ordinary Share

ADR key benefits

- Convenient means of trading/holding foreign shares
- USD-denominated security – reducing custody costs
- Trade, clear and settle like other US securities
- Dividends (if declared by the Board) paid in USD
- Purchased or sold through US brokers

For assistance with converting Ordinary Shares into ADRs (or vice versa), please contact Deutsche Bank's ADR broker helpline:

New York: +1 212 250 9100

London: +44 207 547 6500

Hong Kong: +852 2203 7854

e-mail: adr@db.com

ADR website: www.adr.db.com

Bringing service to life



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