

**SERCO LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

**31 DECEMBER 2001**



**A company registered in England and Wales, number 242246**

## **DIRECTORS' REPORT**

The Directors present herewith their report and accounts for the year ended 31 December 2001.

## **ACTIVITIES**

Serco Limited and its subsidiary companies and associated undertakings provides a wide range of facilities management and system engineering services.

## **REVIEW OF DEVELOPMENTS AND FUTURE DEVELOPMENTS**

The Profit and Loss Account of Serco Limited for the year ended 31 December 2001 is set out on page 5. The Directors are confident that 2002 will be another successful year.

## **DIVIDEND**

A dividend in respect of the year ended 31 December 2001 of £19,036,000 was paid on the Ordinary Shares (2000 - £12,484,000).

## **EMPLOYEE INVOLVEMENT**

Managers are tasked with developing employees' awareness of factors affecting the business and matters concerning them as employees and noting employees' views so that they can be taken into account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade unions or staff associations are recognised or where works councils are constituted.

## **EMPLOYMENT OF DISABLED PERSONS**

Full and fair consideration is given to applications for employment made by disabled persons having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

## **CREDITOR PAYMENT POLICY**

Serco Limited requires its business units to negotiate and agree the terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made aware of the agreed terms and the way in which disputes are to be settled. Payment is to be made in accordance with these terms.

The Company's trade creditors represented 25 days (2000 - 31 days) of trade purchases.

## **CHARITABLE AND POLITICAL CONTRIBUTIONS**

Charitable donations totalling £109,000 (2000 - £47,000) were made during the year. There were no political contributions made by the Group.

**DIRECTORS' REPORT (continued)**

**DIRECTORS**

The following Directors served during the period from 1 January 2001 to date:

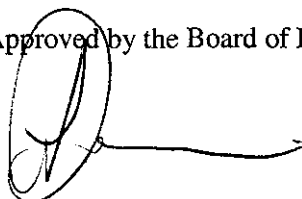
|               | <b>Appointed</b> | <b>Resigned</b> |
|---------------|------------------|-----------------|
| K S Beeston   |                  | 26 April 2001   |
| I W Downie    |                  |                 |
| C R Hyman     |                  |                 |
| J D M Jeffery |                  |                 |
| G W Leach     |                  |                 |
| C S Barton    |                  |                 |
| J N Cavanagh  |                  |                 |
| S M Cuthill   |                  |                 |
| J Dixon       |                  |                 |
| N Hayward     |                  |                 |
| G A Paterson  |                  |                 |
| D Peters      |                  | 31 March 2002   |
| I W Pigden    |                  |                 |
| W R Robson    |                  |                 |
| N J Stewart   |                  |                 |
| P Holden      |                  |                 |
| D Joel        |                  |                 |
| D W McGhie    |                  |                 |
| W W McNaught  |                  |                 |
| A R Wood      |                  |                 |
| W E Green     |                  | 29 January 2002 |
| P J Edwards   | 5 March 2001     |                 |
| D S Gibson    | 16 March 2001    |                 |
| G Rumbles     | 29 October 2001  |                 |

Details of Directors' interests in the shares of Serco Group plc are shown in note 3 to the Accounts. None of the Directors have any beneficial interest in the shares of the Company or any other group company.

**AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



Director

Dolphin House  
Windmill Road  
Sunbury-on-Thames  
Middlesex  
TW16 7HT

22 | 7 | 2002

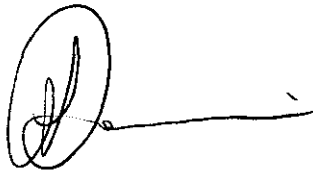
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom Company Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



Director

Dolphin House  
Windmill Road  
Sunbury-on-Thames  
Middlesex  
TW16 7HT

22/7/2002

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERCO LIMITED**

We have audited the financial statements of Serco Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the statement of total recognised gains and losses and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants and Registered Auditors  
Hill House  
1 Little New Street  
London  
EC4A 3TR  
23 July 2002

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended 31 December 2001

|   | Note | 2001<br>£'000 | 2000<br>£'000 |
|---|------|---------------|---------------|
| Turnover: Group and share of joint ventures – continuing operations | 2    | 760,418       | 575,485       |
| Less: Share of joint ventures                                       |      | (86,045)      | (25,828)      |
| Group turnover  |      | 674,373       | 549,657       |
| Cost of sales   |      | (601,298)     | (495,569)     |
| Gross profit  |      | 73,075        | 54,088        |
| Administrative expenses   |      | (43,163)      | (38,580)      |
| Amortisation of goodwill  |      | (3,883)       | (2,737)       |
| Other administrative expenses                                       |      | (39,280)      | (35,843)      |
| Exceptional Item: Costs associated with NATS project                |      | (2,239)       | -             |
| Operating profit  |      | 27,673        | 15,508        |
| Share of operating profit in joint ventures                         |      | 6,727         | 4,914         |
| Gross operating profit  |      | 34,400        | 20,422        |
| Interest receivable   | 4    | 1,737         | 1,437         |
| Group   |      | 1,519         | 1,363         |
| Share of joint ventures   |      | 218           | 74            |
| Interest payable and similar charges                                | 5    | (3,750)       | (1,580)       |
| Group   |      | (3,750)       | (1,570)       |
| Share of joint ventures   |      | -             | (10)          |
| Profit on ordinary activities before taxation                       | 6    | 32,387        | 20,279        |
| Tax charge on profit on ordinary activities                         | 7    | (9,536)       | (8,370)       |
| Profit on ordinary activities after taxation                        |      | 22,851        | 11,909        |
| Dividends   | 8    | (19,036)      | (12,484)      |
| Retained profit/(loss) for the financial year                       |      | 3,815         | (575)         |

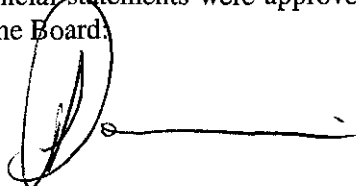
**SERCO LIMITED****CONSOLIDATED BALANCE SHEET**

at 31 December 2001

|  | Note | 2001<br>£'000  | 2000<br>£'000  |
|--|------|----------------|----------------|
| <b>FIXED ASSETS</b>  |      |                |                |
| Intangible asset   | 9    | 118,149        | 49,261         |
| Tangible assets  | 10   | 33,150         | 23,479         |
| Investments in joint ventures                                  | 11   | 5,014          | 4,864          |
| - Share of gross assets  |      | 24,326         | 25,748         |
| - Share of gross liabilities                                   |      | (19,312)       | (20,884)       |
|  |      | <u>156,313</u> | <u>77,604</u>  |
| <b>CURRENT ASSETS</b>  |      |                |                |
| Stocks   | 12   | 20,955         | 10,463         |
| Debtors - Amounts falling due within one year                  | 13   | 142,271        | 107,541        |
| - Amounts falling due after more than one year                 | 13   | 34,436         | 18,322         |
| Amounts owed by group companies                                |      | 91,958         | 8,273          |
| Cash at bank and in hand                                       |      | 48,008         | 38,628         |
|  |      | <u>337,628</u> | <u>183,227</u> |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>          |      |                |                |
| Bank loans and overdrafts                                      |      | 56,581         | 1,170          |
| Trade creditors  |      | 40,833         | 42,378         |
| Other creditors including taxation and social security         | 14   | 86,523         | 63,099         |
| Accruals and deferred income                                   |      | 97,826         | 68,540         |
|  |      | <u>281,763</u> | <u>175,187</u> |
| <b>NET CURRENT ASSETS</b>                                      |      | <u>55,865</u>  | <u>8,040</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <u>212,178</u> | <u>85,644</u>  |
| <b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b> |      |                |                |
|  | 15   | 163,539        | 42,142         |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>                  | 16   | 26,509         | 26,525         |
|  |      | <u>22,130</u>  | <u>16,977</u>  |
| <b>CAPITAL AND RESERVES</b>                                    |      |                |                |
| Called up share capital  | 19   | 106            | 106            |
| Share premium account  | 18   | 8,622          | 7,384          |
| Profit and loss account  | 18   | 13,402         | 9,487          |
| <b>SHAREHOLDERS' FUNDS</b>                                     |      | <u>22,130</u>  | <u>16,977</u>  |
| Attributable to equity shareholders                            |      | 19,624         | 15,055         |
| Attributable to non-equity shareholders                        |      | 2,506          | 1,922          |

These financial statements were approved by the Board of Directors on 22/7/2002 and signed on behalf of the Board.

Director

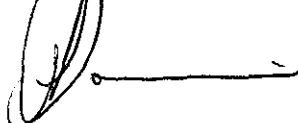


**SERCO LIMITED****COMPANY BALANCE SHEET**

at 31 December 2001

|  | Note | 2001<br>£'000  | 2000<br>£'000   |
|--|------|----------------|-----------------|
| <b>FIXED ASSETS</b>  |      |                |                 |
| Intangible assets  |      | 73,105         | -               |
| Tangible assets  | 10   | 23,225         | 12,059          |
| Investments  | 11   | 40,897         | 39,660          |
|  |      | <u>137,227</u> | <u>51,719</u>   |
| <b>CURRENT ASSETS</b>  |      |                |                 |
| Stocks   | 12   | 17,539         | 6,534           |
| Debtors - Amounts falling due within one year                  | 13   | 102,779        | 59,907          |
| - Amounts falling due after more than one year                 | 13   | 23,585         | 6,892           |
| Amounts owed by group undertakings                             |      | 88,700         | 22,798          |
| Cash at bank and in hand                                       |      | 1,867          | 456             |
|  |      | <u>234,470</u> | <u>96,587</u>   |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>          |      |                |                 |
| Bank loans and overdrafts                                      |      | 51,715         | -               |
| Trade creditors  |      | 27,235         | 23,611          |
| Other creditors including taxation and social security         | 14   | 65,669         | 45,351          |
| Accruals and deferred income                                   |      | 76,599         | 46,958          |
|  |      | <u>221,218</u> | <u>115,920</u>  |
| <b>NET CURRENT ASSETS/ (LIABILITIES)</b>                       |      | <u>13,252</u>  | <u>(19,333)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <u>150,479</u> | <u>32,386</u>   |
| <b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b> | 15   | 130,360        | 18,605          |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>                  | 16   | 708            | 465             |
|  |      | <u>19,411</u>  | <u>13,316</u>   |
| <b>CAPITAL AND RESERVES</b>                                    |      |                |                 |
| Called up share capital  | 19   | 106            | 106             |
| Share premium account  | 18   | 8,622          | 7,384           |
| Profit and loss account  | 18   | 10,683         | 5,826           |
| <b>SHAREHOLDERS' FUNDS</b>                                     |      | <u>19,411</u>  | <u>13,316</u>   |
| Attributable to equity shareholders                            |      | 17,213         | 11,808          |
| Attributable to non-equity shareholders                        |      | 2,198          | 1,508           |

These financial statements were approved by the Board of Directors on 22/7/2002 and signed on behalf of the Board:



Director



**SERCO LIMITED**

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**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

For the year ended 31 December 2001

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| Profit for the financial year                                       | 22,851        | 11,909        |
| Currency translation differences on foreign currency net investment | 100           | (117)         |
| Total recognised gains and losses relating to the year              | <u>22,951</u> | <u>11,792</u> |

**NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2001**1. ACCOUNTING POLICIES**

These Accounts have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Accounting convention**

These Accounts have been prepared under the historical cost convention.

**Basis of consolidation**

The Group Accounts consolidate the Accounts of the Company, its subsidiaries and joint ventures made up to 31 December of each year, for the periods they are owned by Serco Limited. The Company is a wholly owned subsidiary incorporated in Great Britain and therefore exempt from the requirement to prepare and deliver group accounts by virtue of s228 of the Companies Act. The Company has not taken advantage of this exemption for the year ended 31 December 2001.

A cash flow statement has not been prepared as Serco Group plc, which owns 100% of the voting shares and controls the company, has prepared a group cash flow statement.

**Fixed assets**

Fixed assets are stated at cost. Depreciation is provided on a straight-line basis at rates which, in the opinion of the Directors, will reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

|                                       |   |
|---------------------------------------|---|
| Freehold buildings                    | 2.5%  |
| Short leasehold building improvements | The higher of 10% or rate produced by lease term                    |
| Machinery                             | 15% - 20%   |
| Motor vehicles                        | 18% - 50%   |
| Furniture                             | 10%   |
| Office machines                       | 20% - 33%   |
| Leased equipment                      | The higher of the rate produced by either lease term or useful life |

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes an appropriate proportion of direct material and labour.

**Long term contracts**

Long term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover by reference to the value of the work carried out to date. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Advance payments are included in creditors to the extent that they exceed the related work in progress.

**Deferred taxation**

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Accounts to the extent that it is probable that a liability or asset will crystallise in the future.

**NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2001

**1. ACCOUNTING POLICIES (continued)**

**Fixed asset investments: Subsidiaries**

Investments held as fixed assets are stated at cost less provision for any impairment in value.

**Fixed asset investments: Joint Ventures**

In the consolidated accounts, investments in joint ventures are accounted for using the gross equity method of accounting in accordance with Financial Reporting Standard 9 ("FRS 9") – Associates and Joint Ventures.

The consolidated profit and loss account includes the Group's share of joint ventures' operating profits and interest, and the attributable taxation. In the consolidated balance sheet, the investments in the joint ventures are shown as the Group's share of the net assets of the joint ventures. The share of net assets is split between gross assets and liabilities.

**Intangible assets**

Intangible assets are capitalised in the balance sheet in accordance with Financial Reporting Standard 10 ("FRS 10") – Goodwill and Intangible Assets. Amortisation of goodwill and intangible assets is provided on a straight-line basis over a period of 20 years, which, in the opinion of the Directors is a period not exceeding the economic useful life of the asset.

**Basis of translation of foreign currencies**

Transactions of UK companies denominated in foreign currencies are translated into Sterling at the rates ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the balance sheet date are translated at the rates ruling at that date and any differences arising are taken to the profit and loss account.

The accounts of overseas subsidiary companies and associated undertakings are translated into Sterling at the closing rates of exchange at the balance sheet date and the difference arising from the translation of the opening net investment and matched long term foreign currency borrowings is taken directly to reserves. The profit and loss account is translated using average exchange rates.

**Pension costs**

Retirement benefits to employees of Group companies are funded by contributions from the Company and employees. Payments are made to trust funds which are financially separate from the Company in accordance with periodic calculations by consulting actuaries. The expected cost to the Company of providing defined benefit pensions is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes in such a way that the cost is a substantially level percentage of payroll cost, with experience surpluses and deficits being amortised on a straight line basis.

**Turnover**

Turnover represents net sales of goods and services sold to third parties.

**Leases**

Assets obtained under finance leases are capitalised at their fair value on acquisition and depreciated over the shorter of their estimated useful lives or lease term. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Rentals on assets under operating leases are charged to the profit and loss account in equal annual amounts.

## SERCO LIMITED

NOTES TO THE ACCOUNTS  
for the year ended 31 December 2001

### 2. SEGMENTAL REPORT

In 2000 the results of the Group were analysed under two classes of business: Facilities Management and Systems Engineering. These accounts include new segmental analysis which provides a more detailed representation of the results and financial position of the Group. The 2000 results have been restated accordingly. It should be noted that the Company pursues all projects on their individual merits regardless of sector.

| Classes of Business | Group<br>£'000 | Joint<br>Ventures<br>£'000 | Total<br>£'000 |
|---------------------|----------------|----------------------------|----------------|
| <b>2001</b>         |                |                            |                |
| <b>Turnover</b>     |                |                            |                |
| Civil Government    | 152,343        | 8,926                      | 161,269        |
| Defence             | 177,961        | 75,235                     | 253,196        |
| Transport           | 193,391        | 1,884                      | 195,275        |
| Science             | 37,782         | -                          | 37,782         |
| Private Sector      | 112,896        | -                          | 112,896        |
| Total               | 674,373        | 86,045                     | 760,418        |

#### Restated 2000

##### Group Turnover

|                  |         |        |         |
|------------------|---------|--------|---------|
| Civil Government | 108,966 | 7,123  | 116,089 |
| Defence          | 168,889 | 12,430 | 181,319 |
| Transport        | 151,016 | 1,253  | 152,269 |
| Science          | 27,536  | -      | 27,536  |
| Private Sector   | 93,250  | 5,022  | 98,272  |
| Total            | 549,657 | 25,828 | 575,485 |

#### Geographical Segments

##### 2001

##### Turnover

|                                |         |        |         |
|--------------------------------|---------|--------|---------|
| United Kingdom                 | 550,929 | 77,169 | 628,098 |
| Rest of Europe and Middle East | 104,495 | 8,876  | 113,371 |
| Asia Pacific                   | 35      | -      | 35      |
| Other                          | 18,914  | -      | 18,914  |
| Total                          | 674,373 | 86,045 | 760,418 |

#### Restated 2000

##### Turnover

|                                |         |        |         |
|--------------------------------|---------|--------|---------|
| United Kingdom                 | 430,706 | 12,501 | 443,207 |
| Rest of Europe and Middle East | 100,619 | 13,327 | 113,946 |
| Asia Pacific                   | 282     | -      | 282     |
| Other                          | 18,050  | -      | 18,050  |
| Total                          | 549,657 | 25,828 | 575,485 |

**SERCO LIMITED****NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2001**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

K Beeston and C Hyman were also Directors of Serco Group plc during the year and details of their emoluments are shown in the financial statements of Serco Group plc. Details of emoluments of the remaining Directors are as follows:

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes). | <u>2,623</u>  | <u>2,218</u>  |

|   | 2001<br>Number | 2000<br>Number |
|---|----------------|----------------|
| Number of directors who:  |                |                |
| • Are members of a defined benefit pension scheme.  | 19             | 19             |
| • Exercised share options.  | 6              | 9              |
| • Have received awards during the year in the form of shares under long term incentive schemes. | 1              | 1              |
|   | £'000          | £'000          |

Highest paid director's remuneration:

|   |            |            |
|---|------------|------------|
| Aggregate of emoluments and awards under long term incentive schemes (excluding pension contributions, share options gains and awards in the form of shares). | <u>202</u> | <u>168</u> |
|---|------------|------------|

The amount of the accrued pension benefits of the highest paid director at 31 December 2001 is £28,090 per annum (2000: £23,715 per annum).

Except as shown in the accounts of Serco Group plc, the interests of the Serco Limited directors in the ordinary shares of 2 pence each fully paid of Serco Group plc are as follows:

|               | Shares   |                             |
|---------------|--|-----------------------------|
|               | Balance at 1 Jan 2001 / Date<br>of appointment | Balance at 31 December 2001 |
| I W Downie    | 14,460   | 14,522                      |
| J D M Jeffery | 75,660   | 75,660                      |
| G W Leach     | 10,800   | -                           |
| C S Barton    | -  | -                           |
| J N Cavanagh  | 1,654  | 1,661                       |
| S M Cuthill   | 10,800   | 17,948                      |
| J Dixon       | -  | -                           |
| N Hayward     | -  | -                           |
| G A Paterson  | 37,895   | 37,895                      |
| D Peters      | 3,960  | 2,472                       |
| I W Pigden    | 15,086   | 15,809                      |
| W R Robson    | 110,758  | 42,854                      |
| N J Stewart   | 19,716   | 7,813                       |
| W E Green     | -  | -                           |
| P Holden      | -  | -                           |
| D Joel        | -  | -                           |
| D W McGhie    | -  | -                           |
| W W McNaught  | 1,494  | 1,494                       |
| A R Wood      | 52,206   | 52,206                      |
| P Edwards     | 18,000   | -                           |
| D Gibson      | -  | -                           |
| G Rumbles     | -  | -                           |

**SERCO LIMITED**

NOTES TO THE ACCOUNTS  
for the year ended 31 December 2001

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

|               | Long Term Incentive Scheme Options |                               |                                 |                              |                                   |
|---------------|------------------------------------|-------------------------------|---------------------------------|------------------------------|-----------------------------------|
|               | Balance at<br>1 January<br>2001    | Granted<br>during the<br>year | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Balance at<br>31 December<br>2001 |
| I W Downie *  | 52,215                             | 31,244                        | -                               | -                            | 83,459                            |
| J D M Jeffery | -                                  | -                             | -                               | -                            | -                                 |
| G W Leach     | -                                  | -                             | -                               | -                            | -                                 |
| C S Barton    | -                                  | -                             | -                               | -                            | -                                 |
| J N Cavanagh  | -                                  | -                             | -                               | -                            | -                                 |
| S M Cuthill   | -                                  | -                             | -                               | -                            | -                                 |
| J Dixon       | -                                  | -                             | -                               | -                            | -                                 |
| N Hayward     | -                                  | -                             | -                               | -                            | -                                 |
| G A Paterson  | -                                  | -                             | -                               | -                            | -                                 |
| D Peters      | -                                  | -                             | -                               | -                            | -                                 |
| I W Pigden    | -                                  | -                             | -                               | -                            | -                                 |
| W R Robson    | -                                  | -                             | -                               | -                            | -                                 |
| N J Stewart   | -                                  | -                             | -                               | -                            | -                                 |
| W E Green     | -                                  | -                             | -                               | -                            | -                                 |
| P Holden      | -                                  | -                             | -                               | -                            | -                                 |
| D Joel        | -                                  | -                             | -                               | -                            | -                                 |
| D W McGhie    | -                                  | -                             | -                               | -                            | -                                 |
| W W McNaught  | -                                  | -                             | -                               | -                            | -                                 |
| A R Wood      | -                                  | -                             | -                               | -                            | -                                 |
| G Rumbles     | -                                  | -                             | -                               | -                            | -                                 |
| D Gibson      | -                                  | -                             | -                               | -                            | -                                 |
| P Edwards     | -                                  | -                             | -                               | -                            | -                                 |

\*Highest paid director

|               |            | Executive Option Plan           |                               |                                 |                              |                                   |
|---------------|------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|-----------------------------------|
|               |            | Balance at<br>1 January<br>2001 | Granted<br>during the<br>year | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Balance at<br>31 December<br>2001 |
| I W Downie*   | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|               | Unapproved | 119,022                         | 52,183                        | -                               | -                            | 171,205                           |
| J D M Jeffery | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|               | Unapproved | 108,600                         | 41,780                        | -                               | -                            | 150,380                           |
| G W Leach     | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|               | Unapproved | 94,308                          | 33,919                        | -                               | -                            | 128,227                           |
| C S Barton    | Approved   | 12,240                          | -                             | -                               | -                            | 12,240                            |
|               | Unapproved | 29,922                          | 23,396                        | -                               | -                            | 53,318                            |
| J N Cavanagh  | Approved   | 20,988                          | 1,677                         | -                               | -                            | 22,665                            |
|               | Unapproved | 25,152                          | 18,012                        | -                               | -                            | 43,164                            |
| S M Cuthill   | Approved   | 13,788                          | -                             | 13,788                          | -                            | -                                 |
|               | Unapproved | 54,588                          | 55,708                        | -                               | -                            | 110,296                           |
| J Dixon       | Approved   | 7,050                           | -                             | -                               | -                            | 7,050                             |
|               | Unapproved | 9,402                           | 22,423                        | -                               | -                            | 31,825                            |
| N Hayward     | Approved   | 7,050                           | -                             | -                               | -                            | 7,050                             |
|               | Unapproved | 7,344                           | 19,496                        | -                               | -                            | 26,840                            |
| G A Paterson  | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|               | Unapproved | 49,866                          | 29,244                        | -                               | -                            | 79,110                            |
| D Peters      | Approved   | 10,770                          | -                             | -                               | -                            | 10,770                            |
|               | Unapproved | 78                              | 3,621                         | -                               | -                            | 3,699                             |

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

|             |            | <b>Executive Option plan</b>    |                               |                                 |                              |                                   |
|-------------|------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|-----------------------------------|
|             |            | Balance at<br>1 January<br>2001 | Granted<br>during the<br>year | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Balance at<br>31 December<br>2001 |
| I W Pigden  | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|             | Unapproved | 33,426                          | 19,496                        | -                               | -                            | 52,922                            |
| P Edwards** | Approved   | 13,788                          | -                             | -                               | -                            | 13,788                            |
|             | Unapproved | 59,298                          | 32,503                        | -                               | -                            | 91,801                            |
| D Gibson    | Approved   | 2,820                           | 4,417                         | -                               | -                            | 7,237                             |
|             | Unapproved | -                               | 16,433                        | -                               | -                            | 16,433                            |
| W R Robson  | Approved   | 13,788                          | -                             | 13,788                          | -                            | -                                 |
|             | Unapproved | 61,074                          | 29,244                        | 8,256                           | -                            | 82,062                            |
| N J Stewart | Approved   | 13,788                          | -                             | 13,788                          | -                            | -                                 |
|             | Unapproved | 37,338                          | 17,692                        | 5,196                           | -                            | 49,834                            |
| W E Green   | Approved   | 11,634                          | -                             | 4,776                           | -                            | 6,858                             |
|             | Unapproved | 2,202                           | 19,496                        | -                               | -                            | 21,698                            |
| P Holden    | Approved   | 10,716                          | -                             | -                               | -                            | 10,716                            |
|             | Unapproved | 8,808                           | 20,471                        | -                               | -                            | 29,279                            |
| D Joel      | Approved   | 10,836                          | -                             | -                               | -                            | 10,836                            |
|             | Unapproved | 9,774                           | 16,572                        | -                               | -                            | 26,346                            |
| D W McGhie  | Approved   | 13,788                          | -                             | 13,788                          | -                            | -                                 |
|             | Unapproved | 53,232                          | 22,421                        | 11,958                          | -                            | 63,695                            |
| W W         | Approved   | 13,788                          | -                             | 13,788                          | -                            | -                                 |
| McNaught    | Unapproved | 45,432                          | 19,496                        | -                               | -                            | 64,928                            |
| A R Wood    | Approved   | 10,662                          | -                             | -                               | -                            | 10,662                            |
|             | Unapproved | -                               | 3,621                         | -                               | -                            | 3,621                             |
| G Rumbles   | Approved   | 4,002                           | -                             | -                               | -                            | 4,002                             |
|             | Unapproved | 35,403                          | -                             | -                               | -                            | 35,403                            |

\*Highest paid director

\*\* At date of appointment 5 March 2001

During the year the Directors were given options under the Serco Group plc 1998 Executive Option Plan.

The awards have been made in accordance with the rules of the Serco Group plc 1998 Executive Option Plan and accordingly the exercise of the options is conditional upon the performance criteria of the plan being met. Details of the performance criteria in respect of the above awards are set out in the Remuneration Report in the Serco Group plc accounts.

|  | <b>2001</b>    | <b>2000</b>    |
|--|----------------|----------------|
|  | <b>£'000</b>   | <b>£'000</b>   |
| Employee costs including directors:                                      |                |                |
| Wages and salaries   | 292,718        | 259,427        |
| Social security costs  | 27,711         | 26,169         |
| Other pension costs  | 13,470         | 12,809         |
|  | <b>333,899</b> | <b>298,405</b> |
|  | <b>2001</b>    | <b>2000</b>    |
|  | <b>Number</b>  | <b>Number</b>  |
| Average number of persons employed in Serco Limited and its subsidiaries | 15,913         | 14,457         |

**SERCO LIMITED****NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**4. INTEREST RECEIVABLE**

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| Short term deposits                     | 1,354         | 1,211         |
| Amounts receivable from Group companies | 52            | 51            |
| Loans to joint ventures                 | 113           | 101           |
|   | <u>1,519</u>  | <u>1,363</u>  |
| Share of joint ventures' interest       | 218           | 74            |
|   | <u>1,737</u>  | <u>1,437</u>  |

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| On liabilities repayable within five years: |               |               |
| Group bank loans and overdrafts             | 491           | 73            |
| Amounts payable to Group companies          | <u>3,259</u>  | <u>1,497</u>  |
|   | <u>3,750</u>  | <u>1,570</u>  |
| Share of joint ventures' interest           | -             | 10            |
|   | <u>3,750</u>  | <u>1,580</u>  |

**6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

|  | 2001<br>£'000 | 2000<br>£'000 |
|--|---------------|---------------|
| Profit on ordinary activities before taxation is after charging: |               |               |
| Profit on disposal of tangible fixed assets                      | 1,291         | -             |
| Rentals under operating leases:                                  |               |               |
| - Land and buildings   | 7,314         | 5,764         |
| - Plant and machinery  | <u>12,852</u> | <u>11,956</u> |
| Depreciation on tangible fixed assets:                           |               |               |
| - Owned  | 9,553         | 6,212         |
| - Held under finance leases                                      | <u>1,356</u>  | <u>1,301</u>  |
| Finance lease interest on operational assets                     | 172           | 213           |
| Amortisation of goodwill   | <u>3,883</u>  | <u>2,737</u>  |
| Auditors' remuneration:  |               |               |
| - Deloitte & Touche  | 27            | 34            |
| - Other auditors   | <u>125</u>    | <u>79</u>     |
| Other fees paid to auditors                                      |               |               |
| - Transaction support  | 496           | -             |
| - Other  | <u>214</u>    | <u>300</u>    |



**SERCO LIMITED****NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

|  | <b>2001</b>  | <b>2000</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| The tax charge on the results of the year is made up as follows: |              |              |
| United Kingdom corporation tax at 30.9% (2000 average – 30.25%)  | 692          | 788          |
| Group relief   | 4,033        | 4,163        |
| Overseas tax   | 978          | 1,400        |
| Deferred taxation  | 810          | 327          |
| Adjustment in respect of prior years                             | 952          | 145          |
| Share of joint ventures' taxation charge                         | 2,071        | 1,547        |
|  | <b>9,536</b> | <b>8,370</b> |

**8. DIVIDENDS**

|                | <b>2001</b>   | <b>2000</b>   |
|----------------|---------------|---------------|
|                | <b>£'000</b>  | <b>£'000</b>  |
| Final dividend | <b>19,036</b> | <b>12,484</b> |

**9. INTANGIBLE ASSETS**

|                                  | <b>Goodwill/<br/>Knowhow</b> | <b>Software</b> | <b>Total</b>   |
|----------------------------------|------------------------------|-----------------|----------------|
|                                  | <b>£'000</b>                 | <b>£'000</b>    | <b>£'000</b>   |
| <b>Cost:</b>                     |                              |                 |                |
| At 1 January 2001                | 53,968                       | -               | 53,968         |
| Additions during the year        | 42,771                       | 30,000          | 72,771         |
| <b>At 31 December 2001</b>       | <b>96,739</b>                | <b>30,000</b>   | <b>126,739</b> |
| <b>Accumulated amortisation:</b> |                              |                 |                |
| At 1 January 2000                | 4,707                        | -               | 4,707          |
| Charge for the year              | 3,419                        | 464             | 3,883          |
| <b>At 31 December 2000</b>       | <b>8,126</b>                 | <b>464</b>      | <b>8,590</b>   |
| <b>Net book value:</b>           |                              |                 |                |
| <b>At 31 December 2001</b>       | <b>88,613</b>                | <b>29,536</b>   | <b>118,149</b> |
| At 31 December 2000              | 49,261                       | -               | 49,261         |

**SERCO LIMITED****NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**10. TANGIBLE FIXED ASSETS**

| Group                              | Freehold<br>land and<br>buildings<br>£'000 | Short leasehold<br>building<br>improvements<br>£'000 | Machinery,<br>motor<br>vehicles,<br>furniture and<br>equipment<br>£'000 | Total<br>£'000 |
|------------------------------------|--|--|---|----------------|
| <b>Cost:</b>                       |  |  |   |                |
| At 1 January 2001                  | 8,102                                      | 5,099  | 55,732  | 68,933         |
| Capital expenditure                | 644  | 1,293  | 20,857  | 22,794         |
| Transfers from fellow subsidiaries | -  | 250  | 416   | 666            |
| Disposals                          | (1,970)                                    | (256)  | (7,461)   | (9,687)        |
| Foreign exchange differences       | (174)                                      | (38)   | (606)   | (818)          |
| Reclassifications                  | -  | 533  | (533)   | -              |
| <b>At 31 December 2001</b>         | <b>6,602</b>                               | <b>6,881</b>   | <b>68,405</b>   | <b>81,888</b>  |
| <b>Accumulated depreciation:</b>   |  |  |   |                |
| At 1 January 2001                  | 2,289                                      | 2,023  | 41,142  | 45,454         |
| Provided during the year           | 253  | 611  | 10,045  | 10,909         |
| Transfers from fellow subsidiaries | -  | 96   | 312   | 408            |
| Disposals                          | (282)                                      | (246)  | (6,924)   | (7,452)        |
| Foreign exchange differences       | (45)                                       | (10)   | (526)   | (581)          |
| Reclassifications                  | -  | 20   | (20)  | -              |
| <b>At 31 December 2001</b>         | <b>2,215</b>                               | <b>2,494</b>   | <b>44,029</b>   | <b>48,738</b>  |
| <b>Net book values:</b>            |  |  |   |                |
| <b>At 31 December 2001</b>         | <b>4,387</b>                               | <b>4,387</b>   | <b>24,376</b>   | <b>33,150</b>  |
| At 31 December 2000                | 5,813                                      | 3,076  | 14,590  | 23,479         |

The cost of assets held by the Group under finance leases at 31 December 2001 was £14,317,000 (2000 - £6,867,000). The accumulated depreciation provided for those assets at 31 December 2001 was £9,085,000 (2000 - £4,351,000). All assets held under finance leases were machinery, motor vehicles, furniture and equipment.

**SERCO LIMITED****NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**10. TANGIBLE FIXED ASSETS (continued)**

| Company                            | Freehold<br>land and<br>buildings<br>£'000 | Short leasehold<br>building<br>improvements<br>£'000 | Machinery,<br>motor<br>vehicles,<br>furniture and<br>equipment<br>£'000 | Total<br>£'000 |
|------------------------------------|--|--|---|----------------|
| <b>Cost:</b>                       |  |  |   |                |
| At 1 January 2001                  | 840  | 4,343  | 22,049  | 27,232         |
| Capital expenditure                | -  | 835  | 16,236  | 17,071         |
| Transfers from fellow subsidiaries | 1,263                                      | 209  | 1,204   | 2,676          |
| Disposals                          | -  | (256)  | (1,875)   | (2,131)        |
| Reclassifications                  | -  | 533  | (533)   | -              |
| <b>At 31 December 2001</b>         | <b>2,103</b>                               | <b>5,664</b>   | <b>37,081</b>   | <b>44,848</b>  |
| <b>Accumulated Depreciation:</b>   |  |  |   |                |
| At 1 January 2001                  | 26   | 1,711  | 13,436  | 15,173         |
| Provided during the year           | 70   | 519  | 6,996   | 7,585          |
| Transfers from fellow subsidiaries | 113  | 85   | 739   | 937            |
| Disposals                          | -  | (246)  | (1,826)   | (2,072)        |
| Reclassifications                  | -  | 20   | (20)  | -              |
| <b>At 31 December 2001</b>         | <b>209</b>                                 | <b>2,089</b>   | <b>19,325</b>   | <b>21,623</b>  |
| <b>Net book values:</b>            |  |  |   |                |
| <b>At 31 December 2001</b>         | <b>1,894</b>                               | <b>3,575</b>   | <b>17,756</b>   | <b>23,225</b>  |
| At 31 December 2000                | 814  | 2,632  | 8,613   | 12,059         |

The cost of assets held by the Company under finance leases at 31 December 2001 was £9,082,000 (2000 - £6,390,000). The accumulated depreciation provided for those assets at 31 December 2001 was £9,082,000 (2000 - £4,119,000). All assets held under finance leases were machinery, motor vehicles, furniture and equipment.

**SERCO LIMITED**

NOTES TO THE ACCOUNTS  
for the year ended 31 December 2001

**11. INVESTMENTS HELD AS FIXED ASSETS**

(a) A list of the principal undertakings of Serco Limited is shown in note 24.

(b) Group investments in joint ventures:

|   | <b>Group<br/>£'000</b> |
|---|------------------------|
| At 1 January 2001                       | 4,864                  |
| Dividends receivable                    | (5,050)                |
| Foreign exchange translation difference | 326                    |
| Retained profits                        | 4,874                  |
| At 31 December 2001                     | <u><u>5,014</u></u>    |

(c) The aggregate of the Group's share in the assets and liabilities of joint ventures is:

|   | <b>2001<br/>£'000</b> | <b>2000<br/>£'000</b> |
|---|-----------------------|-----------------------|
| Share of fixed assets                             | 241                   | 252                   |
| Share of current assets                           | <u>24,085</u>         | <u>25,496</u>         |
|   | <u>24,326</u>         | <u>25,748</u>         |
| Share of liabilities due within one year or less  | (17,637)              | (19,579)              |
| Share of liabilities due after more than one year | <u>(1,675)</u>        | <u>(1,305)</u>        |
|   | <u>(19,312)</u>       | <u>(20,884)</u>       |
| Share of net assets                               | <u><u>5,014</u></u>   | <u><u>4,864</u></u>   |

(d) Shares in subsidiary companies and joint ventures at cost:

| <b>Company</b>                             | <b>Shares in<br/>subsidiaries<br/>£'000</b> | <b>Shares in<br/>joint<br/>ventures<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|---|---|------------------------|
| At 1 January 2001                          | 39,087                                      | 573   | 39,660                 |
| Equity investment in International Limited | 1,237                                       | -   | 1,237                  |
| At 31 December 2001                        | <u>40,324</u>                               | <u>573</u>  | <u>40,897</u>          |

(e) All the subsidiaries and the associated undertakings of Serco Limited are engaged in the provision of facilities management and systems engineering services.

## SERCO LIMITED

### NOTES TO THE ACCOUNTS

for the year ended 31 December 2001

#### 11. INVESTMENTS HELD AS FIXED ASSETS (continued)

(f) Acquisitions:

(i) Serco Assurance

The Nuclear Consulting division of AEA Technology plc was acquired by Serco Limited on 10 September 2001 for a cash consideration of £69,400,000. The business now trades under the name of "Serco Assurance". Acquisition costs of £797,000 were incurred.

The fair value of net liabilities was £2,574,000 after taking account of revaluation adjustments of £298,000 which have been made in order to reflect the estimated realisable value of acquired work in progress. Other adjustments amounting to £1,811,000 principally relate to onerous contracts acquired with the business.

The goodwill arising on consolidation is £42,771,000 and is being carried forward as an intangible asset and will be amortised over 20 years.

(ii) Subscription for shares in subsidiaries

An equity injection was made in Serco International Limited by Serco Limited during 2001 for a total cash amount of £1,238,000.

#### 12. STOCKS

|                  | Group         |               | Company       |              |
|------------------|---------------|---------------|---------------|--------------|
|                  | 2001          | 2000          | 2001          | 2000         |
|                  | £'000         | £'000         | £'000         | £'000        |
| Service spares   | 5,802         | 3,018         | 3,043         | 1,264        |
| Work in progress | 15,153        | 7,445         | 14,496        | 5,270        |
|                  | <u>20,955</u> | <u>10,463</u> | <u>17,539</u> | <u>6,534</u> |

#### 13. DEBTORS

(a) Amounts falling due within one year

|                                  | Group          |                | Company        |               |
|----------------------------------|----------------|----------------|----------------|---------------|
|                                  | 2001           | 2000           | 2001           | 2000          |
|                                  | £'000          | £'000          | £'000          | £'000         |
| Amounts recoverable on contracts | 117,250        | 84,207         | 89,047         | 49,526        |
| Other debtors                    | 9,784          | 10,054         | 6,381          | 5,938         |
| Prepayments and accrued income   | 10,465         | 8,122          | 7,351          | 4,269         |
| Amounts owed by joint ventures   | 38             | 252            | -              | 174           |
| Building held for re-sale        | 4,734          | 4,906          | -              | -             |
|                                  | <u>142,271</u> | <u>107,541</u> | <u>102,779</u> | <u>59,907</u> |

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**13. DEBTORS (continued)**

(b) Amounts falling due after more than one year:

|                                  | <b>Group</b>  |               | <b>Company</b> |              |
|----------------------------------|---------------|---------------|----------------|--------------|
|                                  | <b>2001</b>   | <b>2000</b>   | <b>2001</b>    | <b>2000</b>  |
|                                  | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>   | <b>£'000</b> |
| Amounts recoverable on contracts | 6,526         | 7,511         | 4,882          | 4,292        |
| Pensions prepayment              | 26,422        | 9,212         | 17,360         | 1,550        |
| Other debtors                    | 392           | 111           | 316            | -            |
| Amounts owed by joint ventures   | 1,096         | 1,488         | 1,027          | 1,050        |
|                                  | <b>34,436</b> | <b>18,322</b> | <b>23,585</b>  | <b>6,892</b> |

Included in trade creditors is an amount of £10,522,000 (2000 - £9,771,000) and in accruals an amount of £904,000 (2000 - £121,000) in respect of items procured on behalf of customers. This is offset by an amount of £11,162,000 (2000 - £4,446,000) in amounts recoverable on contracts. There are no amounts in the Profit and Loss account in respect of such procured items.

**14. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

|                                       | <b>Group</b>  |               | <b>Company</b> |               |
|---------------------------------------|---------------|---------------|----------------|---------------|
|                                       | <b>2001</b>   | <b>2000</b>   | <b>2001</b>    | <b>2000</b>   |
|                                       | <b>£'000</b>  | <b>£'000</b>  | <b>£'000</b>   | <b>£'000</b>  |
| Obligations under finance leases      | 1,834         | 1,033         | 1,833          | 914           |
| Corporation Tax                       | 8,962         | 6,806         | 3,104          | 2,115         |
| Other taxes and social security costs | 26,051        | 21,548        | 19,694         | 15,433        |
| Other creditors                       | 42,522        | 25,325        | 34,339         | 18,704        |
| Amounts owed to joint ventures        | 6,699         | 8,185         | 6,699          | 8,185         |
| Other loans                           | 455           | 202           | -              | -             |
|                                       | <b>86,523</b> | <b>63,099</b> | <b>65,669</b>  | <b>45,351</b> |

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

|   | Group   |        | Company |        |
|---|---------|--------|---------|--------|
|   | 2001    | 2000   | 2001    | 2000   |
|   | £'000   | £'000  | £'000   | £'000  |
| (a) Amounts falling due after more than one year:               |         |        |         |        |
| Bank loans and overdrafts                                       | 56,581  | 1,170  | 51,715  | -      |
| Obligations under finance leases                                | 9,084   | 2,003  | 9,082   | 1,734  |
| Amounts owed to group companies                                 | 153,727 | 39,220 | 122,511 | 17,785 |
| Other loans   | 3,007   | 2,154  | 600     | -      |
| Total loans   | 222,399 | 44,547 | 183,908 | 19,519 |
| Less: Amounts included in creditors falling due within one year | 58,870  | 2,405  | 53,548  | 914    |
| Amounts falling due after more than one year                    | 163,529 | 42,142 | 130,360 | 18,605 |
| (b) Analysis of loan repayments:                                |         |        |         |        |
| Bank loans and overdrafts:                                      |         |        |         |        |
| Within one year or on demand                                    | 56,581  | 1,170  | 51,715  | -      |
| Obligations under finance leases:                               |         |        |         |        |
| Within one year or on demand                                    | 1,834   | 1,033  | 1,833   | 914    |
| Between one and five years                                      | 4,819   | 963    | 4,817   | 813    |
| After five years  | 2,431   | 7      | 2,432   | 7      |
| Other loans:  |         |        |         |        |
| Within one year or on demand                                    | 455     | 202    | -       | -      |
| Between one and two years                                       | 300     | -      | 300     | -      |
| Between two and five years                                      | 300     | -      | 300     | -      |
| After five years  | 1,952   | 1,952  | -       | -      |

(c) The Group's overdrafts and loans are secured by a number of guarantees and debentures over various assets of the Company's UK subsidiaries. Finance lease obligations are secured by retention of title to the relevant vehicles and equipment.

**16. PROVISIONS FOR LIABILITIES AND CHARGES**

| Group              | 1 January 2001 | Exchange differences | Charged/ (credited) to Profit and Loss Account | Usage | 31 December 2001 |
|--------------------|----------------|----------------------|--|-------|------------------|
|                    | £'000          | £'000                | £'000  | £'000 | £'000            |
| Deferred taxation  | 2,696          | -                    | 810  | -     | 3,506            |
| Pensions provision | 23,829         | (630)                | 130  | (326) | 23,003           |
|                    | 26,525         | (630)                | 940  | (326) | 26,509           |

Pension provisions are further detailed in note 24.

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

| Company           | 1 January<br>2001<br>£'000 | Charged/<br>(credited)<br>to Profit<br>and Loss<br>Account<br>£'000 | Usage<br>£'000 | 31<br>December<br>2001<br>£'000 |
|-------------------|----------------------------|---|----------------|---------------------------------|
| Deferred taxation | 465                        | 243   | -              | 708                             |

**17. DEFERRED TAXATION**

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000 | 2000<br>£'000 |
| The amounts of deferred taxation recognised in the Accounts are: |               |               |               |               |
| Capital allowances in excess of depreciation                     | (4)           | 4             | -             | -             |
| Overseas timing differences                                      | 83            | -             | -             | -             |
| Other timing differences   | 3,427         | 2,692         | 708           | 465           |
|  | <u>3,506</u>  | <u>2,696</u>  | <u>708</u>    | <u>465</u>    |

Potential amounts of deferred taxation for which no credit has been taken:

|  |            |              |              |            |
|--|------------|--------------|--------------|------------|
| Capital allowances in excess of depreciation | 827        | (381)        | 1,383        | (212)      |
| Other timing differences                     | (36)       | (27)         | -            | -          |
|  | <u>791</u> | <u>(408)</u> | <u>1,383</u> | <u>212</u> |

**18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

|   | Share<br>Capital<br>£'000 | Share<br>Premium<br>Account<br>£'000 | Profit<br>and Loss<br>Account<br>£'000 | Total<br>£'000 |
|---|---------------------------|--------------------------------------|--|----------------|
| <b>THE GROUP</b>  | <b>£'000</b>              | <b>£'000</b>                         | <b>£'000</b>                           | <b>£'000</b>   |
| Balance at 1 January 2001   | 106                       | 7,384                                | 9,487                                  | 16,977         |
| Profit for the year   | -                         | -                                    | 22,851                                 | 22,851         |
| Foreign exchange differences on net equity investments in foreign enterprises | -                         | -                                    | 100                                    | 100            |
| New capital equity  | -                         | 1,238                                | -                                      | 1,238          |
| Dividends   | -                         | -                                    | (19,036)                               | (19,036)       |
| Balance at 31 December 2001   | <u>106</u>                | <u>8,622</u>                         | <u>13,402</u>                          | <u>22,130</u>  |



## SERCO LIMITED

### NOTES TO THE ACCOUNTS

for the year ended 31 December 2001

#### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (Continued)

##### THE COMPANY

|  | Share<br>Capital | Share<br>Premium<br>Account | Profit<br>and Loss<br>Account | Total   |
|--|------------------|-----------------------------|-------------------------------|---------|
|  | £'000            | £'000                       | £'000                         | £'000   |
| Balance at 1 January 2001  | 106              | 7,384                       | 5,826                         | 13,316  |
| Profit for the year  | -                | -                           | 8,640                         | 8,640   |
| Foreign exchange differences on net equity<br>investments in foreign enterprises | -                | -                           | (66)                          | (66)    |
| New capital equity   | -                | 1,238                       | -                             | 1,238   |
| Dividend   | -                | -                           | (3,717)                       | (3,717) |
| Balance at 31 December 2001  | 106              | 8,622                       | 10,683                        | 19,411  |

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of the Parent Company is not presented as part of these accounts.

#### 19. CALLED UP SHARE CAPITAL

|  | 2001<br>£'000 | 2000<br>£'000 |
|--|---------------|---------------|
| Authorised:                                    |               |               |
| 150,000 ordinary shares of £1 each             | 150           | 150           |
| 50,000 redeemable preference shares of £1 each | 50            | 50            |
|  | <u>200</u>    | <u>200</u>    |
| Called up, allotted and fully paid:            |               |               |
| 93,311 ordinary shares of £1 each              | 94            | 94            |
| 12,240 redeemable preference shares of £1 each | 12            | 12            |
|  | <u>106</u>    | <u>106</u>    |

The redeemable preference shares may be redeemed at any time in whole or in part, at the option of the Company, at a price per share equivalent to the sum of the amounts paid up thereon and the premium of £133 per share paid upon the issue thereof.

The redeemable preference shares of £12,240 represents non-equity interests in the shareholders' funds at 31 December 2000 and 31 December 2001.

#### 21. CONTINGENT LIABILITIES

The Group has given indemnities to banks totalling £19,761,000 (2000 - £11,447,000) of which £6,502,000 is in respect of performance bonds issued in the ordinary course of business. The remainder is primarily issued in the respect of financial guarantees.

The Company has entered into an unlimited cross guarantee with its ultimate parent Company and fellow subsidiaries in order to guarantee the borrowings of the Group under the Group's borrowing arrangements.

## **SERCO LIMITED**

### **NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

#### **22. CAPITAL AND OTHER COMMITMENTS**

|   | <b>Group</b>                |                             | <b>Company</b>              |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>2001</b><br><b>£'000</b> | <b>2000</b><br><b>£'000</b> | <b>2001</b><br><b>£'000</b> | <b>2000</b><br><b>£'000</b> |
| Capital expenditure contracted but not provided | <u>774</u>                  | <u>1,128</u>                | <u>743</u>                  | <u>744</u>                  |

During the year ending 31 December 2002 the Group is to make the following payments in respect of operating leases:

|                            | <b>Land and<br/>buildings<br/>£'000</b> | <b>Other<br/>£'000</b> |
|----------------------------|---|------------------------|
| Leases which expire:       |   |                        |
| Within one year            | 1,165                                   | 3,310                  |
| Between one and five years | 2,715                                   | 13,303                 |
| After five years           | <u>3,164</u>                            | <u>-</u>               |
|                            | <u>7,044</u>                            | <u>16,613</u>          |

#### **23. POST BALANCE SHEET EVENTS**

On the 31 January 2002 Serco Limited transferred at cost most of its investments to a fellow Serco Group company as part of an internal reorganisation.

## SERCO LIMITED

### NOTES TO THE ACCOUNTS

for the year ended 31 December 2001

#### 24. LIST OF PRINCIPAL UNDERTAKINGS

The companies listed below are, in the opinion of the Directors, the principal undertakings of Serco Limited. The percentage of equity capital directly or indirectly held by Serco Limited is shown. The companies are incorporated and principally operate in the countries designated below.

##### Principal subsidiaries

|                       |  |      |
|-----------------------|--|------|
| <b>United Kingdom</b> | Serco Contracting Limited                            | 100% |
|                       | Serco-Denholm Limited                                | 90%  |
|                       | Serco Europe Limited                                 | 100% |
|                       | Serco-IAL Limited                                    | 100% |
|                       | Serco International Limited                          | 100% |
|                       | Serco Railtest Limited                               | 100% |
|                       | Sercoserve Limited                                   | 100% |
|                       | Serco Docklands Limited                              | 100% |
|                       | (formerly Docklands Railway Management Limited)      |      |
|                       | Community Leisure Management Limited                 | 100% |
|                       | Serco Aerospace Limited (formerly FRA Serco Limited) | 100% |
|                       | Rakmulti Technology Limited                          | 100% |
| <b>Rest of Europe</b> |  |      |
| <i>Belgium</i>        | Serco Belgium SA                                     | 100% |
| <i>France</i>         | Serco France Sarl                                    | 100% |
| <i>Germany</i>        | Serco International GmbH                             |      |
|                       | Serco GmbH & Co. KG                                  |      |
|                       | Serco Services GmbH                                  | 100% |
| <i>Italy</i>          | Serco FM GmbH (formerly Serco GmbH)                  | 100% |
|                       | Serco srl (formerly Serco Servizi srl)               | 100% |
|                       | <i>The Netherlands</i>                               |      |
|                       | Serco Facilities Management BV                       | 100% |
|                       | Serco International BV                               | 100% |

##### Joint venture undertakings

|                       |  |     |
|-----------------------|--|-----|
| <b>United Kingdom</b> | Serco Gulf Engineering Limited                 | 50% |
|                       | AWE Management Limited                         | 33% |
|                       | Serco-Denholm Shipping Company Limited         | 50% |
|                       | Serco Fleet Services Limited                   | 50% |
| <b>Other</b>          |  |     |
| <i>Bahrain</i>        | Aeradio Technical Services WLL                 | 49% |
| <i>Cyprus</i>         | Serco Kalisperas                               | 50% |
| <i>Dubai</i>          | International Aeradio (Emirates) LLC           | 49% |
| <i>Saudi Arabia</i>   | Key Communications Development Company Limited | n/a |
| <i>Turkey</i>         | ESDAS  | 51% |

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**25. PENSION SCHEMES**

The group has continued to account for pensions in accordance with SSAP 24. FRS 17 'Retirement Benefits' will not be mandatory for the group until the year ended 31 December 2003. The transitional disclosures required by FRS 17 are set out below.

**(A) SSAP 24 Disclosure**

The net pension charge under SSAP 24 for the year ended 31 December 2001 was £13,470,000 (2000 - £12,809,000).

The Group operates or is a member of a number of pension schemes. The main schemes are as follows:

**a) Serco Pension and Life Assurance Scheme ("SPLAS")**

This is a pre-funded defined benefit scheme.

The funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 6 April 1999. The average contribution rate is currently 18% for the Scheme.

The projected unit method was adopted for the actuarial valuation of the Scheme for accounting purposes. The main actuarial assumptions used in the valuation for accounting purposes this year were:

|                                      |  |
|--------------------------------------|--|
| Investment yield                     | 8.0% p.a   |
| Salary growth                        | 6.0% p.a (including 0.5% p.a. in respect of promotion)   |
| Increase in LEL offset               | 3.5% p.a. (SPLAS section only)   |
| Price inflation                      | 3.5% p.a   |
| Equity dividend growth               | 3.5% p.a   |
| Pension increases (in excess of GMP) | 3.5% p.a. (for Serco Alternative Pension Scheme and Services section)<br>3.0% p.a. (for SPLAS section accrual after 6/4/97)<br>0.5% p.a. (for SPLAS section accrual prior to 6/4/97) |

The Scheme is assessed to be fully funded on a current funding level basis based on a market value of assets of £145,881,000 at 6 April 1999. Liabilities for this purpose are calculated using the basis for determining individual cash equivalents for active members and deferred pensioners and by estimating the cost of purchasing annuity policies for pensioners.

The actuarial value of the assets represented 81% of the ongoing liabilities of the Scheme. Variations from the normal cost are amortised for accounting purposes over a fifteen year period as a constant monetary amount.

Employer pension contributions paid into the Scheme during the year were £9,760,000 (2000 - £8,861,000), of which £652,000 related to special contributions in respect of a discretionary increase to pensions in payment awarded during the year (2000 - £640,000) and £810,000 of contributions in respect of augmentations (2000 - £nil). A £15,000,000 contribution which is included in accruals and prepayments at 31 December 2001 was paid in February 2002.

At 31 December 2001 a prepayment of £17,360,000 (2000 - £1,550,000) in respect of the Scheme was included in the Balance Sheet. £6,870,000 was charged to the profit and loss account in respect of the Scheme (2000 - £7,995,000)

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**25. PENSION SCHEMES (continued)****b) Serco-IAL Pension Scheme**

This is a pre-funded defined benefit scheme.

The funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 31 March 2001. On the assumptions adopted for accounting purposes and based on a market value of assets of £104,037,000 at 31 March 2001, the actuarial value of the assets represented 110% of the ongoing past service liabilities of the Scheme as at that date. The current contribution rate is 17.8% for the scheme.

For accounting purposes, the projected unit method has been adopted and the main actuarial assumptions used to value liabilities are:

|  |            |
|--|------------|
| Investment return                      | 6.00% p.a. |
| Salary growth (excluding salary scale) | 4.50% p.a. |
| Pension increases                      | 2.50% p.a. |

The past service surplus in excess of the prepayment as at 31 March 2001 is being amortised for accounting purposes over a nine year period as a constant monetary amount.

Employer pension contributions paid into the Scheme during the year were £1,738,000 (2000 – £nil).

An amount of £300,000 (2000 - £87,000 charge) has been charged to the 2001 Profit and Loss Account in respect of the Scheme and a prepayment of £9,062,000 (2000 - £7,662,000) has been included in the Balance Sheet as at 31 December 2001.

**c) The Serco Shared Cost Section of the Railways Pension Scheme**

This is a pre-funded defined scheme. The Company accounts for the scheme as a defined contribution scheme since at re-bid any surplus or deficit would transfer to the next contractor. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries. The funding policy is to contribute such variable amounts, as will achieve 100% funding on a projected salary basis. The last review was carried out at 31 December 1998.

The main actuarial assumptions used in the valuation for accounting purposes were:

|                   |                                    |
|-------------------|------------------------------------|
| Investment yield  | 6.75%p.a.                          |
| Salary growth     | 4.50%p.a. (plus promotional scale) |
| Dividend growth   | 3.75%p.a.                          |
| Pension increases | 3.00%p.a.                          |

The actuarial value of the assets represented 133% of the ongoing liabilities of the scheme. The current contribution rate is 7.5% of Section Pay.

Employer pension contributions charged to the 2001 Profit and Loss Account during the year were £634,000 (2000 - £527,000). At 31 December 2001 a provision of £17,000 (2000 – £nil) in respect of the Scheme was included in the Balance Sheet.

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**25. PENSION SCHEMES (continued)****d) Serco Metrolink Pension Scheme**

This is a pre-funded defined benefit scheme. The Company accounts for the scheme as a defined contribution scheme since at re-bid any surplus or deficit would transfer to the next contractor.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 1 September 1998. The funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis.

The main actuarial assumptions used in the valuation for accounting purposes this year were:

|                        |          |
|------------------------|----------|
| Investment yield       | 9.0%p.a. |
| Salary growth          | 7.0%p.a. |
| Equity dividend growth | 5.0%p.a. |
| Pension increases      | 4.0%p.a. |

The actuarial value of the assets represented 101% of the ongoing liabilities of the Scheme. The current contribution rate is 8.2%.

At 31 December 2001 a provision of £25,000 (2000 – £23,000) in respect of the Scheme was included in the Balance Sheet.

**e) Docklands Light Railway Pension Scheme**

This is a pre-funded defined benefit scheme with Docklands Light Railway Limited being the principal employer. The Company accounts for the scheme as a defined contribution scheme since at re-bid any surplus or deficit would transfer to the next contractor.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 1 April 1998. The funding policy is to contribute such variable amounts as will achieve 100% funding on a projected salary basis.

The main actuarial assumptions used in the valuation for accounting purposes this year were:

|                   |  |
|-------------------|--|
| Investment yield  | 8.5% p.a.                              |
| Salary growth     | 6.5% p.a.(including promotional scale) |
| Dividend yield    | 3.0% p.a.                              |
| Pension increases | 4.0% p.a.                              |

The actuarial value of the assets represented 100% of the ongoing liabilities of the Scheme. The current contribution rate is 11.0%.

Employer pension contributions charged to the 2001 Profit and Loss Account during the year were £1,181,000 (2000 - £914,000). At 31 December 2001 a provision of £242,000 (2000 – £nil) in respect of the Scheme was included in the Balance Sheet.

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**25. PENSION SCHEMES (continued)****f) Serco GmbH & Co. KG Pension agreement**

The German pension arrangement comprises two elements: an un-funded defined benefit arrangement and an unfunded hybrid scheme which was set up in December 2001.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 23 December 1999 and updated as at 31 December 2001 by a qualified independent actuary.

The projected unit method was adopted for the actuarial valuation of the arrangement. The main actuarial assumptions used in the valuation for the accounting purposes were:

|  |           |
|--|-----------|
| Investment yield                       | 6.0% p.a. |
| Salary growth (excluding salary scale) | 3.0% p.a. |
| Price inflation                        | 1.0% p.a. |

The Profit and Loss charge for the year was £130,000 (2000 - £520,000) and a provision of £23,003,000 (2000 - £23,829,000) has been included in the Balance Sheet as at 31 December 2001 of which £17,466,000 relates to the hybrid element of the scheme and the £5,537,000 to the defined benefit element of the scheme.

**g) Other defined contribution schemes**

The Group paid employer contributions of £4,121,000 (2000 - £1,692,000) into UK defined contribution schemes and foreign state pension schemes.

**(B) FRS 17 disclosure**

The net deficit for the funded UK pension schemes at 31 December 2001 under FRS17 is £3,614,000.

The Profit and Loss reserves under FRS 17 would have been as follows:

|   | <b>2001</b>    |
|---|----------------|
|   | <b>£'000</b>   |
| Profit and Loss reserve   | 13,402         |
| Deficit in relation to SPLAS scheme, net of deferred taxation     | (5,740)        |
| Surplus in relation to Serco IAL scheme, net of deferred taxation | 2,126          |
| Net pension deficit   | <u>(3,614)</u> |
| Profit and Loss reserve adjusted                                  | <u>9,788</u>   |

**a) Serco Pension and Life Assurance Scheme ("SPLAS")**

The disclosures required under the transitional arrangements within FRS 17 have been based on the most recent full actuarial valuation as at 6 April 1999 updated to 31 December 2001 by independent qualified actuaries. The financial assumptions used at 31 December 2001 were:

|   |            |
|---|------------|
| Rate of increase in salaries            | 4.00% p.a. |
| Rate of increase in deferred pensions   | 2.25% p.a. |
| Rate of increase in pensions in payment | 2.25% p.a. |
| Discount rate                           | 5.83% p.a. |
| Inflation assumption                    | 2.50% p.a. |

**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**25. PENSION SCHEMES (continued)**

The Scheme's assets and the expected rates of return as at 31 December 2001 were:

|                                     | % p.a | £'000     |
|-------------------------------------|-------|-----------|
| Equities                            | 7.25  | 119,600   |
| AA corporate bonds                  | 5.83  | 15,500    |
| Gilts                               | 5.00  | 21,800    |
| Cash and Other                      | 4.00  | 15,000    |
| Total market value of assets        |       | 171,900   |
| Present value of scheme liabilities |       | (180,100) |
| Deficit in the Scheme               |       | (8,200)   |
| Related deferred tax asset          |       | 2,460     |
| Net pension liability               |       | (5,740)   |

**b) The Serco IAL Scheme**

The disclosures required under the transitional arrangements within FRS 17 have been based on the most recent full actuarial valuation as at 31 March 2001 updated to 31 December 2001 by independent qualified actuaries. The financial assumptions used at 31 December 2001 were:

|                              |            |
|------------------------------|------------|
| Rate of increase in salaries | 4.00% p.a. |
| Rate of increase in pensions |            |
| - RPI                        | 2.50% p.a. |
| - LPI                        | 2.25% p.a. |
| - discretionary              | 2.25% p.a. |
| Discount rate                | 5.83% p.a. |
| Inflation assumption         | 2.50% p.a. |

The Scheme's assets and the expected rates of return as at 31 December 2001 were:

|                                     | % p.a | £'000     |
|-------------------------------------|-------|-----------|
| Equities                            | 7.25  | 59,694    |
| UK bonds                            | 5.18  | 31,336    |
| Property                            | 6.54  | 7,329     |
| Cash and other assets               | 4.00  | 78        |
| Annuity policies                    | 5.83  | 28,100    |
| Total market value of assets        |       | 126,537   |
| Present value of scheme liabilities |       | (123,500) |
| Surplus in the Scheme               |       | 3,037     |
| Related deferred tax liability      |       | (911)     |
| Net pension asset                   |       | 2,126     |

c) The balance sheet position for all the other Serco Limited Group Pension Schemes is the same in accordance with FRS17 as for SSAP24



**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

**26. RELATED PARTIES AND ULTIMATE PARENT COMPANY**

The immediate and ultimate parent company and controlling entity of the Company is Serco Group plc, a company incorporated in Great Britain and registered in England and Wales.

The Company has taken advantage of the exemption granted by paragraph 3 (c) of Financial Reporting Standard 8 not to disclose related party transactions with Serco Group companies. The financial statements of Serco Group plc are available from The Company Secretary, Serco Group plc, Dolphin House, Windmill Road, Sunbury-on-Thames, Middlesex TW16 7HT.